

Grubb & Ellis Healthcare REIT, Inc.

Form 424B3

February 20, 2008

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**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-133652**

**PROSPECTUS FOR PENNSYLVANIA INVESTORS**

**Maximum Offering of \$2,200,000,000  
Minimum Offering of \$2,000,000**

We are a recently formed company that intends to invest in a diversified portfolio of medical office buildings, healthcare-related facilities and quality commercial office properties. We may also invest up to 15.0% of our total assets in real estate related securities. We are externally managed by Grubb & Ellis Healthcare REIT Advisor, LLC, our advisor, which is an affiliate of ours. We intend to qualify as a real estate investment trust, or REIT, for federal income tax purposes beginning with our taxable year ending December 31, 2007.

We are offering to the public up to \$2,000,000,000 in shares of our common stock in our primary offering for \$10.00 per share and \$200,000,000 in shares of our common stock to be issued pursuant to our distribution reinvestment plan for \$9.50 per share during our primary offering. We reserve the right to reallocate the shares of common stock we are offering between the primary offering and the distribution reinvestment plan.

**This investment involves a high degree of risk. You should purchase these securities only if you can afford the complete loss of your investment. See Risk Factors beginning on page 15 to read about risks you should consider before buying shares in our common stock. These risks include:**

No public market exists for our shares. Our shares cannot be readily sold and there are significant restrictions on the ownership, transferability and redemption of our shares. If you are able to sell your shares, you would likely have to sell them at a substantial discount.

This is considered a blind pool offering because we have acquired a limited number of properties and have not identified most of the properties or securities we plan to acquire with the proceeds from this offering. As a result, you will not be able to evaluate the economic merits of most of our investments prior to purchasing shares.

The amount of distributions we may pay, if any, is uncertain. Due to the risks involved in the ownership of real estate, there is no guarantee of any return on your investment in us and you may lose money.

We may incur debt up to 300% of our net assets, or more if such excess is approved by a majority of our independent directors, which could lead to an inability to pay distributions to our stockholders.

We may be required to borrow money, sell assets or issue new securities for cash to pay our distributions.

Distributions payable to our stockholders may include a return of capital, which will lower your tax basis in our shares.

We rely on our advisor and its affiliates for our day-to-day operations and the selection of our investments. We will pay substantial fees to our advisor and its affiliates for these services and the agreements governing these fees were not negotiated at arm's-length.

Some of our officers and one of our directors are officers of our advisor and our sponsor, which manages our advisor. Some of the owners of our sponsor are owners of our property manager and dealer manager. As a result, our sponsor and its affiliates will face conflicts of interest, including significant conflicts in allocating time among us and similar programs sponsored by our sponsor.

If we fail to qualify as a REIT, it would adversely affect our operations and our ability to make distributions to our stockholders.

**Neither the Securities and Exchange Commission, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of these securities, passed on or endorsed the merits of this offering or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense. The use of projections or forecasts in this offering is prohibited. Any representation to the contrary and any predictions, written or oral, as to the cash benefits or tax consequences you will receive from an investment in shares of our common stock is prohibited.**

|                                       | <b>Price to Public*</b> | <b>Selling Commissions*</b> | <b>Marketing Support Fee (\$0.25) and Due Diligence Expense Reimbursement (\$0.05)*</b> | <b>Net Proceeds (Before Expenses)</b> |
|---------------------------------------|-------------------------|-----------------------------|---|---------------------------------------|
| <b>Primary Offering</b>               |                         |                             |   |                                       |
| Per Share                             | \$ 10.00                | \$ 0.70                     | \$ 0.30   | \$ 9.00                               |
| Total Minimum                         | \$ 2,000,000            | \$ 140,000                  | \$ 60,000   | \$ 1,800,000                          |
| Total Maximum                         | \$ 2,000,000,000        | \$ 140,000,000              | \$ 60,000,000   | \$ 1,800,000,000                      |
| <b>Distribution Reinvestment Plan</b> |                         |                             |   |                                       |
| Per Share                             | \$ 9.50                 | \$                          | \$  | \$ 9.50                               |
| Total Maximum                         | \$ 200,000,000          | \$                          | \$  | \$ 200,000,000                        |

\* The selling commissions and all or a portion of the marketing support fee will not be charged with regard to shares sold in our primary offering to or for the account of our directors and officers, our affiliates and certain persons affiliated with broker-dealers participating in the primary offering. Selling commissions will not be charged for shares sold in the primary offering to investors that have engaged the services of a financial advisor paid on a fee-for-service basis by the investor. Selling commissions will be reduced in connection with sales of certain minimum numbers of shares. The reduction in these fees will be accompanied by a corresponding reduction in the per share purchase price. See Plan of Distribution.

Our shares will be offered to investors on a best efforts basis through NNN Capital Corp., our affiliate and an affiliate of our advisor and the dealer manager for this offering. The minimum initial investment is \$1,000, except for purchases by (1) our existing stockholders, including purchases made pursuant to our distribution reinvestment plan, and (2) existing investors in other programs sponsored by our sponsor, Grubb & Ellis Company, or any of our sponsor's affiliates, which may be in lesser amounts.

As of January 8, 2007, excluding shares purchased by our executive officers and directors, our dealer manager and our advisor and its affiliates, we had received and accepted subscriptions in our offering for 200,846 shares of common stock, or \$2,004,000, thereby exceeding the minimum offering. Having raised the minimum offering, the offering proceeds were released by the escrow agent to us and are available for the acquisition of properties and the other purposes disclosed in the prospectus. As of December 7, 2007, we had received and accepted subscriptions in our

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offering for 19,995,950 shares of common stock, or approximately \$199,720,000, excluding shares issued pursuant to our distribution reinvestment plan. We will sell shares until the earlier of September 20, 2009, or the date on which the maximum has been sold.

The date of this prospectus is December 14, 2007.

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**SUITABILITY STANDARDS**

The shares we are offering are suitable only as a long-term investment for persons of adequate financial means. There currently is no public market for our shares. Therefore, it likely will be difficult for you to sell your shares and, if you are able to sell your shares, it is likely you would sell them at a substantial discount. You should not buy these shares if you need to sell them immediately, will need to sell them quickly in the future or cannot bear the loss of your entire investment.

In consideration of these factors, we have established suitability standards for all stockholders, including subsequent transferees. These suitability standards require that a purchaser of shares have either:

a net worth of at least \$150,000; or

an annual gross income of at least \$45,000 and a net worth of at least \$45,000.

Several states have established suitability standards different from those we have established. Shares will be sold only to investors in these states who meet the special suitability standards set forth below.

**Arizona, California, Michigan, Missouri, North Carolina and Tennessee** Investors must have either (1) a net worth of at least \$225,000, or (2) gross annual income of at least \$60,000 and a net worth of at least \$60,000.

**Kansas** Investors must have either (1) a minimum net worth of at least \$250,000 or (2) a minimum annual gross income of at least \$70,000. In addition, it is recommended by the Office of the Kansas Securities Commissioner that you not invest, in the aggregate, more than 10% of your liquid net worth in this and similar direct participation investments.

**Maine** Investors must have either (1) a net worth of at least \$50,000 and an annual gross income of at least \$50,000, or (2) a net worth of at least \$200,000.

**Massachusetts, Ohio and Pennsylvania** Investors must have either (1) a net worth of at least \$250,000 or (2) a gross annual income of \$70,000 and a net worth of at least \$70,000. In addition, an investor's investment in our common stock and the securities of our affiliates may not exceed 10% of that investor's liquid net worth.

**New Mexico** Investors must have either (1) a net worth of at least \$250,000 or (2) a gross annual income of \$70,000 and a net worth of at least \$70,000.

**Iowa** Investors must have either (1) a net worth of at least \$250,000 or (2) an annual gross income of at least \$70,000 and net worth of at least \$70,000. In addition, investors may not invest more than 10% of their liquid net worth in us.

**Washington** Investors must have either (1) a net worth of at least \$250,000 or (2) an annual gross income of at least \$70,000 and net worth of at least \$70,000.

For purposes of determining suitability of an investor, net worth in all cases should be calculated excluding the value of an investor's home, home furnishings and personal automobiles.

In the case of sales to fiduciary accounts (such as an individual retirement account, or IRA, Keogh Plan, or pension or profit sharing plan), these suitability standards must be met by the beneficiary, the fiduciary account or by the person who directly or indirectly supplied the funds for the purchase of the shares if that person is the fiduciary. In the case of

gifts to minors, the suitability standards must be met by the custodian account or by the donor.

These suitability standards are intended to help ensure that, given the long-term nature of an investment in our shares, our investment objectives and the relative illiquidity of our shares, our shares are an appropriate investment for those of you who become stockholders. Each participating broker-dealer must make every reasonable effort to determine that the purchase of shares is a suitable and appropriate investment for each stockholder based on information provided by the stockholder in the subscription agreement or otherwise. Each participating broker-dealer is required to maintain records of the information used to determine that an investment in shares is suitable and appropriate for each stockholder for a period of six years. Our subscription

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agreement requires you to represent that you meet the applicable suitability standards. We will not sell any shares to you unless you are able to make these representations.

The minimum initial investment is 100 shares (\$1,000), except for purchases by (1) our existing stockholders, including purchases made pursuant to our distribution reinvestment plan, and (2) existing investors in other programs sponsored by our sponsor, Grubb & Ellis Company, or any of our sponsor's affiliates, which may be in lesser amounts. In order to satisfy the minimum purchase requirements for retirement plans, unless otherwise prohibited by state law, a husband and wife may jointly contribute funds from their separate IRAs, provided that each such contribution is made in increments of \$100. You should note that an investment in shares of our common stock will not, in itself, create a retirement plan and that, in order to create a retirement plan, you must comply with all applicable provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code.

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| <u>This is a blind pool offering because we have identified a limited number of the specific investments we intend to make with the net proceeds we will receive from this offering. If we are unable to find suitable investments, we may not be able to achieve our investment objectives</u>                                    | 15 |
| <u>You may be unable to sell your shares because your ability to have your shares repurchased pursuant to our share repurchase plan is subject to significant restrictions and limitations</u>   | 15 |
| <u>This is a best efforts offering and if we are unable to raise substantial funds, we will be limited in the number and type of investments we may make, which will result in a less diversified portfolio</u>  | 16 |
| <u>This is a fixed price offering and the fixed offering price may not accurately represent the current value of our assets at any particular time. Therefore the purchase price you paid for shares of our common stock may be higher than the value of our assets per share of our common stock at the time of your purchase</u> | 16 |
| <u>Payments to our advisor related to its subordinated participation interest in our operating partnership will reduce cash available for distribution to our stockholders</u>   | 16 |
| <u>The business and financial due diligence investigation of us was conducted by an affiliate. That investigation might not have been as thorough as an investigation conducted by an unaffiliated third party, and might not have uncovered facts that would be important to a potential investor</u>                             | 16 |



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We presently intend to effect a liquidity event by September 20, 2013; however, there can be no assurance that we will effect a liquidity event within such time or at all. If we do not effect a liquidity event, it will be very difficult for you to have liquidity for your investment in shares of our common stock 17

Risks Relating to Our Business 17

We have a limited operating history and there is no assurance that we will be able to successfully achieve our investment objectives; and the prior performance of other NNN programs may not be an accurate predictor of our future results 17

We may suffer from delays in locating suitable investments, which could reduce our ability to make distributions to our stockholders and your return on your investment 17

The availability and timing of cash distributions to our stockholders is uncertain 17

We may not have sufficient cash available from operations to pay distributions, and, therefore, distributions may include a return of capital. 18

We may not have sufficient cash available from operations to pay distributions, and, therefore, distributions may be paid with offering proceeds or borrowed funds 18

We are uncertain of our sources of debt or equity for funding our future capital needs. If we cannot obtain funding on acceptable terms, our ability to make necessary capital improvements to our properties may be impaired or delayed 18

The recent downturn in the credit markets has increased the cost of borrowing and has made financing difficult to obtain, each of which may have a material adverse effect on our results of operations and business 19

We may structure acquisitions of property in exchange for limited partnership units in our operating partnership on terms that could limit our liquidity or our flexibility 19

Our success will be dependent on the performance of our advisor 19

Our results of operations, our ability to pay distributions to our stockholders and our ability to dispose of our investments are subject to general economic and regulatory factors we cannot control or predict 20

Our advisor and its affiliates have no obligation to defer or forgive fees or loans or advance any funds to us, which could reduce our ability to make investments or pay distributions 20

The ongoing SEC investigation of Triple Net Properties could adversely impact our advisor's ability to perform its duties to us 20

Risks Related to Conflicts of Interest 21

We will compete with other NNN programs for investment opportunities. As a result, our advisor may not cause us to invest in favorable investment opportunities which may reduce our returns on our investments 21

The conflicts of interest faced by our officers and our non-independent director may cause us not to be managed solely in the best interests of our stockholders, which may adversely affect our results of operation and the value of your investment 21

If we enter into joint ventures with affiliates, we may face conflicts of interest or disagreements with our joint venture partners that will not be resolved as quickly or on terms as advantageous to us as would be the case if the joint venture had been negotiated at arm's length with an independent joint venture partner 22

Our advisor will face conflicts of interest relating to its compensation structure, which could result in actions that are not necessarily in the long-term best interests of our stockholders 22

The distribution payable to our advisor upon termination of the advisory agreement may influence decisions about terminating our advisor or our acquisition or disposition of investments. 23

We may acquire assets from, or dispose of assets to, affiliates of our advisor, which could result in us entering into transactions on less favorable terms than we would receive from a third party or that negatively affect the public's perception of us 23

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| <u>We may issue preferred stock or other classes of common stock, which issuance could adversely affect the holders of our common stock issued pursuant to this offering</u>   | 23 |
| <u>The limit on the percentage of shares of our common stock that any person may own may discourage a takeover or business combination that may have benefited our stockholders</u>  | 24 |
| <u>Our board of directors may change our investment objectives without seeking stockholder approval.</u>   | 24 |
| <u>Maryland law and our organizational documents limit your right to bring claims against our officers and directors</u>   | 24 |
| <u>Certain provisions of Maryland law could restrict a change in control even if a change in control were in our stockholders’ interests</u>   | 25 |
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| <u>Changes in national, regional or local economic, demographic or real estate market conditions may adversely affect our results of operations and our ability to pay distributions to our stockholders or reduce the value of your investment</u>  | 26 |
| <u>If we acquire real estate at a time when the real estate market is experiencing substantial influxes of capital investment and competition for income producing properties, the real estate investments we make may not appreciate or may decrease in value</u>                                 | 26 |
| <u>Competition with third parties in acquiring properties and other investments may reduce our profitability and the return on your investment</u>   | 26 |
| <u>Some or all of our properties may incur vacancies, which may result in reduced revenue and resale value, a reduction in cash available for distribution and a diminished return on your investment</u>  | 27 |
| <u>We are dependent on tenants for our revenue, and lease terminations could reduce our distributions to our stockholders</u>  | 27 |
| <u>Long-term leases may not result in fair market lease rates over time; therefore, our income and our distributions to our stockholders could be lower than if we did not enter into long-term leases</u>   | 27 |
| <u>We may be unable to secure funds for future tenant or other capital improvements, which could limit our ability to attract or replace tenants and decrease your return on investment</u>  | 27 |
| <u>Uninsured losses relating to real estate and lender requirements to obtain insurance may reduce your returns</u>  | 28 |
| <u>Delays in the acquisition, development and construction of real properties may have adverse effects on our results of operations and returns to our stockholders</u>  | 28 |
| <u>Uncertain market conditions relating to the future disposition of properties could cause us to sell our properties at a loss in the future</u>  | 28 |
| <u>We face possible liability for environmental cleanup costs and damages for contamination related to properties we acquire, which could substantially increase our costs and reduce our liquidity and cash distributions to stockholders</u>   | 28 |
| <u>Our real estate investments may be concentrated in medical office or other healthcare-related facilities, making us more vulnerable economically than if our investments were diversified</u>   | 29 |
| <u>Certain of our properties may not have efficient alternative uses, so the loss of a tenant may cause us not to be able to find a replacement or cause us to spend considerable capital to adapt the property to an alternative use</u>  | 29 |
| <u>Our medical office buildings, healthcare-related facilities and tenants may be unable to compete successfully</u>   | 29 |

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Our costs associated with complying with the Americans with Disabilities Act may reduce our cash available for distributions 30

Our real properties will be subject to property taxes that may increase in the future, which could adversely affect our cash flow 30

Costs of complying with governmental laws and regulations related to environmental protection and human health and safety may be high 30

Risks Relating to the Healthcare Industry 31

Reductions in reimbursement from third party payors, including Medicare and Medicaid, could adversely affect the profitability of our tenants and hinder their ability to make rent payments to us 31

We face increasing competition for the acquisition of medical office buildings and other healthcare-related facilities, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions 31

The healthcare industry is heavily regulated, and new laws or regulations, changes to existing laws or regulations, loss of licensure or failure to obtain licensure could result in the inability of our tenants to make rent payments to us 32

Tenants of our medical office buildings and healthcare-related facilities will be subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant's ability to make rent payments to us 32

Adverse trends in healthcare provider operations may negatively affect our lease revenues and our ability to make distributions to our stockholders 33

Tenants of our medical office buildings and healthcare-related facilities may be subject to significant legal actions that could subject them to increased operating costs and substantial uninsured liabilities, which may affect their ability to pay their rent payments to us 33

Risks Related to Investments in Real Estate Related Securities 34

We do not have substantial experience in acquiring mortgage loans or investing in real estate related securities, which may result in our real estate related securities investments failing to produce returns or incurring losses 34

Real estate related equity securities in which we may invest are subject to specific risks relating to the particular issuer of the securities and may be subject to the general risks of investing in subordinated real estate securities 34

The mortgage loans in which we may invest and the mortgage loans underlying the mortgage-backed securities in which we may invest may be impacted by unfavorable real estate market conditions, which could decrease their value 34

Delays in liquidating defaulted mortgage loan investments could reduce our investment returns 34

The collateralized mortgage backed securities in which we may invest are subject to several types of risks 35

The mezzanine loans in which we may invest would involve greater risks of loss than senior loans secured by income-producing real properties 35

We expect a portion of our real estate related securities investments to be illiquid and we may not be able to adjust our portfolio in response to changes in economic and other conditions 35

Interest rate and related risks may cause the value of our real estate related securities investments to be reduced 35

If we liquidate prior to the maturity of our real estate securities investments, we may be forced to sell those investments on unfavorable terms or at a loss 36

Risks Associated with Debt Financing 36

We will incur mortgage indebtedness and other borrowings, which may increase our business risks, could hinder our ability to make distributions and could decrease the value of your investment 36

Higher mortgage rates may make it more difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make to our stockholders 37



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**QUESTIONS AND ANSWERS ABOUT THIS OFFERING**

Set forth below are some of the more frequently asked questions and answers relating to our structure, our management, our business and an offering of this type.

**Q: What is a real estate investment trust, or REIT?**

A: In general, a REIT is a company that:

combines the capital of many investors to acquire or provide financing for real estate;

pays annual distributions to investors of at least 90% of its taxable income (computed without regard to the dividends paid deduction and excluding net capital gain);

avoids the double taxation treatment of income that would normally result from investments in a corporation because a REIT is not generally subject to federal corporate income taxes on its net income that it distributes to stockholders; and

allows individual investors to invest in a large-scale diversified real estate portfolio through the purchase of shares in the REIT.

**Q: How will you structure the ownership and operation of your assets?**

A: We plan to own substantially all of our assets and conduct our operations through an operating partnership, Grubb & Ellis Healthcare REIT Holdings, L.P., which was organized in Delaware on April 20, 2006. We are the sole general partner of Grubb & Ellis Healthcare REIT Holdings, L.P., which we refer to as either Healthcare OP or our operating partnership. Because we will conduct substantially all of our operations through an operating partnership, we are organized in what is referred to as an UPREIT structure.

**Q: What is an UPREIT ?**

A: UPREIT stands for Umbrella Partnership Real Estate Investment Trust. We use the UPREIT structure because a contribution of property directly to us is generally a taxable transaction to the contributing property owner. In this structure, a contributor of a property who desires to defer taxable gain on the transfer of his or her property may transfer the property to the partnership in exchange for limited partnership units and defer taxation of gain until the contributor later exchanges his or her limited partnership units, normally, on a one-for-one basis for shares of the common stock of the REIT. We believe that using an UPREIT structure gives us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results.

**Q: Do you currently own any real estate or real estate related securities?**

A: Yes. We have acquired 17 properties. We have not yet identified most of the real estate or real estate related securities we will acquire with the proceeds from this offering. Because we have acquired a limited number of properties and identified a limited number of additional investment opportunities, this offering is considered a blind pool.

**Q: What will you do with the money raised in this offering?**

A: We will use your net investment proceeds to purchase medical office buildings, healthcare-related facilities and quality commercial office properties. To a lesser extent, we may also invest in real estate related securities. We will focus primarily on investments that produce current income. The diversification of our portfolio is dependent upon the amount of proceeds we receive in this offering. We expect that at least 88.5% of the money you invest will be used to acquire our targeted investments and pay related acquisition fees and expenses and the remaining 11.5% will be used to pay fees and expenses of this offering. Until we invest the proceeds of this offering in our targeted investments, we may invest in short-term, highly liquid or other authorized investments. Such short-term investments will not earn significant returns, and we cannot guarantee how long it will take to fully invest the proceeds in properties.

**Q: What kind of offering is this?**

A: Through our dealer manager, we are offering a minimum of \$2,000,000 in shares of our common stock and a maximum of \$2,000,000,000 in shares in our primary offering on a best efforts basis at \$10.00 per

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share. We are also offering \$200,000,000 in shares of common stock pursuant to our distribution reinvestment plan at \$9.50 per share to those stockholders who elect to participate in such plan as described in this prospectus. We reserve the right to reallocate the shares of common stock we are offering between the primary offering and the distribution reinvestment plan.

**Q: How does a best efforts offering work?**

A: When shares are offered to the public on a best efforts basis, the brokers participating in the offering are only required to use their best efforts to sell the shares and have no firm commitment or obligation to purchase any shares. Therefore, we cannot guarantee that any specific number of shares will be sold. We intend to admit stockholders periodically as subscriptions for shares are received, but not less frequently than monthly. As of January 8, 2007, excluding shares purchased by our executive officers and directors, our dealer manager and our advisor and its affiliates, we had received and accepted subscriptions in our offering for 200,846 shares of common stock, or \$2,004,000, thereby exceeding the minimum offering. Having raised the minimum offering, the offering proceeds were released by the escrow agent to us and are available for the acquisition of properties and the other purposes disclosed in the prospectus. As of December 7, 2007, we had accepted subscriptions in our offering for 19,995,950 shares of common stock, or approximately \$199,720,000, excluding shares issued pursuant to our distribution reinvestment plan.

**Q: How long will this offering last?**

A: We will sell shares until the earlier of September 20, 2009, or the date on which the maximum has been sold. We also reserve the right to terminate this offering at any time.

**Q: Who can buy shares?**

A: Generally, you can buy shares pursuant to this prospectus provided that you have either (1) a net worth of at least \$150,000, or (2) an annual gross income of at least \$45,000 and a net worth of at least \$45,000. For this purpose, net worth does not include your home, home furnishings or personal automobiles. However, these minimum levels are higher in certain states, so you should carefully read the more detailed description under Suitability Standards on page i of this prospectus.

**Q: Is there any minimum investment required?**

A: Yes. The minimum investment is 100 shares, which equals a minimum investment of at least \$1,000, except for purchases by (1) our existing stockholders, including purchases made pursuant to our distribution reinvestment plan, and (2) existing investors in other programs sponsored by our sponsor, Grubb & Ellis Company, or any of our sponsor's affiliates, which may be in lesser amounts.

**Q: How do I subscribe for shares?**

A: Investors who meet the suitability standards described herein may purchase shares of our common stock. See Suitability Standards on page i. Investors seeking to purchase shares of our common stock must proceed as follows:

Read this entire prospectus and any appendices and supplements accompanying this prospectus.

Complete the execution copy of the subscription agreement. A specimen copy of the subscription agreement to be used for the period from the date of this prospectus to December 31, 2007, including instructions for

completing it, is included in this prospectus as Appendix B. A specimen copy of the subscription agreement to be used beginning January 1, 2008, including instructions for completing it, is included in this prospectus as Appendix C.

Deliver a check for the full purchase price of the shares of our common stock being subscribed for along with the completed subscription agreement to the registered broker-dealer or investment advisor. Your check should be made payable to Grubb & Ellis Healthcare REIT.

By executing the subscription agreement and paying the total purchase price for the shares of our common stock subscribed for, each investor represents that he meets the suitability standards as stated in the subscription agreement and agrees to be bound by all of its terms.

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Subscriptions will be effective only upon our acceptance, and we reserve the right to reject any subscription in whole or part. Subscriptions will be accepted or rejected within 30 days of receipt by us and, if rejected, all funds shall be returned to subscribers without deduction for any expenses within 10 business days from the date the subscription is rejected. We are not permitted to accept a subscription for shares of our common stock until at least five business days after the date you receive this prospectus.

An approved trustee must process and forward to us subscriptions made through individual retirement accounts, or IRAs, Keough plans and 401(k) plans. In the case of investments through IRAs, Keough plans and 401(k) plans, we will send the confirmation and notice of our acceptance to the trustee.

### **Q: If I buy shares, will I receive distributions and how often?**

A: Provided we have sufficient available cash flow, we expect to pay distributions on a monthly basis to our stockholders. On February 14, 2007, our board of directors approved a distribution rate of 7.25% per annum to be paid to stockholders beginning with our February 2007 monthly distribution that was paid in March 2007. Our distribution policy is set by our board of directors and is subject to change based on available cash flows. We cannot guarantee the amount of distributions paid in the future, if any.

If you are a taxable stockholder, distributions that you receive, including distributions that are reinvested pursuant to our distribution reinvestment plan, generally will be taxed as ordinary income to the extent they are from our current or accumulated earnings and profits, unless we have designated all or a portion of the distribution as a capital gain distribution. In such case, such designated portion of the distribution will be treated as a capital gain. To the extent that we make a distribution in excess of our current and accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, reducing the tax basis in your shares, and the amount of each distribution in excess of your tax basis in your shares will be taxable as a gain realized from the sale of your shares. For example, because depreciation expense reduces taxable income but does not reduce cash available for distribution, if our distributions exceed our current and accumulated earnings and profits, the portion of such distributions to you exceeding our current and accumulated earnings and profits (to the extent of your positive basis in your shares) will be considered a return of capital to you for tax purposes. These amounts will not be subject to income tax immediately but will instead reduce the tax basis of your investment, in effect, deferring a portion of your income tax until you sell your shares or we liquidate assuming we do not make any future distributions in excess of our current and accumulated earnings and profits at a time that your tax basis in your shares is zero. If you are a tax-exempt entity, distributions from us generally will not constitute unrelated business taxable income, or UBTI, unless you have borrowed to acquire or carry your stock or have used the shares in a trade or business. There are exceptions to this rule for certain types of tax-exempt entities. Because each investor's tax considerations are different, especially the treatment of tax-exempt entities, we suggest that you consult with your tax advisor. Please see [Federal Income Tax Considerations – Taxation of Taxable U.S. Stockholders](#); [Federal Income Tax Considerations – Treatment of Tax-Exempt Stockholders](#); and [Description of Capital Stock – Distribution Reinvestment Plan](#).

### **Q: May I reinvest my distributions?**

A: Yes. Please see [Description of Capital Stock – Distribution Reinvestment Plan](#) for more information regarding our distribution reinvestment plan.

### **Q: If I buy shares of common stock in this offering, how may I later sell them?**

A: At the time you purchase the shares of common stock, they will not be listed for trading on any national securities exchange. As a result, if you wish to sell your shares, you may not be able to do so promptly or at all, or you may

only be able to sell them at a substantial discount from the price you paid. In general, however, you may sell your shares to any buyer that meets the applicable suitability standards unless such sale would cause the buyer to own more than 9.8% of the value of our then outstanding capital stock (which includes common stock and any preferred stock we may issue) or more than 9.8% of the value or number of shares, whichever is more restrictive, of our then outstanding common stock. See [Suitability Standards](#) and [Description of Capital Stock Restriction on Ownership of Shares](#). We have adopted a share repurchase plan, as discussed under [Description of Capital Stock Share Repurchase Plan](#), which may provide limited liquidity for some of our stockholders.

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**Q: Will I be notified of how my investment is doing?**

A: Yes, you will receive periodic updates on the performance of your investment with us, including:

four quarterly investment statements, which will generally include a summary of the amount you have invested, the monthly distributions declared and the amount of distributions reinvested under our distribution reinvestment plan, as applicable;

an annual report after the end of each year; and

an annual IRS Form 1099 after the end of each year.

**Q: When will I get my detailed tax information?**

A: Your Form 1099 tax information will be placed in the mail by January 31 of each year.

**Q: Who can help answer my questions?**

A: For questions about the offering or to obtain additional copies of this prospectus, contact your registered broker-dealer or investment advisor or contact:

Investor Services Department  
Grubb & Ellis Healthcare REIT Advisor, LLC  
1551 N. Tustin Avenue, Suite 300  
Santa Ana, California 92705  
Telephone: (877) 888-7348 or (714) 667-8252  
Facsimile: (714) 667-6843

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**PROSPECTUS SUMMARY**

*This prospectus summary highlights material information contained elsewhere in this prospectus. Because it is a summary, it may not contain all of the information that is important to your decision whether to invest in shares of our common stock. To understand this offering fully, you should read the entire prospectus carefully, including the Risk Factors section. The use of the words we, us or our refers to Grubb & Ellis Healthcare REIT, Inc. and our subsidiaries, including Grubb & Ellis Healthcare REIT Holdings, L.P., except where the context otherwise requires.*

**Grubb & Ellis Healthcare REIT, Inc.**

We were formed as a Maryland corporation on April 20, 2006. We intend to provide investors the potential for income and growth through investment in a diversified portfolio of real estate properties, focusing primarily on medical office buildings, healthcare-related facilities and quality commercial office properties. We may also invest in real estate related securities. We will focus primarily on investments that produce current income. We intend to qualify as a REIT and to elect to be taxed as a REIT commencing with the taxable year ending December 31, 2007.

Our headquarters are located at 1551 N. Tustin Avenue, Suite 300, Santa Ana, California 92705 and our telephone number is 1-877-888-7348. Our sponsor maintains a web site at [www.gbe-reits.com](http://www.gbe-reits.com) at which there is additional information about us and our affiliates. The contents of that site are not incorporated by reference in, or otherwise a part of, this prospectus.

**Summary Risk Factors**

An investment in our common stock is subject to significant risks. Listed below are some of the most significant risks relating to your investment.

No public market exists for our common stock and therefore it will be difficult for you to sell your shares. If you are able to sell your shares, you would likely have to sell them at a substantial discount.

We have a limited operating history and there is no assurance we will be able to achieve our investment objectives.

The amount of distributions we may pay, if any, is uncertain. Due to the risks involved in the ownership of real estate and securities, there is no guarantee of any return on your investment in us and you may lose money.

Some of our officers and our non-independent director have substantial conflicts of interest because they also serve as officers and directors of our advisor, our sponsor, the dealer manager and their affiliates, each of which may compete with us for the time and attention of these individuals.

Distributions we pay to our stockholders may include a return of capital, which will lower your tax basis in our shares.

We rely on our advisor and its affiliates for our day-to-day operations and the selection of our investments. We will pay substantial fees to our advisor and its affiliates for these services and the agreements relating to their compensation were not reached through arm's-length negotiations.

Our advisor and its affiliates will face conflicts of interest, including significant conflicts in allocating time among us and other programs sponsored by Grubb & Ellis Company, Triple Net Properties, LLC, or any of



their affiliates, or NNN programs, which could result in actions that are not in your best interests.

There are limitations on the ownership, transferability and redemption of our shares which significantly limit the liquidity of an investment in shares of our common stock.

This is a "blind pool" offering and you will not have the opportunity to evaluate most of our investments prior to purchasing shares of our common stock.

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This is a best efforts offering and if we are unable to raise substantial funds then we will be limited in the number and type of investments we may make.

The healthcare industry is heavily regulated, and new laws or regulations, changes to existing laws or regulations, loss of licensure or failure to obtain licensure could result in the inability of our tenants to make lease payments to us.

We have paid distributions from sources other than our cash flow from operations, including from the proceeds of this offering or from borrowed funds; if we pay future distributions from sources other than our cash flow from operations, we will have fewer funds for real estate investments and your overall return may be reduced.

If we fail to qualify as a REIT, it would adversely affect our operations and our ability to make distributions to stockholders.

## **Investment Objectives**

Our investment objectives are:

to pay regular cash distributions;

to preserve, protect and return your capital contribution; and

to realize growth in the value of our investments upon our ultimate sale of such investments.

See Investment Objectives, Strategy and Criteria for a more complete description of our business and objectives.

## **Our Advisor**

We are advised by Grubb & Ellis Healthcare REIT Advisor, LLC, or Healthcare Advisor, or our advisor. Our advisor is managed by and is a subsidiary of Triple Net Properties, LLC, or Triple Net Properties, and is also partially owned by certain members of the management of Triple Net Properties through Grubb & Ellis Healthcare Management, LLC, or Grubb & Ellis Healthcare Management. Triple Net Properties is an indirect wholly owned subsidiary of our sponsor, Grubb & Ellis Company, or Grubb & Ellis. Our advisor, which was formed in Delaware on April 20, 2006, supervises and manages our day-to-day operations. Our advisor will use its best efforts, subject to the oversight, review and approval of our board of directors, to, among other things, research, identify, review and make investments in and dispositions of properties and securities on our behalf consistent with our investment policies and objectives. Our advisor performs its duties and responsibilities under an advisory agreement as our fiduciary. The term of the current advisory agreement ends on October 24, 2008, subject to renewals by the parties to the advisory agreement for an unlimited number of successive one-year periods. Our officers and our non-independent director are all employees of our sponsor or its affiliates. The names and biographical information of our officers and our non-independent director are contained under Management Directors and Executive Officers.

## **Our Sponsor, NNN Realty Advisors and Triple Net Properties**

Our sponsor, Grubb & Ellis, headquartered in Santa Ana, California, is one of the largest and most respected commercial real estate services companies. With more than 130 owned and affiliate offices worldwide, Grubb & Ellis offers property owners, corporate occupants and investors comprehensive integrated real estate solutions, including transaction, management, consulting and investment advisory services supported by proprietary market research and extensive local market expertise.

On December 7, 2007, NNN Realty Advisors, Inc., or NNN Realty Advisors, which previously served as our sponsor, merged with and into a wholly owned subsidiary of Grubb & Ellis. The transaction was structured as a reverse merger whereby stockholders of NNN Realty Advisors received shares of Grubb & Ellis in exchange for their NNN Realty Advisors shares and, immediately following the merger, former NNN Realty Advisor stockholders owned approximately 60.1% of Grubb & Ellis. Additionally, six of the nine post-merger directors of Grubb & Ellis were directors of NNN Realty Advisors prior to the merger, including the current Grubb & Ellis Chairman of the Board, Anthony W. Thompson. Scott D. Peters, the Chief Executive Officer,

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President and current Chairman of the Board of NNN Realty Advisors, also now serves as Chief Executive Officer, President and a director of Grubb & Ellis.

The merger combines a leading full-service commercial real estate organizations with a leading sponsor of commercial real estate programs to create a diversified real estate services business providing a complete range of transaction, management and consulting services, and possessing a strong platform for continued growth. Grubb & Ellis continues to use the Grubb & Ellis name and continues to be listed on the New York Stock Exchange under the ticker symbol GBE.

As a result of the merger, we consider Grubb & Ellis to be our sponsor. Upon Grubb & Ellis becoming our sponsor, we changed our name from NNN Healthcare/Office REIT, Inc. to Grubb & Ellis Healthcare REIT, Inc.

Triple Net Properties, the parent and manager of our advisor and an indirect wholly owned subsidiary of our sponsor, offers a diverse line of investment products as well as a full range of services including asset and property management, brokerage, leasing, analysis and consultation. Triple Net Properties is also an active seller of real estate, bringing many of its investment programs full cycle.

On September 16, 2004, Triple Net Properties learned that the Securities and Exchange Commission, or SEC, is conducting an investigation referred to as *In the matter of Triple Net Properties, LLC*. The SEC has requested information from Triple Net Properties relating to disclosure in public and private securities offerings sponsored by Triple Net Properties and its affiliates prior to 2005, or the Triple Net securities offerings. The SEC also has requested information from NNN Capital Corp., the dealer manager for the Triple Net securities offerings and the dealer manager for this offering. The SEC has requested financial and other information regarding the Triple Net securities offerings and the disclosures included in the related offering documents from each of Triple Net Properties and NNN Capital Corp. This investigation could result in the assertion of fines, penalties or administrative remedies. Based on settlement negotiations with the SEC, the management of Triple Net Properties has informed us that it believes the conclusion of this matter will not result in a material adverse effect to its results of operations, financial condition or ability to conduct its business. For more information on the risks related to the SEC investigation, see Risk Factors Risks Relating to Our Business. The ongoing SEC investigation of Triple Net Properties could adversely impact our advisor's ability to perform its duties to us.

## **Our Dealer Manager**

An affiliate of our advisor and an indirect wholly owned subsidiary of our sponsor, NNN Capital Corp., will assist us in selling our common stock under this prospectus by serving as the dealer manager of this offering. Since August 1986, the dealer manager has assisted various syndicated REITs, limited partnerships, limited liability companies and other real estate entities in raising money to invest in real estate.

## **Our Board of Directors**

We operate under the direction of our board of directors, the members of which are accountable to us and our stockholders as fiduciaries. The board of directors is responsible for the management and control of our affairs. We have six directors, five of whom are independent of us, our advisor and our advisor's affiliates. Our stockholders will elect our directors annually.

## **Description of Investments**

As of the date of this prospectus, we have acquired 17 properties, and our advisor has identified three additional real properties to purchase with the net proceeds of this offering. We generally will seek to acquire a diversified portfolio

of real estate, focusing primarily on investments that produce current income. Our real estate investments will focus on medical office buildings, healthcare-related facilities and quality commercial office properties. Healthcare-related facilities include facilities leased to hospitals, long-term acute care centers, surgery centers, specialty medical and diagnostic service providers, laboratories, research firms, pharmaceutical and medical supply manufacturers and health insurance firms. We may acquire properties either alone or jointly with another party. We may also invest in real estate related securities, although we have not yet identified any

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real estate related securities we plan to acquire. We do not presently intend to invest more than 15% of our total assets in real estate related securities. Our real estate related securities investments will generally focus on common and preferred equities, commercial mortgage-backed securities, or CMBS, other forms of mortgage debt and certain other securities, including collateralized debt obligations and foreign securities.

**Our Operating Partnership**

We intend to own all of our real properties through our operating partnership, Grubb & Ellis Healthcare REIT Holdings, L.P., or its subsidiaries. We are the sole general partner of the operating partnership and initially invested \$2,000 in the operating partnership in exchange for 200 partnership units. The initial limited partner of our operating partnership is our advisor. Our advisor has invested \$200,000 in our operating partnership in exchange for partnership units, which provide the advisor with subordinated distribution rights in addition to its rights as a limited partner in the event certain performance-based conditions are satisfied. See Compensation to the Advisor and Affiliates below for a description of our advisor's subordinated distribution rights.

**Conflicts of Interest**

Some of our officers and our non-independent director are also officers of our sponsor, our advisor and of Triple Net Properties, which manages our advisor, and they are involved in advising and investing in other real estate entities, including other REITs, which may give rise to conflicts of interest. In particular, our officers and non-independent director are involved in the management and advising of other public and private entities that own and operate real estate investments and may compete with us for the time and attention of our executives. The following chart sets forth the positions our officers and non-independent director hold with us, our advisor and the entities affiliated with our advisor that will be paid fees in connection with this offering.

| <b>Name</b>         | <b>Entity</b>                              | <b>Title</b>   |
|---------------------|--|--|
| Scott D. Peters     | Grubb & Ellis Healthcare REIT, Inc.        | Chief Executive Officer,<br>President and Chairman of the<br>Board |
|                     | Grubb & Ellis Healthcare REIT Advisor, LLC | Chief Executive Officer  |
|                     | Triple Net Properties, LLC                 | Chief Executive Officer  |
| Shannon K S Johnson | Grubb & Ellis Company                      | Chief Executive Officer,<br>President and Director                 |
|                     | Grubb & Ellis Healthcare REIT, Inc.        | Chief Financial Officer  |
|                     | Triple Net Properties, LLC                 | Financial Reporting Manager  |
| Andrea R. Biller    | Grubb & Ellis Healthcare REIT, Inc.        | Executive Vice President and<br>Secretary                          |

|              |   |  |
|--------------|---|--|
|              | Grubb & Ellis Healthcare REIT Advisor, LLC                        | Executive Vice President   |
|              | Triple Net Properties, LLC  | General Counsel and<br>Executive Vice President                            |
|              | Grubb & Ellis Company   | General Counsel, Executive<br>Vice President and Secretary                 |
| Danny Prosky | Grubb & Ellis Healthcare REIT, Inc.<br>Triple Net Properties, LLC | Vice President Acquisitions<br>Managing Director Health<br>Care Properties |

As a result, these individuals may experience conflicts between their fiduciary obligations to us and their fiduciary obligations to, and pecuniary interests in, our sponsor and its affiliated entities.

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Our advisor also will experience the following conflicts of interest in connection with the management of our business affairs:

the officers of our advisor, Triple Net Properties, which manages our advisor, and our sponsor, will have to allocate their time between us and other NNN programs;

our advisor and its affiliates must determine how to allocate investment opportunities between us and other NNN programs;

our advisor may compete with other NNN programs for the same tenants in negotiating leases or in selling similar properties at the same time; and

our advisor and its affiliates will receive fees in connection with transactions involving the purchase, management and sale of our properties regardless of the quality or performance of the investments acquired or the services provided to us.

**Our Structure**

The following chart indicates the relationship among us, our advisor and certain affiliates of our advisor.



**Table of Contents****Compensation to the Advisor and Affiliates**

Our advisor and its affiliates will receive substantial compensation and fees for services relating to this offering and the investment and management of our assets. The most significant items of compensation, fees, expenses and other payments that we expect to pay to our advisor and its affiliates are included in the table below. The selling commissions and marketing support fee may vary for different categories of purchasers. See Plan of Distribution.

| <b>Type of Compensation<br/>(Recipient)</b>  | <b>Determination and<br/>Method of Calculation</b>  | <b>Estimated Amount</b>  |
|--|---|--|
| <b><i>Offering Stage</i></b>   |   |  |
| Selling Commissions (our dealer manager)   | Up to 7.0% of gross offering proceeds from our primary offering; selling commissions may be reallocated to participating broker-dealers.  | Actual amount depends upon the number of shares sold. We will pay a total of \$140,000 if we sell the minimum offering and \$140,000,000 if we sell the maximum offering.                |
| Marketing Support Fee and Due Diligence Expense Reimbursement (our dealer manager) | Up to 2.5% of gross offering proceeds from our primary offering for non-accountable marketing support plus 0.5% for accountable <i>bona fide</i> due diligence reimbursement. The dealer manager may reallocate to participating broker-dealers up to 1.5% of the gross offering proceeds from our primary offering for non-accountable marketing support and up to 0.5% for accountable <i>bona fide</i> due diligence expenses. | Actual amount depends upon the number of shares sold. We will pay a total of \$60,000 if we sell the minimum offering and \$60,000,000 if we sell the maximum offering.                  |
| Other Organizational and Offering Expenses (our advisor or its affiliates)         | Up to 1.5% of gross offering proceeds from our primary offering for legal, accounting, printing, marketing and other offering expenses incurred on our behalf.  | Actual amount depends upon the number of shares sold. We estimate that we will pay a total of \$30,000 if we sell the minimum offering and \$30,000,000 if we sell the maximum offering. |
| <b><i>Acquisition and Development Stage</i></b>                                    |   |  |
| Acquisition Fees (our advisor or its affiliates)                                   | Up to 3.0% of the contract purchase price for each property acquired or up to 4.0% of the total development cost of any development property acquired, as applicable.   | Actual amounts depend upon the purchase price of properties acquired and the total development cost of properties acquired for development.  |

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| <b>Type of Compensation<br/>(Recipient)</b>                           | <b>Determination and<br/>Method of Calculation</b>  | <b>Estimated Amount</b>   |
|---|---|---|
| Reimbursement of Acquisition Expenses (our advisor or its affiliates) | All expenses related to selecting, evaluating, acquiring and investing in properties, whether or not acquired. Acquisition expenses will not exceed 0.5% of the purchase price of properties.   | Actual amounts depend upon the actual expenses incurred.  |
| <b>Operational Stage</b>  |   |   |
| Asset Management Fee (our advisor or its affiliates)                  | Subject to our stockholders receiving annualized distributions in an amount equal to 5.0% per annum on average invested capital, a monthly fee equal to one-twelfth of 1.0% of our average invested assets.   | Actual amounts depend upon the average invested assets, and, therefore, cannot be determined at this time.        |
| Property Management Fees (our advisor or its affiliates)              | 4.0% of the gross cash receipts from each property managed by our advisor or its affiliates. For each property managed directly by entities other than our advisor or its affiliates, we will pay our advisor or its affiliates a monthly oversight fee of up to 1.0% of the gross cash receipts from the property. For leasing activities, an additional fee may be charged in an amount not to exceed customary market norms. | Actual amounts depend upon the gross income of the properties, and, therefore, cannot be determined at this time. |
| Operating Expenses (our advisor or its affiliates)                    | Reimbursement of cost of providing administrative services to us.   | Actual amounts depend upon the services provided, and, therefore, cannot be determined at this time.              |
| <b>Liquidity Stage</b>  |   |   |
| Disposition Fees (our advisor or its affiliates)                      | Up to the lesser of 1.75% of the contract sales price of each property sold or 50.0% of a customary competitive real estate commission, to be paid only if our advisor or its affiliates provides a substantial amount of services in connection with the sale of the property, as determined by our board of directors in its discretion.  | Actual amounts depend upon the sale price of properties, and, therefore, cannot be determined at this time.       |

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| <b>Type of Compensation<br/>(Recipient)</b>   | <b>Determination and<br/>Method of Calculation</b>   | <b>Estimated Amount</b>   |
|---|--|---|
| Subordinated Participation Interest<br>(our advisor)  | Our advisor has a subordinated participation interest of our operating partnership pursuant to which our advisor will receive cash distributions from our operating partnership under the following circumstances:   | Actual amounts depend upon the sale price of properties, and, therefore, cannot be determined at this time.   |
| Subordinated Distribution of Net Sales Proceeds (payable only if we liquidate our portfolio while Healthcare Advisor is serving as our advisor)                     | 15.0% of any net sales proceeds remaining after we have made distributions to our stockholders of the total amount raised from stockholders (less amounts paid to repurchase shares pursuant to our share repurchase plan) plus an amount equal to an annual 8.0% cumulative, non-compounded return on average invested capital.   |   |
| Subordinated Distribution Upon Listing (payable only if our shares are listed on a national securities exchange while Healthcare Advisor is serving as our advisor) | 15.0% of the amount by which (1) the market value of our outstanding common stock at listing plus distributions paid prior to listing exceeds (2) the sum of the total amount of capital raised from our stockholders (less amounts paid to repurchase shares pursuant to our share repurchase plan) plus an amount of cash that, if distributed to stockholders as of the date of listing, would have provided them an annual 8.0% cumulative, non-compounded return on average invested capital. | Actual amounts depend upon the market value of our common stock at the time of listing, among other factors, and, therefore, cannot be determined at this time. |

Upon termination of the advisory agreement without cause, our advisor may also be entitled to a subordinated distribution similar to the subordinated distribution upon listing described above. If our advisor receives the subordinated distribution upon a listing, it would no longer be entitled to receive subordinated distributions of net sales proceeds or the subordinated distribution upon a termination of the advisory agreement. If our advisor receives the subordinated distribution upon termination of the advisory agreement, it would no longer be entitled to receive subordinated distributions of net sales proceeds or the subordinated distribution upon listing. There are many additional conditions and restrictions on the amount of compensation our advisor and its affiliates may receive. For a more detailed explanation of these fees and expenses payable to our advisor and its affiliates, please see Compensation Table.

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### **Prior Investment Programs**

The section of this prospectus entitled "Prior Performance Summary" contains a discussion of the NNN programs sponsored through December 31, 2006. Certain financial data relating to the NNN programs is also provided in the "Prior Performance Tables" in Appendix A to this prospectus. The prior performance of our affiliates' previous real estate programs may not be indicative of our ultimate performance and, thus, you should not assume that you will experience financial performance and returns comparable to those experienced by investors in these prior programs. You may experience a small return or no return on, or may lose some or all of, your investment in our shares. Please see "Risk Factors - Risks Relating to Our Business." We have no prior operating history and there is no assurance that we will be able to successfully achieve our investment objectives; and the prior performance of other NNN programs may not be an accurate predictor of our future results.

### **Distribution Reinvestment Plan**

You may participate in our distribution reinvestment plan and elect to have the distributions you receive reinvested in shares of our common stock at \$9.50 per share during this offering. We may terminate the distribution reinvestment plan at our discretion at any time upon 10 days' notice to you. Please see "Description of Capital Stock - Distribution Reinvestment Plan" for a further explanation of our distribution reinvestment plan, a copy of which is attached as Appendix D to this prospectus.

### **Distribution Policy**

In order to qualify as a REIT, we are required to distribute 90% of our annual taxable income to our stockholders. As of the date of this prospectus, we have acquired a limited number of properties, and we have not identified most of the investments we intend to acquire. We cannot predict when, if ever, we will begin to generate sufficient cash flow to pay cash distributions to our stockholders. The amount of any cash distributions will be determined by our board of directors and will depend on the amount of distributable funds, current and projected cash requirements, tax considerations, any limitations imposed by the terms of indebtedness we may incur and other factors. If our investments produce sufficient cash flow, we expect to pay distributions to you on a monthly basis. Because our cash available for distribution in any year may be less than 90% of our taxable income for the year, we may be required to borrow money, use proceeds from the issuance of securities or sell assets to pay out enough of our taxable income to satisfy the distribution requirement. Please see "Description of Capital Stock - Distribution Policy" for a further explanation of our distribution policy.

On February 14, 2007, our board of directors approved a distribution rate of 7.25% per annum to be paid to stockholders beginning with our February 2007 monthly distribution that was paid in March 2007. Our distribution policy is set by our board of directors and is subject to change based on available cash flows. We cannot guarantee the amount of distributions paid in the future, if any.

### **Liquidity Events**

On a limited basis, you may be able to sell shares through our share repurchase plan described below. However, in the future, our board of directors will also consider various forms of liquidity, each of which we refer to as a liquidity event, including: (1) a listing of our common stock on a national securities exchange; (2) our sale or merger in a transaction that provides our stockholders with a combination of cash and/or securities of a publicly traded company; and (3) the sale of all or substantially all of our assets for cash or other consideration. We presently intend to effect a liquidity event by September 20, 2013, seven years from the date of the original prospectus for this offering. However, there can be no assurance that we will effect a liquidity event within such time or at all. In making the decision

whether to effect a liquidity event, our board of directors will try to determine which alternative will result in greater value for our stockholders. Certain merger transactions and the sale of all or substantially all of our assets as well as liquidation would require the affirmative vote of a majority of our outstanding shares of common stock.

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### **Share Repurchase Plan**

An investment in shares of our common stock should be made as a long-term investment which is consistent with our investment objectives. However, to accommodate stockholders for an unanticipated or unforeseen need or desire to sell their shares, we have adopted a share repurchase plan to allow stockholders to sell shares, subject to limitations and restrictions. Repurchase of shares, when requested, will generally be made quarterly. All repurchases are subject to a one-year holding period. However, the one-year holding period requirement will be waived for sales following death or disability. Repurchases would be limited to (1) those that could be funded from the net proceeds from the sale of shares under the distribution reinvestment plan in the prior 12 months and (2) 5.0% of the weighted average number of shares outstanding during the prior calendar year. Due to these limitations, we cannot guarantee that we will be able to accommodate all repurchase requests.

During the offering period, the repurchase price will be \$9.00 per share. During the 12 months subsequent to the completion of the offering period, the repurchase price will be \$9.25 per share. During the next 12 months, the repurchase price will be \$9.50 per share and during the subsequent 12 months, \$9.75 per share. Thereafter, the repurchase price will be the greater of: (a) \$10.00 per share; or (b) a price equal to 10 times our funds available for distribution per weighted average share outstanding for the prior calendar year. For more information, please see the copy of our share repurchase plan attached as Appendix E.

We will terminate our share repurchase plan if and when our shares become listed on a national securities exchange or earlier if our board of directors determines that it is in our best interests to terminate the program. We may amend or modify any provision of the plan at any time, in our board's discretion. Please see Description of Capital Stock Share Repurchase Plan for further explanation of our share repurchase plan.

### **Employee Benefit Plan and IRA Considerations**

The section of this prospectus entitled Employee Benefit Plan and IRA Considerations describes certain considerations associated with a purchase of shares by a pension, profit sharing or other employee benefit plan that is subject to Title I of the Employee Retirement Income Security Act of 1974, as amended, or by an individual retirement account subject to Section 4975 of the Internal Revenue Code. Any plan or account trustee or individual considering purchasing shares for or on behalf of such a plan or account should read that section of this prospectus very carefully.

### **Restrictions on Share Ownership**

Our charter contains restrictions on ownership of the shares that prevent any individual or entity from acquiring beneficial ownership of more than 9.8% of the value of our then outstanding capital stock (which includes common stock and any preferred stock we may issue) or more than 9.8% of the value or number of shares, whichever is more restrictive, of our then outstanding common stock. Please see Description of Capital Stock Restriction on Ownership of Shares for further explanation of the restrictions on ownership of our shares.

### **About this Prospectus**

This prospectus is part of a registration statement that we filed with the SEC using a continuous offering process. Periodically, as we make material investments or have other material developments, we will provide a prospectus supplement that may add, update or change information contained in this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in a subsequent prospectus supplement. The registration statement we filed with the SEC includes exhibits that provide more detailed descriptions

of the matters discussed in this prospectus. You should read this prospectus and the related exhibits filed with the SEC and any prospectus supplement, together with additional information described below under **Where You Can Find Additional Information**.

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**RISK FACTORS**

Your purchase of shares of our common stock involves a number of risks. In addition to other risks discussed in this prospectus, you should specifically consider the following risks before you decide to buy shares of our common stock.

**Investment Risks**

*There is currently no public market for our common stock. Therefore, it will be difficult for you to sell your shares and, if you are able to sell your shares, you will likely sell them at a substantial discount.*

There currently is no public market for shares of our common stock. We do not expect a public market for our stock to develop prior to the listing of our shares on a national securities exchange, which we do not expect to occur in the near future and which may not occur at all. Additionally, our charter contains restrictions on the ownership and transfer of our shares, and these restrictions may inhibit your ability to sell your shares. We have adopted a share repurchase plan but it is limited in terms of the amount of shares which may be repurchased annually. Our board of directors may also limit, suspend, terminate or amend our share repurchase plan upon 30 days' notice. Therefore, it will be difficult for you to sell your shares promptly or at all. If you are able to sell your shares, you may only be able to sell them at a substantial discount from the price you paid. This may be the result, in part, of the fact that, at the time we make our investments, the amount of funds available for investment will be reduced by up to 11.5% of the gross offering proceeds which will be used to pay selling commissions, the marketing support fee, due diligence expense reimbursements and organizational and offering expenses. We will also be required to use gross offering proceeds to pay real estate commissions, advisory fees and acquisition expenses. Unless our aggregate investments increase in value to compensate for these up front fees and expenses, which may not occur, it is unlikely that you will be able to sell your shares, whether pursuant to our share repurchase plan or otherwise, without incurring a substantial loss. We cannot assure you that your shares will ever appreciate in value to equal the price you paid for your shares. Thus, prospective stockholders should consider the purchase of shares of our common stock as illiquid and a long-term investment, and you must be prepared to hold your shares for an indefinite length of time. Please see "Description of Capital Stock - Restriction on Ownership of Shares" for a more complete discussion on certain restrictions regarding your ability to transfer your shares.

*This is a blind pool offering because we have identified a limited number of the specific investments we intend to make with the net proceeds we will receive from this offering. If we are unable to find suitable investments, we may not be able to achieve our investment objectives.*

As of the date of this prospectus, we have acquired 17 properties, and our advisor has identified only three additional real estate investments to purchase with the net proceeds we will receive from this offering. As a result, investors in the offering will be unable to evaluate the manner in which most of the net proceeds are invested and the economic merits of our investments prior to subscribing for shares of our common stock. Additionally, you will not have the opportunity to evaluate the transaction terms or other financial or operational data concerning the properties or real estate related securities we acquire in the future. You must rely on our advisor to evaluate our investment opportunities, and our advisor may not be able to achieve our investment objectives, may make unwise decisions or may make decisions that are not in our best interest because of conflicts of interest. See the risks discussed under

Risks Related to Conflicts of Interest below. Further, we cannot assure you that acquisitions of real estate or real estate related securities made using the proceeds of this offering will produce a return on our investment or will generate cash flow to enable us to make distributions to our stockholders.

*You may be unable to sell your shares because your ability to have your shares repurchased pursuant to our share repurchase plan is subject to significant restrictions and limitations.*



Even though our share repurchase plan may provide you with a limited opportunity to sell your shares to us after you have held them for a period of one year, you should be fully aware that our share repurchase plan contains significant restrictions and limitations. Further, our board may limit, suspend, terminate or amend any

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provision of the share repurchase plan upon 30 days' notice. Repurchase of shares, when requested, will generally be made quarterly. Repurchases will be limited to (1) those that could be funded from the net proceeds from the sale of shares under the distribution reinvestment plan in the prior 12 months, and (2) 5.0% of the weighted average number of shares outstanding during the prior calendar year. In addition, you must present at least 25% of your shares for repurchase and until three years following this offering, repurchases will be made for less than you paid for your shares. Therefore, in making a decision to purchase shares of our common stock, you should not assume that you will be able to sell any of your shares back to us pursuant to our share repurchase plan at any particular time or at all. Please see "Description of Capital Stock - Share Repurchase Plan" for more information regarding our share repurchase plan.

***This is a best efforts offering and if we are unable to raise substantial funds, we will be limited in the number and type of investments we may make, which will result in a less diversified portfolio.***

This offering is being made on a best efforts basis, whereby the dealer manager and the broker-dealers participating in the offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the shares. As a result, if we are unable to raise substantially more than the minimum offering of \$2,000,000, we will have limited diversification in terms of the number of investments owned, the geographic regions in which our investments are located and the types of investments that we make. Your investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of investments. In such event, the likelihood of our profitability being affected by the poor performance of any single investment will increase.

***This is a fixed price offering and the fixed offering price may not accurately represent the current value of our assets at any particular time. Therefore the purchase price you paid for shares of our common stock may be higher than the value of our assets per share of our common stock at the time of your purchase.***

This is a fixed price offering, which means that the offering price for shares of our common stock is fixed and will not vary based on the underlying value of our assets at any time. Our board of directors arbitrarily determined the offering price in its sole discretion. The fixed offering price for shares of our common stock has not been based on appraisals for any assets we may own nor do we intend to obtain such appraisals. Therefore, the fixed offering price established for shares of our common stock may not accurately represent the current value of our assets per share of our common stock at any particular time and may be higher or lower than the actual value of our assets per share at such time.

***Payments to our advisor related to its subordinated participation interest in our operating partnership will reduce cash available for distribution to our stockholders.***

Our advisor holds a subordinated participation interest in our operating partnership, pursuant to which it may be entitled to receive a distribution upon the occurrence of certain events, namely upon dispositions of our assets, the termination or non-renewal of the advisory agreement, other than for cause, or the listing of our common stock on a national securities exchange. The distribution payable to our advisor will equal 15% of proceeds only after we have made distributions to our stockholders of the total amount raised from stockholders (less amounts paid to repurchase shares through our share repurchase plan) plus an annual 8% cumulative, non-compounded return on average invested capital. Any distributions to our advisor by our operating partnership upon dispositions of our assets and such other events will reduce cash available for distribution to our stockholders.

***The business and financial due diligence investigation of us was conducted by an affiliate. That investigation might not have been as thorough as an investigation conducted by an unaffiliated third party, and might not have uncovered facts that would be important to a potential investor.***

Because our advisor and our dealer manager are affiliates of ours, investors will not have the benefit of an independent due diligence review and investigation of the type normally performed by an unaffiliated, independent underwriter in connection with a securities offering. In addition, Alston & Bird LLP has acted as

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counsel to us, our advisor and the dealer manager in connection with this offering and, therefore, investors will not have the benefit of due diligence that might otherwise be performed by independent counsel. Under applicable legal ethics rules, Alston & Bird LLP may be precluded from representing us due to a conflict of interest between us and our affiliates. If any situation arises in which our interests are in conflict with those of our affiliates, we would be required to retain additional counsel and may incur additional fees and expenses. The lack of an independent due diligence review and investigation increases the risk of your investment because it may not have uncovered facts that would be important to a potential investor.

***We presently intend to effect a liquidity event by September 20, 2013; however, there can be no assurance that we will effect a liquidity event within such time or at all. If we do not effect a liquidity event, it will be very difficult for you to have liquidity for your investment in shares of our common stock.***

On a limited basis, you may be able to sell shares through our share repurchase plan. However, in the future we may also consider various forms of liquidity events, including but not limited to (1) listing our common stock on a national securities exchange, (2) our sale or merger in a transaction that provides our stockholders with a combination of cash and/or securities of a publicly traded company, and (3) the sale of all or substantially all of our real property for cash or other consideration. We presently intend to effect a liquidity event by September 20, 2013. However, there can be no assurance that we will effect a liquidity event within such time or at all. If we do not effect a liquidity event, it will be very difficult for you to have liquidity for your investment in shares of our common stock other than limited liquidity through our share repurchase plan.

Because a portion of the offering price from the sale of shares will be used to pay expenses and fees, the full offering price paid by stockholders will not be invested in real estate investments. As a result, stockholders will only receive a full return of their invested capital if we either (1) sell our assets or our company for a sufficient amount in excess of the original purchase price of our assets, or (2) the market value of our company after we list our shares of common stock on a national securities exchange is substantially in excess of the original purchase price of our assets.

## **Risks Relating to Our Business**

***We have a limited operating history and there is no assurance that we will be able to successfully achieve our investment objectives; and the prior performance of other NNN programs may not be an accurate predictor of our future results.***

We have a limited operating history and we may not be able to achieve our investment objectives. As a result, an investment in our shares of common stock may entail more risks than the shares of common stock of a real estate investment trust with a substantial operating history. In addition, you should not rely on the past performance of other investment programs sponsored by Grubb & Ellis, Triple Net Properties, or any of their affiliates, to predict our future results.

***We may suffer from delays in locating suitable investments, which could reduce our ability to make distributions to our stockholders and your return on your investment.***

We have identified three future investments, and we have acquired 17 properties. There may be a substantial period of time before the proceeds of this offering are invested in additional suitable investments. Because we are conducting this offering on a "best efforts" basis over time, our ability to commit to purchase specific assets will also depend, in part, on the amount of proceeds we have received at a given time. If we are delayed or unable to find suitable investments, we may not be able to achieve our investment objectives or make distributions to you.

***The availability and timing of cash distributions to our stockholders is uncertain.***

We expect to make monthly distributions to our stockholders. However, we bear all expenses incurred in our operations, which are deducted from cash funds generated by operations prior to computing the amount of cash distributions to our stockholders. In addition, our board of directors, in its discretion, may retain any portion of such funds for working capital. We cannot assure you that sufficient cash will be available to make

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distributions to you or that the amount of distributions will increase over time. Should we fail for any reason to distribute at least 90% of our REIT taxable income, we would not qualify for the favorable tax treatment accorded to REITs.

***We may not have sufficient cash available from operations to pay distributions, and, therefore, distributions may include a return of capital.***

Distributions payable to stockholders may include a return of capital, rather than a return on capital. We intend to pay regular cash distributions to our stockholders, typically on a monthly basis. The actual amount and timing of distributions will be determined by our board of directors in its discretion and typically will depend on the amount of funds available for distribution, which will depend on items such as current and projected cash requirements and tax considerations. As a result, our distribution rate and payment frequency may vary from time to time. During the early stages of our operations, we may not have sufficient cash available from operations to pay distributions. Therefore, we may need to use proceeds from the offering or borrow funds to make cash distributions in order to maintain our status as a REIT, which may reduce the amount of proceeds available for investment and operations or cause us to incur additional interest expense as a result of borrowed funds. Further, if the aggregate amount of cash distributed in any given year exceeds the amount of our REIT taxable income generated during the year, the excess amount will be deemed a return of capital.

***We may not have sufficient cash available from operations to pay distributions, and, therefore, distributions may be paid with offering proceeds or borrowed funds.***

The amount of the distributions we make to our stockholders will be determined by our board of directors and is dependent on a number of factors, including funds available for payment of distributions, our financial condition, capital expenditure requirements and annual distribution requirements needed to maintain our status as a REIT. On February 14, 2007, our board of directors approved a 7.25% per annum distribution to be paid to stockholders beginning with our February 2007 monthly distribution, which was paid in March 2007. For the nine months ended September 30, 2007, we paid distributions of \$1,638,000 from cash flow from operations of \$2,963,000 for the period. However, as of September 30, 2007, we owed \$632,000 to our advisor and its affiliates for operating expenses, on-site personnel and engineering payroll and asset and property management fees, which will be paid from cash flow from operations in the future. Our advisor and its affiliates have no obligations to defer or forgive amounts due to them. As of September 30, 2007, no amounts due to our advisor or its affiliates have been forgiven. In the future, if our advisor or its affiliates do not defer or forgive amounts due to them and as a result if our cash flow from operations is less than the distributions to be paid, we would be required to pay our distributions, or a portion thereof, with proceeds from this offering or borrowed funds. As a result, the amount of proceeds available for investment and operations would be reduced, or we may incur additional interest expense as a result of borrowed funds. In addition, for the nine months ended September 30, 2007, our funds from operations, or FFO, were \$1,583,000. We paid distributions of \$1,638,000, of which \$1,583,000 was paid from FFO and the remainder from proceeds from this offering.

***We are uncertain of our sources of debt or equity for funding our future capital needs. If we cannot obtain funding on acceptable terms, our ability to make necessary capital improvements to our properties may be impaired or delayed.***

The gross proceeds of the offering will be used to buy a diversified portfolio of real estate and real estate related securities and to pay various fees and expenses. In addition, to qualify as a REIT, we generally must distribute to our stockholders at least 90% of our taxable income each year, excluding capital gains. Because of this distribution requirement, it is not likely that we will be able to fund a significant portion of our future capital needs from retained earnings. Sources of funding may not be available to us on favorable terms or at all. If we do not have access to sufficient funding in the future, we may not be able to make necessary capital improvements to our properties, pay

other expenses or expand our business.

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***The recent downturn in the credit markets has increased the cost of borrowing and has made financing difficult to obtain, each of which may have a material adverse effect on our results of operations and business.***

Recent events in the financial markets have had an adverse impact on the credit markets and, as a result, the availability of credit has become more expensive and difficult to obtain. Some lenders are imposing more stringent restrictions on the terms of credit and there may be a general reduction in the amount of credit available in the markets in which we conduct business. The negative impact on the tightening of the credit markets may have a material adverse effect on us resulting from, but not limited to, an inability to finance the acquisition of properties on favorable terms, if at all, increased financing costs or financing with increasingly restrictive covenants.

The negative impact of the recent adverse changes in the credit markets on the real estate sector generally or our inability to obtain financing on favorable terms, if at all, may have a material adverse effect on our results of operations and business.

***We may structure acquisitions of property in exchange for limited partnership units in our operating partnership on terms that could limit our liquidity or our flexibility.***

We may acquire properties by issuing limited partnership units in our operating partnership in exchange for a property owner contributing property to the partnership. If we enter into such transactions, in order to induce the contributors of such properties to accept units in our operating partnership, rather than cash, in exchange for their properties, it may be necessary for us to provide them additional incentives. For instance, our operating partnership's partnership agreement provides that any holder of units may exchange limited partnership units on a one-for-one basis for shares of our common stock, or, at our option, cash equal to the value of an equivalent number of our shares. We may, however, enter into additional contractual arrangements with contributors of property under which we would agree to repurchase a contributor's units for shares of our common stock or cash, at the option of the contributor, at set times. If the contributor required us to repurchase units for cash pursuant to such a provision, it would limit our liquidity and thus our ability to use cash to make other investments, satisfy other obligations or to make distributions to stockholders. Moreover, if we were required to repurchase units for cash at a time when we did not have sufficient cash to fund the repurchase, we might be required to sell one or more properties to raise funds to satisfy this obligation. Furthermore, we might agree that if distributions the contributor received as a limited partner in our operating partnership did not provide the contributor with a defined return, then upon redemption of the contributor's units we would pay the contributor an additional amount necessary to achieve that return. Such a provision could further negatively impact our liquidity and flexibility. Finally, in order to allow a contributor of a property to defer taxable gain on the contribution of property to our operating partnership, we might agree not to sell a contributed property for a defined period of time or until the contributor exchanged the contributor's units for cash or shares. Such an agreement would prevent us from selling those properties, even if market conditions made such a sale favorable to us.

***Our success will be dependent on the performance of our advisor.***

Our ability to achieve our investment objectives and to pay distributions is dependent upon the performance of our advisor in identifying and acquiring investments, the determination of any financing arrangements, the asset management of our investments and operation of our day-to-day activities. You will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments that are not described in this prospectus. We will rely entirely on the management ability of our advisor, subject to the oversight of our board of directors. If our advisor suffers or is distracted by adverse financial or operational problems in connection with its operations unrelated to us, our advisor may be unable to allocate time and/or resources to our operations. If our advisor is unable to allocate sufficient resources to oversee and perform our operations for any reason, we may be



unable to achieve our investment objectives or to pay distributions to our stockholders. In addition, our success depends to a significant degree upon the continued contributions of certain of our sponsor s and advisor s officers and officers of Triple Net Properties, who will manage our advisor, including Scott D. Peters and Andrea R. Biller, each of whom would be difficult

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to replace. We currently do not have key man life insurance on any key personnel. If our sponsor, our advisor or Triple Net Properties were to lose the benefit of the experience, efforts and abilities of one or more of these individuals, our operating results could suffer.

***Our results of operations, our ability to pay distributions to our stockholders and our ability to dispose of our investments are subject to general economic and regulatory factors we cannot control or predict.***

Our results of operations are subject to the risks of a national economic slowdown or disruption, other changes in national or local economic conditions or changes in tax, real estate, environmental or zoning laws. The following factors may affect income from our properties, our ability to dispose of properties, and yields from our properties:

poor economic times may result in defaults by tenants of our properties and borrowers. We may also be required to provide rent concessions or reduced rental rates to maintain or increase occupancy levels;

job transfers and layoffs may cause vacancies to increase and a lack of future population and job growth may make it difficult to maintain or increase occupancy levels;

increases in supply of competing properties or decreases in demand for our properties may impact our ability to maintain or increase occupancy levels;

changes in interest rates and availability of debt financing could render the sale of properties difficult or unattractive;

periods of high interest rates may reduce cash flow from leveraged properties; and

increased insurance premiums, real estate taxes or energy or other expenses may reduce funds available for distribution or, to the extent such increases are passed through to tenants, may lead to tenant defaults. Also, any such increased expenses may make it difficult to increase rents to tenants on turnover, which may limit our ability to increase our returns.

Some or all of the foregoing factors may affect the returns we receive from our investments, our results of operations, our ability to pay distributions to our stockholders or our ability to dispose of our investments.

***Our advisor and its affiliates have no obligation to defer or forgive fees or loans or advance any funds to us, which could reduce our ability to make investments or pay distributions.***

In the past, our sponsor or its affiliates have, in certain circumstances, deferred or forgiven fees and loans payable by programs sponsored or managed by NNN Realty Advisors or Triple Net Properties. Our advisor and its affiliates have no obligation to defer or forgive fees owed by us to our advisor or its affiliates or to advance any funds to us. As a result, we may have less cash available to make investments or pay distributions.

***The ongoing SEC investigation of Triple Net Properties could adversely impact our advisor's ability to perform its duties to us.***

On September 16, 2004, Triple Net Properties, learned that the SEC is conducting an investigation referred to as In the matter of Triple Net Properties, LLC. The SEC has requested information from Triple Net Properties relating to disclosure in certain public and private securities offerings sponsored by Triple Net Properties and its affiliates during 1998 through 2004, or the Triple Net securities offerings. The SEC also has requested information from NNN Capital Corp., the dealer manager for the Triple Net securities offerings and the dealer manager for this offering. The SEC has

requested financial and other information regarding the Triple Net securities offerings and the disclosures included in the related offering documents from each of Triple Net Properties and NNN Capital Corp.

Triple Net Properties and NNN Capital Corp. are engaged in settlement negotiations with the SEC staff regarding this matter. The settlement negotiations are continuing, and any settlement negotiated with the SEC staff must be approved by the Commission. Since the matter is not concluded, it remains subject to the risk

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that the SEC may seek additional remedies, including substantial fines and injunctive relief that, if obtained, could materially adversely affect our advisor's ability to perform its duties to us, because our advisor is controlled by Triple Net Properties, and could also materially adversely affect our dealer manager's ability to conduct this offering. Additionally, any resolution of this matter that reflects negatively on the reputation of Triple Net Properties or NNN Capital Corp. could materially and adversely affect the willingness of potential investors to invest in Triple Net Properties' offerings, including this offering. The matters that are the subject of this investigation could also give rise to claims against Triple Net Properties by investors in its programs. At this time, Triple Net Properties cannot assess the outcome of the investigation by the SEC.

## **Risks Related to Conflicts of Interest**

We will be subject to conflicts of interest arising out of relationships among us, our officers, our advisor and its affiliates, including the material conflicts discussed below. The Conflicts of Interest section of this prospectus provides a more detailed discussion of these conflicts of interest.

***We will compete with other NNN programs for investment opportunities. As a result, our advisor may not cause us to invest in favorable investment opportunities which may reduce our returns on our investments.***

Our sponsor, Triple Net Properties and their affiliates have sponsored existing programs with investment objectives and strategies similar to ours, and may sponsor other similar programs in the future. As a result, we may be buying properties at the same time as one or more of the other NNN programs managed or advised by affiliates of our advisor. Officers and employees of our advisor may face conflicts of interest in allocating investment opportunities between us and these other programs. For instance, our advisor may select properties for us that provide lower returns to us than properties that its affiliates select to be purchased by another NNN program. We cannot be sure that officers and employees acting for or on behalf of our advisor and on behalf of managers of other NNN programs will act in our best interests when deciding whether to allocate any particular investment to us. We are subject to the risk that as a result of the conflicts of interest between us, our advisor and other entities or programs managed by its affiliates, our advisor may not cause us to invest in favorable investment opportunities that our advisor locates when it would be in our best interest to make such investments. As a result, we may invest in less favorable investments, which may reduce our returns on our investments and ability to pay distributions.

***The conflicts of interest faced by our officers and our non-independent director may cause us not to be managed solely in the best interests of our stockholders, which may adversely affect our results of operation and the value of your investment.***

Some of our officers and our non-independent director are officers of our advisor, Triple Net Properties, which manages our advisor, our sponsor and other affiliated entities which will receive fees in connection with this offering and operations. Scott D. Peters is our Chief Executive Officer, President and Chairman of the Board and also serves as the Chief Executive Officer of our advisor, the Chief Executive Officer of Triple Net Properties, the Chief Executive Officer, President and a director of our sponsor and the Chief Executive Officer, President and Chairman of the Board of NNN Realty Advisors, a wholly owned subsidiary of our sponsor. Mr. Peters currently owns approximately 2.0% of Grubb & Ellis' outstanding common stock and he has de minimis ownership in several other NNN programs. Shannon K S Johnson is our Chief Financial Officer and also serves as a Financial Reporting Manager of Triple Net Properties. Ms. Johnson has de minimis equity ownership in our sponsor and no equity ownership in any NNN programs. Andrea R. Biller is our Executive Vice President and Secretary and also serves as the Executive Vice President of our advisor, the General Counsel and Executive Vice President of Triple Net Properties, the General Counsel, Executive Vice President and Secretary of our sponsor and the General Counsel, Executive Vice President, Secretary and a director of NNN Realty Advisors. Ms. Biller owns less than 1.0% of our sponsor's outstanding common stock and she has de minimis ownership in several NNN programs. Danny Prosky is our Vice President



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Acquisitions and also serves as the Managing Director Health Care Properties of Triple Net Properties. Mr. Prosky has no equity ownership in our sponsor or any NNN programs, other than 3,000 shares of our common stock. In addition, each of Mr. Peters, Ms. Johnson, Ms. Biller and Mr. Prosky holds options to purchase a de minimis amount of our sponsor's outstanding common stock. As of December 14, 2007, each of Mr. Peters and Ms. Biller own 18.0% membership interests in Grubb & Ellis Healthcare Management, LLC, which owns 25.0% of the membership interest of our advisor.

Some of the NNN programs in which our officers and non-independent director have invested and to which they provide services, have investment objectives similar to our investment objectives. These individuals have legal and fiduciary obligations to these entities which are similar to those they owe to us and our stockholders. As a result, they may have conflicts of interest in allocating their time and resources between our business and these other activities. During times of intense activity in other programs, the time they devote to our business may decline and be less than we require. If our officers and non-independent director, for any reason, are not able to provide sufficient resources to manage our business, our business will suffer and this may adversely affect our results of operations and the value of your investment.

***If we enter into joint ventures with affiliates, we may face conflicts of interest or disagreements with our joint venture partners that will not be resolved as quickly or on terms as advantageous to us as would be the case if the joint venture had been negotiated at arm's length with an independent joint venture partner.***

In the event that we enter into a joint venture with any other program sponsored or advised by our sponsor or one of its affiliates, we may face certain additional risks and potential conflicts of interest. For example, securities issued by the other NNN programs may never have an active trading market. Therefore, if we were to become listed on a national securities exchange, we may no longer have similar goals and objectives with respect to the resale of properties in the future. Joint ventures between us and other NNN programs will not have the benefit of arm's length negotiation of the type normally conducted between unrelated co-venturers. Under these joint venture agreements, none of the co-venturers may have the power to control the venture, and an impasse could be reached regarding matters pertaining to the joint venture, including the timing of a liquidation, which might have a negative impact on the joint venture and decrease returns to you.

***Our advisor will face conflicts of interest relating to its compensation structure, which could result in actions that are not necessarily in the long-term best interests of our stockholders.***

Under the advisory agreement between us, our operating partnership, our advisor and Triple Net Properties, and pursuant to the subordinated participation interest our advisor holds in our operating partnership, our advisor is entitled to fees and distributions that are structured in a manner intended to provide incentives to our advisor to perform in our best interests and in the best interests of our stockholders. The fees our advisor is entitled to include real estate commissions, an asset management fee and disposition fees. The distributions our advisor may become entitled to receive would be payable upon distribution of net sales proceeds to our stockholders, the listing of our shares or the termination of the advisory agreement, other than for cause. Please see Compensation Table for a description of the fees and distributions payable to our advisor and its affiliates. However, because our advisor does not maintain a significant equity interest in us and is entitled to receive substantial minimum compensation regardless of performance, our advisor's interests are not wholly aligned with those of our stockholders. In that regard, the only fee our advisor receives with respect to ongoing operation and management of properties is the asset management fee, which is based on the amount of our initial investment and not the performance of those investments, which could result in our advisor not having adequate incentive to manage our portfolio to provide profitable operations during the period we hold our investments. On the other hand, our advisor could be motivated to recommend riskier or more speculative investments in order to increase the fees payable to our advisor or for us to generate the specified levels of performance or net sales proceeds that would entitle our advisor to fees or distributions.



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***The distribution payable to our advisor upon termination of the advisory agreement may influence decisions about terminating our advisor or our acquisition or disposition of investments.***

Our advisor's entitlement to fees upon the sale of our assets and to participate in net sales proceeds could result in our advisor recommending sales of our investments at the earliest possible time at which sales of investments would produce the level of return which would entitle the advisor to compensation relating to such sales, even if continued ownership of those investments might be in the best long-term interest of our stockholders. The subordinated participation interest may require our operating partnership to make a distribution to our advisor upon termination of the advisory agreement, other than for cause, if our advisor meets the performance thresholds included in our operating partnership agreement. This distribution will not be paid if we terminate the advisory agreement after the listing of our shares. To avoid making this distribution, our independent directors may decide against terminating the advisory agreement prior to our listing of our shares even if, but for the requirement to make this distribution, termination of the advisory agreement would be in the best interest of our stockholders. In addition, the requirement to make this distribution could cause our independent directors to make different investment or disposition decisions than they would otherwise make, in order to satisfy our obligation to the terminated advisor.

***We may acquire assets from, or dispose of assets to, affiliates of our advisor, which could result in us entering into transactions on less favorable terms than we would receive from a third party or that negatively affect the public's perception of us.***

We may acquire assets from affiliates of our advisor. Further, we may also dispose of assets to affiliates of our advisor. Affiliates of our advisor may make substantial profits in connection with such transactions and may owe fiduciary and/or other duties to the selling or purchasing entity in these transactions, and conflicts of interest between us and the selling or purchasing entities could exist in such transactions. Because our independent directors would rely on our advisor in identifying and evaluating any such transaction, these conflicts could result in transactions based on terms that are less favorable to us than we would receive from a third party. Also, the existence of conflicts, regardless of how they are resolved, might negatively affect the public's perception of us.

***The fees we pay our advisor under the advisory agreement and the distributions payable to our advisor under our operating partnership agreement were not determined on an arm's-length basis and therefore may not be on the same terms as those we could negotiate with an unrelated party.***

Our independent directors relied on information and recommendations provided by our advisor to determine the fees and distributions payable to our advisor and its affiliates under the advisory agreement and pursuant to the subordinated participation interest in our operating partnership. As a result, these fees and distributions cannot be viewed as having been determined on an arm's-length basis and we cannot assure you that an unaffiliated party would not be willing and able to provide to us the same services at a lower price.

**Risks Associated with Our Organizational Structure**

***We may issue preferred stock or other classes of common stock, which issuance could adversely affect the holders of our common stock issued pursuant to this offering.***

Investors in this offering do not have preemptive rights to any shares issued by us in the future. We may issue, without stockholder approval, preferred stock or other classes of common stock with rights that could dilute the value of your shares of common stock. Our charter authorizes us to issue 1,200,000,000 shares of capital stock, of which 1,000,000,000 shares of capital stock are designated as common stock and 200,000,000 shares of capital stock are designated as preferred stock. Our board of directors may increase the aggregate number of authorized shares of



capital stock or the number of authorized shares of capital stock of any class or series without stockholder approval. If we ever created and issued preferred stock with a distribution preference over our common stock, payment of any distribution preferences of outstanding preferred stock would reduce the amount of funds available for the payment of distributions on our common stock. Further, holders of preferred stock are normally entitled to receive a preference payment in the event we

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liquidate, dissolve or wind up before any payment is made to our common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of preferred stock or a separate class or series of common stock may render more difficult or tend to discourage:

a merger, offer or proxy contest;

assumption of control by a holder of large block of our securities; or

removal of incumbent management.

***The limit on the percentage of shares of our common stock that any person may own may discourage a takeover or business combination that may have benefited our stockholders.***

Our charter restricts the direct or indirect ownership by one person or entity to no more than 9.8% of the value of our then outstanding capital stock (which includes common stock and any preferred stock we may issue) and no more than 9.8% of the value or number of shares, whichever is more restrictive, of our then outstanding common stock. This restriction may discourage a change of control of us and may deter individuals or entities from making tender offers for shares of our common stock on terms that might be financially attractive to stockholders or which may cause a change in our management. This ownership restriction may also prohibit business combinations that would have otherwise been approved by our board of directors and stockholders. In addition to deterring potential transactions that may be favorable to our stockholders, these provisions may also decrease your ability to sell your shares of our common stock.

***Our board of directors may change our investment objectives without seeking stockholder approval.***

Our charter permits our board of directors to change our investment objectives without seeking stockholder approval. Although our board has fiduciary duties to our stockholders and intends only to change our investment objectives when the board determines that a change is in the best interests of our stockholders, a change in our investment objectives could reduce our payment of cash distributions to our stockholders or cause a decline in the value of our investments.

***Maryland law and our organizational documents limit your right to bring claims against our officers and directors.***

Maryland law provides that a director will not have any liability as a director so long as he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest, and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter provides that, subject to the applicable limitations set forth therein or under Maryland law, no director or officer will be liable to us or our stockholders for monetary damages. Our charter also provides that we will generally indemnify our directors, our officers, our advisor and its affiliates for losses they may incur by reason of their service in those capacities unless (1) their act or omission was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, (2) they actually received an improper personal benefit in money, property or services, or (3) in the case of any criminal proceeding, they had reasonable cause to believe the act or omission was unlawful. Moreover, we may enter into separate indemnification agreements with each of our directors and some of our executive officers. As a result, we and our stockholders may have more limited rights against these persons than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by these persons in some cases. However, our charter does provide that we may not indemnify or hold harmless our directors, our advisor and its affiliates unless they have determined that the course of conduct that caused the loss or liability was in our best interests, they were acting on our behalf or performing services for us,

the liability was not the result of negligence or misconduct by our non-independent directors, our advisor and its affiliates or gross negligence or willful misconduct by our independent directors, and the indemnification is recoverable only out of our net assets or the proceeds of insurance and not from the stockholders.

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***Certain provisions of Maryland law could restrict a change in control even if a change in control were in our stockholders' interests.***

Certain provisions of the Maryland General Corporation Law applicable to us prohibit business combinations with:

any person who beneficially owns 10% or more of the voting power of our common stock, which we refer to as an interested stockholder;

an affiliate of ours who, at any time within the two-year period prior to the date in question, was an interested stockholder; or

an affiliate of an interested stockholder.

These prohibitions last for five years after the most recent date on which the interested stockholder became an interested stockholder. Thereafter, any business combination with the interested stockholder must be recommended by our board of directors and approved by the affirmative vote of at least 80% of the votes entitled to be cast by holders of our outstanding shares of common stock and two-thirds of the votes entitled to be cast by holders of shares of our common stock other than shares held by the interested stockholder. These requirements could have the effect of inhibiting a change in control even if a change in control were in our stockholders' interest. These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our board of directors prior to the time that someone becomes an interested stockholder.

***Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act.***

We are not registered as an investment company under the Investment Company Act of 1940, as amended, or the Investment Company Act. If for any reason, we were required to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act imposing, among other things:

limitations on capital structure;

restrictions on specified investments;

prohibitions on transactions with affiliates; and

compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

We intend to operate in such a manner that we will not be subject to regulation under the Investment Company Act. In order to maintain our exemption from regulation under the Investment Company Act, we must comply with technical and complex rules and regulations.

Specifically, in order to maintain our exemption from regulation as an investment company under the Investment Company Act, we intend to engage primarily in the business of investing in interests in real estate and to make these investments within one year after the offering ends. If we are unable to invest a significant portion of the proceeds of this offering in properties within one year of the termination of the offering, we may avoid being required to register as an investment company under the Investment Company Act by temporarily investing any unused proceeds in government securities with low returns. Investments in government securities likely would reduce the cash available

for distribution to investors and possibly lower your returns.

In order to avoid coming within the application of the Investment Company Act, either as a company engaged primarily in investing in interests in real estate or under another exemption from the Investment Company Act, our advisor may be required to impose limitations on our investment activities. In particular, our advisor may limit the percentage of our assets that fall into certain categories specified in the Investment Company Act, which could result in us holding assets we otherwise might desire to sell and selling assets we

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otherwise might wish to retain. In addition, we may have to acquire additional assets that we might not otherwise have acquired or be forced to forgo investment opportunities that we would otherwise want to acquire and that could be important to our investment strategy. In particular, our advisor will monitor our investments in real estate related securities to ensure continued compliance with one or more exemptions from investment company status under the Investment Company Act and, depending on the particular characteristics of those investments and our overall portfolio, our advisor may be required to limit the percentage of our assets represented by real estate related securities.

If we were required to register as an investment company, our ability to enter into certain transactions would be restricted by the Investment Company Act. Furthermore, the costs associated with registration as an investment company and compliance with such restrictions could be substantial. In addition, registration under and compliance with the Investment Company Act would require a substantial amount of time on the part of our advisor and its affiliates, thereby decreasing the time they spend actively managing our investments. If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court were to require enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

### **Risks Related to Investments in Real Estate**

*Changes in national, regional or local economic, demographic or real estate market conditions may adversely affect our results of operations and our ability to pay distributions to our stockholders or reduce the value of your investment.*

We will be subject to risks generally incident to the ownership of real property, including changes in national, regional or local economic, demographic or real estate market conditions. We are unable to predict future changes in national, regional or local economic, demographic or real estate market conditions. For example, a recession or rise in interest rates could make it more difficult for us to lease real properties or dispose of them. In addition, rising interest rates could also make alternative interest-bearing and other investments more attractive and therefore potentially lower the relative value of our existing real estate investments. These conditions, or others we cannot predict, may adversely affect our results of operations, our ability to pay distributions to our stockholders or reduce the value of your investment.

*If we acquire real estate at a time when the real estate market is experiencing substantial influxes of capital investment and competition for income producing properties, the real estate investments we make may not appreciate or may decrease in value.*

The real estate market is currently experiencing a substantial influx of capital from investors. This substantial flow of capital, combined with significant competition for income producing real estate, may result in inflated purchase prices for such assets. To the extent we purchase real estate in such an environment, we are subject to the risk that if the real estate market ceases to attract the same level of capital investment in the future as it is currently attracting, or if the number of companies seeking to acquire such assets decreases, the value of our investment may not appreciate or may decrease significantly below the amount we paid for such investment.

*Competition with third parties in acquiring properties and other investments may reduce our profitability and the return on your investment.*

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, bank and insurance company investment accounts, pension funds, other REITs, real estate limited partnerships, and foreign investors, many of which have greater resources than we do. Many of these entities may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating

efficiencies. In addition, the number of entities and the amount of funds competing for suitable investments may increase. As such, competition with third parties would result in increased demand

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for these assets and therefore increased prices paid for them. If we pay higher prices for properties and other investments, our profitability will be reduced and you may experience a lower return on your investment.

***Some or all of our properties may incur vacancies, which may result in reduced revenue and resale value, a reduction in cash available for distribution and a diminished return on your investment.***

Some or all of our properties may incur vacancies either by a default of tenants under their leases or the expiration or termination of tenant leases. If vacancies continue for a long period of time, we may suffer reduced revenues resulting in less cash distributions to stockholders. In addition, the resale value of the property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

***We are dependent on tenants for our revenue, and lease terminations could reduce our distributions to our stockholders.***

The successful performance of our real estate investments is materially dependent on the financial stability of our tenants. Lease payment defaults by tenants would cause us to lose the revenue associated with such leases and could cause us to reduce the amount of distributions to stockholders. If the property is subject to a mortgage, a default by a significant tenant on its lease payments to us may result in a foreclosure on the property if we are unable to find an alternative source of revenue to meet mortgage payments. In the event of a tenant default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. Further, we cannot assure you that we will be able to re-lease the property for the rent previously received, if at all, or that lease terminations will not cause us to sell the property at a loss.

***Long-term leases may not result in fair market lease rates over time; therefore, our income and our distributions to our stockholders could be lower than if we did not enter into long-term leases.***

We may enter into long-term leases with tenants of certain of our properties. Our long-term leases would likely provide for rent to increase over time. However, if we do not accurately judge the potential for increases in market rental rates, we may set the terms of these long-term leases at levels such that even after contractual rental increases the rent under our long-term leases is less than then-current market rental rates. Further, we may have no ability to terminate those leases or to adjust the rent to then-prevailing market rates. As a result, our income and distributions to our stockholders could be lower than if we did not enter into in long-term leases.

***We may be unable to secure funds for future tenant or other capital improvements, which could limit our ability to attract or replace tenants and decrease your return on investment.***

When tenants do not renew their leases or otherwise vacate their space, it is common that, in order to attract replacement tenants, we will be required to expend substantial funds for tenant improvements and leasing commissions related to the vacated space. Such tenant improvements may require us to incur substantial capital expenditures. If we have not established capital reserves for such tenant or other capital improvements, we will have to obtain financing from other sources and we have not identified any sources for such financing. We may also have future financing needs for other capital improvements to refurbish or renovate our properties. If we need to secure financing sources for tenant improvements or other capital improvements in the future, but are unable to secure such financing or are unable to secure financing on terms we feel are acceptable, we may be unable to make tenant and other capital improvements or we may be required to defer such improvements. If this happens, it may cause one or more of our properties to suffer from a greater risk of obsolescence or a decline in value, or a greater risk of decreased cash flow as a result of fewer potential tenants being attracted to the property or existing tenants not renewing their leases. If we do not have access to sufficient funding in the future, we may not be able to make necessary capital improvements to our properties, pay other expenses or pay distributions to our stockholders.





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***Uninsured losses relating to real estate and lender requirements to obtain insurance may reduce your returns.***

There are types of losses relating to real estate, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, for which we do not intend to obtain insurance unless we are required to do so by mortgage lenders. If any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by any such uninsured loss. In addition, other than any reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property, and we cannot assure you that any such sources of funding will be available to us for such purposes in the future. Also, to the extent we must pay unexpectedly large amounts for uninsured losses, we could suffer reduced earnings that would result in less cash to be distributed to stockholders. In cases where we are required by mortgage lenders to obtain casualty loss insurance for catastrophic events or terrorism, such insurance may not be available, or may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our properties. Additionally, if we obtain such insurance, the costs associated with owning a property would increase and could have a material adverse effect on the net income from the property, and, thus, the cash available for distribution to our stockholders.

***Delays in the acquisition, development and construction of real properties may have adverse effects on our results of operations and returns to our stockholders.***

Delays we encounter in the selection, acquisition and development of real properties could adversely affect your returns. Where properties are acquired prior to the start of constructions or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in the receipt of cash distributions attributable to those particular real properties. Delays in completion of construction could give tenants the right to terminate preconstruction leases for space at a newly developed project. We may incur additional risks when we make periodic progress payments or other advances to builders prior to completion of construction. Each of those factors could result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. Furthermore, the price we agree to for a real property will be based on our projections of rental income and expenses and estimates of the fair market value of real property upon completion of construction. If our projections are inaccurate, we may pay too much for a property.

***Uncertain market conditions relating to the future disposition of properties could cause us to sell our properties at a loss in the future.***

We intend to hold our various real estate investments until such time as our advisor determines that a sale or other disposition appears to be advantageous to achieve our investment objectives. Our advisor, subject to the oversight of our board of directors, may exercise its discretion as to whether and when to sell a property, and we will have no obligation to sell properties at any particular time. We generally intend to hold properties for an extended period of time, and we cannot predict with any certainty the various market conditions affecting real estate investments that will exist at any particular time in the future. Because of the uncertainty of market conditions that may affect the future disposition of our properties, we cannot assure you that we will be able to sell our properties at a profit in the future. Additionally, we may incur prepayment penalties in the event we sell a property subject to a mortgage earlier than we otherwise had planned. Accordingly, the extent to which you will receive cash distributions and realize potential appreciation on our real estate investments will, among other things, be dependent upon fluctuating market conditions.

***We face possible liability for environmental cleanup costs and damages for contamination related to properties we acquire, which could substantially increase our costs and reduce our liquidity and cash distributions to stockholders.***

Because we intend to own and operate real estate, we will be subject to various federal, state and local environmental laws, ordinances and regulations. Under these laws, ordinances and regulations, a current or previous owner or operator of real estate may be liable for the cost of removal or remediation of hazardous or

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toxic substances on, under or in such property. The costs of removal or remediation could be substantial. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures. Environmental laws provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials into the air, and third parties may seek recovery from owners or operators of real estate for personal injury or property damage associated with exposure to released hazardous substances. In addition, new or more stringent laws or stricter interpretations of existing laws could change the cost of compliance or liabilities and restrictions arising out of such laws. The cost of defending against these claims, complying with environmental regulatory requirements, conducting remediation of any contaminated property, or of paying personal injury claims could be substantial, which would reduce our liquidity and cash available for distribution to you. In addition, the presence of hazardous substances on a property or the failure to meet environmental regulatory requirements may materially impair our ability to use, lease or sell a property, or to use the property as collateral for borrowing.

***Our real estate investments may be concentrated in medical office or other healthcare-related facilities, making us more vulnerable economically than if our investments were diversified.***

As a REIT, we will invest primarily in real estate. Within the real estate industry, we intend primarily to acquire or selectively develop and own medical office buildings, healthcare-related facilities and quality commercial office properties. We are subject to risks inherent in concentrating investments in real estate. These risks resulting from a lack of diversification become even greater as a result of our business strategy to invest to a substantial degree in healthcare-related facilities.

A downturn in the commercial real estate industry generally could significantly adversely affect the value of our properties. A downturn in the healthcare industry could negatively affect our lessees' ability to make lease payments to us and our ability to make distributions to our stockholders. These adverse effects could be more pronounced than if we diversified our investments outside of real estate or if our portfolio did not include a substantial concentration in medical office buildings and healthcare-related facilities.

***Certain of our properties may not have efficient alternative uses, so the loss of a tenant may cause us not to be able to find a replacement or cause us to spend considerable capital to adapt the property to an alternative use.***

Some of the properties we will seek to acquire are specialized medical facilities. If we or our tenants terminate the leases for these properties or our tenants lose their regulatory authority to operate such properties, we may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, we may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues or additional capital expenditures required as a result may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Our medical office buildings, healthcare-related facilities and tenants may be unable to compete successfully.***

Our medical office buildings and healthcare-related facilities often face competition from nearby hospitals and other medical office buildings that provide comparable services. Some of those competing facilities are owned by governmental agencies and supported by tax revenues, and others are owned by nonprofit corporations and may be supported to a large extent by endowments and charitable contributions. These types of support are not available to our buildings.

Similarly, our tenants face competition from other medical practices in nearby hospitals and other medical facilities. Our tenants' failure to compete successfully with these other practices could adversely affect their

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ability to make rental payments, which could adversely affect our rental revenues. Further, from time to time and for reasons beyond our control, referral sources, including physicians and managed care organizations, may change their lists of hospitals or physicians to which they refer patients. This could adversely affect our tenants' ability to make rental payments, which could adversely affect our rental revenues.

Any reduction in rental revenues resulting from the inability of our medical office buildings and healthcare-related facilities and our tenants to compete successfully may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Our costs associated with complying with the Americans with Disabilities Act may reduce our cash available for distributions.***

Our properties may be subject to the Americans with Disabilities Act of 1990, as amended, or the ADA. Under the ADA, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The ADA has separate compliance requirements for public accommodations and commercial facilities that generally require that buildings and services be made accessible and available to people with disabilities. The ADA's requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. We will attempt to acquire properties that comply with the ADA or place the burden on the seller or other third party, such as a tenant, to ensure compliance with the ADA. However, we cannot assure you that we will be able to acquire properties or allocate responsibilities in this manner. If we cannot, our funds used for ADA compliance may reduce cash available for distributions and the amount of distributions to you.

***Our real properties will be subject to property taxes that may increase in the future, which could adversely affect our cash flow.***

Our real properties are subject to real and personal property taxes that may increase as tax rates change and as the real properties are assessed or reassessed by taxing authorities. We anticipate that certain of our leases will generally provide that the property taxes or increases therein, are charged to the tenants as an expense related to the real properties that they occupy while other leases will generally provide that we are responsible for such taxes. In any case, as the owner of the properties, we are ultimately responsible for payment of the taxes to the applicable government authorities. If real property taxes increase, our tenants may be unable to make the required tax payments, ultimately requiring us to pay the taxes even if otherwise stated under the terms of the lease. If we fail to pay any such taxes, the applicable taxing authority may place a lien on the real property and the real property may be subject to a tax sale. In addition, we will generally be responsible for real property taxes related to any vacant space.

***Costs of complying with governmental laws and regulations related to environmental protection and human health and safety may be high.***

All real property investments and the operations conducted in connection with such investments are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on customers, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such real property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous substances, or the failure to properly remediate

those substances, may adversely affect our ability to sell, rent or pledge such real property as collateral for future borrowings. Environmental laws also may impose restrictions on the manner in which real property may be used or businesses may be operated. Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may

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require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. Additionally, our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our real properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our real properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. In connection with the acquisition and ownership of our real properties, we may be exposed to such costs in connection with such regulations. The cost of defending against environmental claims, of any damages or fines we must pay, of compliance with environmental regulatory requirements or of remediating any contaminated real property could materially and adversely affect our business, lower the value of our assets or results of operations and, consequently, lower the amounts available for distribution to you.

## **Risks Relating to the Healthcare Industry**

***Reductions in reimbursement from third party payors, including Medicare and Medicaid, could adversely affect the profitability of our tenants and hinder their ability to make rent payments to us.***

Sources of revenue for our tenants may include the federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our tenants. In addition, the failure of any of our tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid and other government sponsored payment programs.

The healthcare industry continues to face various challenges, including increased government and private payor pressure on healthcare providers to control or reduce costs. It is possible that our tenants will continue to experience a shift in payor mix away from fee-for-service payors, resulting in an increase in the percentage of revenues attributable to managed care payors, and general industry trends that include pressures to control healthcare costs. Pressures to control healthcare costs and a shift away from traditional health insurance reimbursement to managed care plans have resulted in an increase in the number of patients whose healthcare coverage is provided under managed care plans, such as health maintenance organizations and preferred provider organizations. These changes could have a material adverse effect on the financial condition of some or all of our tenants. The financial impact on our tenants could restrict their ability to make rent payments to us, which would have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***We face increasing competition for the acquisition of medical office buildings and other healthcare-related facilities, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.***

We compete with many other entities engaged in real estate investment activities for acquisitions of medical office buildings and healthcare-related facilities, including national, regional and local operators, acquirers and developers of healthcare real estate properties. The competition for healthcare real estate properties may significantly increase the price we must pay for medical office buildings and healthcare-related facilities or other assets we seek to acquire and our competitors may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger healthcare real estate REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition will result in increased demand for these assets and therefore increased prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, we may pay higher prices if we purchase single properties in comparison with



portfolio acquisitions. If we pay higher prices for medical office buildings, healthcare-related facilities and

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quality commercial office properties, our business, financial condition and results of operations and our ability to make distributions to our stockholders may be materially and adversely affected.

***The healthcare industry is heavily regulated, and new laws or regulations, changes to existing laws or regulations, loss of licensure or failure to obtain licensure could result in the inability of our tenants to make rent payments to us.***

The healthcare industry is heavily regulated by federal, state and local governmental bodies. Our tenants generally will be subject to laws and regulations covering, among other things, licensure, certification for participation in government programs, and relationships with physicians and other referral sources. Changes in these laws and regulations could negatively affect the ability of our tenants to make lease payments to us and our ability to make distributions to our stockholders.

Many of our medical properties and their tenants may require a license or certificate of need, or CON, to operate. Failure to obtain a license or CON, or loss of a required license or CON would prevent a facility from operating in the manner intended by the tenant. These events could materially adversely affect our tenants' ability to make rent payments to us. State and local laws also may regulate expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction of healthcare-related facilities, by requiring a CON or other similar approval. State CON laws are not uniform throughout the United States and are subject to change. We cannot predict the impact of state CON laws on our development of facilities or the operations of our tenants.

In addition, state CON laws often materially impact the ability of competitors to enter into the marketplace of our facilities. The repeal of CON laws could allow competitors to freely operate in previously closed markets. This could negatively affect our tenants' abilities to make rent payments to us.

In limited circumstances, loss of state licensure or certification or closure of a facility could ultimately result in loss of authority to operate the facility and require new CON authorization to re-institute operations. As a result, a portion of the value of the facility may be reduced, which would adversely impact our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Tenants of our medical office buildings and healthcare-related facilities will be subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant's ability to make rent payments to us.***

There are various federal and state laws prohibiting fraudulent and abusive business practices by healthcare providers who participate in, receive payments from or are in a position to make referrals in connection with government-sponsored healthcare programs, including the Medicare and Medicaid programs. Our lease arrangements with certain tenants may also be subject to these fraud and abuse laws.

These laws include:

the Federal Anti-Kickback Statute, which prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of any item or service reimbursed by Medicare or Medicaid;

the Federal Physician Self-Referral Prohibition, which, subject to specific exceptions, restricts physicians from making referrals for specifically designated health services for which payment may be made under Medicare or Medicaid programs to an entity with which the physician, or an immediate family member, has a financial relationship;

the False Claims Act, which prohibits any person from knowingly presenting false or fraudulent claims for payment to the federal government, including claims paid by the Medicare and Medicaid programs; and

the Civil Monetary Penalties Law, which authorizes the U.S. Department of Health and Human Services to impose monetary penalties for certain fraudulent acts.

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Each of these laws includes criminal and/or civil penalties for violations that range from punitive sanctions, damage assessments, penalties, imprisonment, denial of Medicare and Medicaid payments and/or exclusion from the Medicare and Medicaid programs. Certain laws, such as the False Claims Act, allow for individuals to bring whistleblower actions on behalf of the government for violations thereof. Additionally, states in which the facilities are located may have similar fraud and abuse laws. Investigation by a federal or state governmental body for violation of fraud and abuse laws or imposition of any of these penalties upon one of our tenants could jeopardize that tenant's ability to operate or to make rent payments, which may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

***Adverse trends in healthcare provider operations may negatively affect our lease revenues and our ability to make distributions to our stockholders.***

The healthcare industry is currently experiencing:

changes in the demand for and methods of delivering healthcare services;

changes in third party reimbursement policies;

significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas;

continuing pressure by private and governmental payors to reduce payments to providers of services; and

increased scrutiny of billing, referral and other practices by federal and state authorities.

These factors may adversely affect the economic performance of some or all of our tenants and, in turn, our lease revenues and our ability to make distributions to our stockholders.

***Tenants of our medical office buildings and healthcare-related facilities may be subject to significant legal action that could subject them to increased operating costs and substantial uninsured liabilities, which may affect their ability to pay their rent payments to us.***

As is typical in the healthcare industry, certain types of tenants of our medical office buildings and healthcare-related facilities may often become subject to claims that their services have resulted in patient injury or other adverse effects. Many of these tenants may have experienced an increasing trend in the frequency and severity of professional liability and general liability insurance claims and litigation asserted against them. The insurance coverage maintained by these tenants may not cover all claims made against them nor continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to these tenants due to state law prohibitions or limitations of availability. As a result, these types of tenants of our medical office buildings and healthcare-related facilities operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits. We also believe that there has been, and will continue to be, an increase in governmental investigations of certain healthcare providers, particularly in the area of Medicare/Medicaid false claims, as well as an increase in enforcement actions resulting from these investigations. Insurance is not available to cover such losses. Any adverse determination in a legal proceeding or governmental investigation, whether currently asserted or arising in the future, could have a material adverse effect on a tenant's financial condition. If a tenant is unable to obtain or maintain insurance coverage, if judgments are obtained in excess of the insurance coverage, if a tenant is required to pay uninsured punitive damages, or if a tenant is subject to an uninsurable government

enforcement action, the tenant could be exposed to substantial additional liabilities, which may affect the tenant's ability to pay rent, which in turn could have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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**Risks Related to Investments in Real Estate Related Securities**

***We do not have substantial experience in acquiring mortgage loans or investing in real estate related securities, which may result in our real estate related securities investments failing to produce returns or incurring losses.***

None of our officers or the management personnel of our advisor have any substantial experience in acquiring mortgage loans or investing in the real estate related securities in which we may invest. We may make such investments to the extent that our advisor, in consultation with our board of directors, determines that it is advantageous for us to do so. Our and our advisor's lack of expertise in making real estate related securities investments may result in our real estate related securities investments failing to produce returns or incurring losses, either of which would reduce our ability to make distributions to our stockholders.

***Real estate related equity securities in which we may invest are subject to specific risks relating to the particular issuer of the securities and may be subject to the general risks of investing in subordinated real estate securities.***

We may invest in common and preferred stock of both publicly traded and private real estate companies, which involves a higher degree of risk than debt securities due to a variety of factors, including that such investments are subordinate to creditors and are not secured by the issuer's property. Our investments in real estate related equity securities will involve special risks relating to the particular issuer of the equity securities, including the financial condition and business outlook of the issuer. Issuers of real estate related common equity securities generally invest in real estate or real estate related assets and are subject to the inherent risks associated with real estate related investments discussed in this prospectus, including risks relating to rising interest rates.

***The mortgage loans in which we may invest and the mortgage loans underlying the mortgage-backed securities in which we may invest may be impacted by unfavorable real estate market conditions, which could decrease their value.***

If we make investments in mortgage loans or mortgage-backed securities, we will be at risk of loss on those investments, including losses as a result of defaults on mortgage loans. These losses may be caused by many conditions beyond our control, including economic conditions affecting real estate values, tenant defaults and lease expirations, interest rate levels and the other economic and liability risks associated with real estate described above under the heading Risks Related to Investments in Real Estate. If we acquire property by foreclosure following defaults under our mortgage loan investments, we will have the economic and liability risks as the owner described above. We do not know whether the values of the property securing any of our real estate securities investments will remain at the levels existing on the dates we initially make the related investment. If the values of the underlying properties drop, our risk will increase and the values of our interests may decrease.

***Delays in liquidating defaulted mortgage loan investments could reduce our investment returns.***

If there are defaults under our mortgage loan investments, we may not be able to foreclose on or obtain a suitable remedy with respect to such investments. Specifically, we may not be able to repossess and sell the underlying properties quickly which could reduce the value of our investment. For example, an action to foreclose on a property securing a mortgage loan is regulated by state statutes and rules and is subject to many of the delays and expenses of lawsuits if the defendant raises defenses or counterclaims. Additionally, in the event of default by a mortgagor, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgages property or to obtain proceeds sufficient to repay all amounts due to us on the mortgage loan.



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***The collateralized mortgage backed securities in which we may invest are subject to several types of risks.***

Collateralized mortgage backed securities, or CMBS, are bonds which evidence interests in, or are secured by, a single commercial mortgage loan or a pool of commercial mortgage loans. Accordingly, the mortgage-backed securities we invest in are subject to all the risks of the underlying mortgage loans.

In a rising interest rate environment, the value of CMBS may be adversely affected when payments on underlying mortgages do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The value of CMBS may also change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the mortgage securities markets as a whole. In addition, CMBS are subject to the credit risk associated with the performance of the underlying mortgage properties. In certain instances, third party guarantees or other forms of credit support can reduce the credit risk.

CMBS are also subject to several risks created through the securitization process. Subordinate CMBS are paid interest only to the extent that there are funds available to make payments. To the extent the collateral pool includes a large percentage of delinquent loans, there is a risk that interest payment on subordinate CMBS will not be fully paid. Subordinate securities of CMBS are also subject to greater credit risk than those CMBS that are more highly rated.

***The mezzanine loans in which we may invest would involve greater risks of loss than senior loans secured by income-producing real properties.***

We may invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying real property or loans secured by a pledge of the ownership interests of either the entity owning the real property or the entity that owns the interest in the entity owning the real property. These types of investments involve a higher degree of risk than long-term senior mortgage lending secured by income producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the real property and increasing the risk of loss of principal.

***We expect a portion of our real estate related securities investments to be illiquid and we may not be able to adjust our portfolio in response to changes in economic and other conditions.***

We may purchase real estate related securities in connection with privately negotiated transactions which are not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited. The mezzanine and bridge loans we may purchase will be particularly illiquid investments due to their short life, their unsuitability for securitization and the greater difficulty of recoupment in the event of a borrower's default.

***Interest rate and related risks may cause the value of our real estate related securities investments to be reduced.***

Interest rate risk is the risk that fixed income securities such as preferred and debt securities, and to a lesser extent dividend paying common stocks, will decline in value because of changes in market interest rates. Generally, when



market interest rates rise, the market value of such securities will decline, and vice versa. Our investment in such securities means that the net asset value and market price of the common shares may tend to decline if market interest rates rise.

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During periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below-market interest rate, increase the security's duration and reduce the value of the security. This is known as extension risk. During periods of declining interest rates, an issuer may be able to exercise an option to prepay principal earlier than scheduled, which is generally known as call or prepayment risk. If this occurs, we may be forced to reinvest in lower yielding securities. This is known as reinvestment risk. Preferred and debt securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. These risks may reduce the value of our real estate related securities investments.

***If we liquidate prior to the maturity of our real estate securities investments, we may be forced to sell those investments on unfavorable terms or at a loss.***

Our board of directors may choose to effect a liquidity event in which we liquidate our assets, including our real estate related securities investments. If we liquidate those investments prior to their maturity, we may be forced to sell those investments on unfavorable terms or at loss. For instance, if we are required to liquidate mortgage loans at a time when prevailing interest rates are higher than the interest rates of such mortgage loans, we would likely sell such loans at a discount to their stated principal values.

## **Risks Associated with Debt Financing**

***We will incur mortgage indebtedness and other borrowings, which may increase our business risks, could hinder our ability to make distributions and could decrease the value of your investment.***

We intend to finance a portion of the purchase price of our investments in real estate and real estate related securities by borrowing funds. We have not identified any sources of debt financing as of the date of this prospectus. We anticipate that, after an initial phase of our operations when we may employ greater amounts of leverage to enable us to purchase properties more quickly and therefore generate distributions for our stockholders sooner, our overall leverage will not exceed 60.0% of the combined fair market value of our assets. Under our charter, we have a limitation on borrowing which precludes us from borrowing in excess of 300.0% of the value of our net assets, or more if such excess is approved by a majority of our independent directors and is disclosed in our next quarterly report along with the justification for such excess. Net assets for purposes of this calculation are defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation or other non-cash reserves, less total liabilities. Generally speaking, the preceding calculation is expected to approximate 75.0% of the sum of (a) the aggregate cost of our real property investments before non-cash reserves and depreciation and (b) the aggregate cost of our investments in real estate related securities. In addition, we may incur mortgage debt and pledge some or all of our real properties as security for that debt to obtain funds to acquire additional real properties or for working capital. We may also borrow funds to satisfy the REIT tax qualification requirement that we distribute at least 90.0% of our annual REIT taxable income to our stockholders. Furthermore, we may borrow if we otherwise deem it necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes.

High debt levels will cause us to incur higher interest charges, which would result in higher debt service payments and could be accompanied by restrictive covenants. If there is a shortfall between the cash flow from a property and the cash flow needed to service mortgage debt on that property, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default, thus reducing the value of your investment. For tax purposes, a foreclosure on any of our properties will be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the

property, we will recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt to the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is

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not paid by such entity. If any mortgage contains cross collateralization or cross default provisions, a default on a single property could affect multiple properties. If any of our properties are foreclosed upon due to a default, our ability to pay cash distributions to our stockholders will be adversely affected.

***Higher mortgage rates may make it more difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make to our stockholders.***

Until recently, the Federal Reserve Board has significantly increased short-term interest rates since June 2004. If mortgage debt is unavailable on reasonable terms as a result of increased interest rates or other factors, we may not be able to finance the initial purchase of properties. In addition, if we place mortgage debt on properties, we run the risk of being unable to refinance such debt when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance debt, our income could be reduced. We may be unable to refinance debt at appropriate times, which may require us to sell properties on terms that are not advantageous to us, or could result in the foreclosure of such properties. If any of these events occur, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to you and may hinder our ability to raise more capital by issuing securities or by borrowing more money.

***Increases in interest rates could increase the amount of our debt payments and therefore negatively impact our operating results.***

Interest we pay on our debt obligations will reduce cash available for distributions. If we incur variable rate debt, increases in interest rates would increase our interest costs, which would reduce our cash flows and our ability to make distributions to you. If we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments.

***Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.***

When providing financing, a lender may impose restrictions on us that affect our ability to incur additional debt and affect our distribution and operating policies. Loan documents we enter into may contain covenants that limit our ability to further mortgage the property, discontinue insurance coverage, or replace our advisor. These or other limitations may adversely affect our flexibility and our ability to achieve our investment objectives.

***If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to refinance or sell properties on favorable terms, and to make distributions to stockholders.***

Some of our financing arrangements may require us to make a lump-sum or balloon payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional financing or our ability to sell the particular property. At the time the balloon payment is due, we may or may not be able to refinance the balloon payment on terms as favorable as the original loan or sell the particular property at a price sufficient to make the balloon payment. The refinancing or sale could affect the rate of return to stockholders and the projected time of disposition of our assets. In an environment of increasing mortgage rates, if we place mortgage debt on properties, we run the risk of being unable to refinance such debt if mortgage rates are higher at a time a balloon payment is due. In addition, payments of principal and interest made to service our debts, including balloon payments, may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT. Any of these results would have a significant, negative impact on your investment.



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**Risks Associated with Joint Ventures**

***The terms of joint venture agreements or other joint ownership arrangements into which we may enter could impair our operating flexibility and our results of operations.***

In connection with the purchase of real estate, we may enter into joint ventures with third parties, including affiliates of our advisor. We may also purchase or develop properties in co-ownership arrangements with the sellers of the properties, developers or other persons. These structures involve participation in the investment by other parties whose interests and rights may not be the same as ours. Our joint venture partners may have rights to take some actions over which we have no control and may take actions contrary to our interests. Joint ownership of an investment in real estate may involve risks not associated with direct ownership of real estate, including the following:

a venture partner may at any time have economic or other business interests or goals which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in a joint venture or the timing of the termination and liquidation of the venture;

a venture partner might become bankrupt and such proceedings could have an adverse impact on the operation of the partnership or joint venture;

actions taken by a venture partner might have the result of subjecting the property to liabilities in excess of those contemplated; and

a venture partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives, including our policy with respect to qualifying and maintaining our qualification as a REIT.

Under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached, which might adversely affect the joint venture and decrease potential returns to you. If we have a right of first refusal or buy/sell right to buy out a venture partner, we may be unable to finance such a buy-out or we may be forced to exercise those rights at a time when it would not otherwise be in our best interest to do so. If our interest is subject to a buy/sell right, we may not have sufficient cash, available borrowing capacity or other capital resources to allow us to purchase an interest of a venture partner subject to the buy/sell right, in which case we may be forced to sell our interest when we would otherwise prefer to retain our interest. In addition, we may not be able to sell our interest in a joint venture on a timely basis or on acceptable terms if we desire to exit the venture for any reason, particularly if our interest is subject to a right of first refusal of our venture partner.

***We may structure our joint venture relationships in a manner which may limit the amount we participate in the cash flow or appreciation of an investment.***

We may enter into joint venture agreements, the economic terms of which may provide for the distribution of income to us otherwise than in direct proportion to our ownership interest in the joint venture. For example, while we and a co-venturer may invest an equal amount of capital in an investment, the investment may be structured such that we have a right to priority distributions of cash flow up to a certain target return while the co-venturer may receive a disproportionately greater share of cash flow than we are to receive once such target return has been achieved. This type of investment structure may result in the co-venturer receiving more of the cash flow, including appreciation, of an investment than we would receive. If we do not accurately judge the appreciation prospects of a particular investment or structure the venture appropriately, we may incur losses on joint venture investments or have limited participation in the profits of a joint venture investment, either of which could reduce our ability to make cash

distributions to our stockholders.

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### **Federal Income Tax Risks**

***Failure to qualify as a REIT for federal income tax purposes would subject us to federal income tax on our taxable income at regular corporate rates, which would substantially reduce our ability to make distributions to our stockholders.***

We intend to qualify as a REIT for federal income tax purposes commencing with the taxable year ending December 31, 2007, but as of the date of this prospectus we are not qualified as a REIT. Our qualification as a REIT will depend on our ability to meet various requirements set forth in the Internal Revenue Code concerning, among other things, the ownership of our outstanding common stock, the nature of our assets, the sources of our income and the amount of our distributions to our stockholders. The REIT qualification requirements are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so as to qualify as a REIT. At any time new laws, interpretations or court decisions may change the federal tax laws relating to, or the federal income tax consequences of, qualification as a REIT. It is possible that future economic, market, legal, tax or other considerations may cause our board of directors to revoke our REIT election, which it may do without stockholder approval.

Although we have not requested, and do not expect to request, a ruling from the Internal Revenue Service, or IRS, that we qualify as a REIT, we have received an opinion of our counsel that, based on certain assumptions and representations, we will so qualify. You should be aware, however, that opinions of counsel are not binding on the IRS or any court. The REIT qualification opinion only represents the view of our counsel based on its review and analysis of existing law and therefore could be subject to modification or withdrawal based on future legislative, judicial or administrative changes to the federal income tax laws, any of which could be applied retroactively. The validity of the opinion of our counsel and of our qualification as a REIT will depend on our continuing ability to meet the various REIT requirements described herein.

If we were to fail to qualify as a REIT for any taxable year, we would be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year in which we lose our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer be deductible in computing our taxable income, and we would no longer be required to make distributions. To the extent that distributions had been made in anticipation of our qualifying as a REIT, we might be required to borrow funds or liquidate some investments in order to pay the applicable corporate income tax. In addition, although we intend to operate in a manner intended to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our board of directors to recommend that we revoke our REIT election.

As a result of all these factors, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and would substantially reduce our ability to make distributions to our stockholders.

***To qualify as a REIT and to avoid the payment of federal income and excise taxes and maintain our REIT status, we may be forced to borrow funds, use proceeds from the issuance of securities (including this offering), or sell assets to pay distributions, which may result in our distributing amounts that may otherwise be used for our operations.***

To obtain the favorable tax treatment accorded to REITs, we normally will be required each year to distribute to our stockholders at least 90% of our real estate investment trust taxable income, determined without regard to the deduction for distributions paid and by excluding net capital gains. We will be subject to federal income tax on our



undistributed taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. These requirements could cause us to distribute amounts that otherwise would be spent on acquisitions of properties and it is possible that we might be required to borrow funds, use proceeds

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from the issuance of securities (including this offering) or sell assets in order to distribute enough of our taxable income to maintain our REIT status and to avoid the payment of federal income and excise taxes.

***If our operating partnership fails to maintain its status as a partnership for federal income tax purposes, its income would be subject to taxation and our REIT status would be terminated.***

We intend to maintain the status of our operating partnership as a partnership for federal income tax purposes. However, if the IRS were to successfully challenge the status of our operating partnership as a partnership, it would be taxable as a corporation. In such event, this would reduce the amount of distributions that our operating partnership could make to us. This would also result in our losing REIT status and becoming subject to a corporate level tax on our own income. This would substantially reduce our cash available to pay distributions and the return on your investment. In addition, if any of the entities through which our operating partnership owns its properties, in whole or in part, loses its characterization as a partnership for federal income tax purposes, it would be subject to taxation as a corporation, thereby reducing distributions to our operating partnership. Such a recharacterization of our operating partnership or an underlying property owner could also threaten our ability to maintain REIT status.

***You may have current tax liability on distributions you elect to reinvest in shares of our common stock.***

If you participate in our distribution reinvestment plan, you will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of our common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the common stock received.

***Dividends paid by REITs do not qualify for the reduced tax rates that apply to other corporate dividends.***

Tax legislation enacted in 2003 and 2006 generally reduces the maximum tax rate for qualified dividends paid by corporations to individuals to 15% through 2010. Dividends paid by REITs, however, generally continue to be taxed at the normal rate applicable to the individual recipient, rather than the 15% preferential rate. Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay qualified dividends, which could adversely affect the value of the stock of REITs, including our common stock. See Federal Income Tax Considerations Taxation of Taxable U.S. Stockholders Distributions Generally.

***In certain circumstances, we may be subject to federal and state income taxes as a REIT, which would reduce our cash available for distribution to you.***

Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes or state taxes. For example, net income from a prohibited transaction will be subject to a 100% tax. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain capital gains we earn from the sale or other disposition of our property and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability. We may also be subject to state and local taxes on our income or property, either directly or at the level of the companies through which we indirectly own our assets. Any federal or state taxes we pay will reduce our cash available for distribution to you.

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***Distributions to tax-exempt investors may be classified as unrelated business taxable income.***

Neither ordinary nor capital gain distributions with respect to our common stock nor gain from the sale of common stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

part of the income and gain recognized by certain qualified employee pension trusts with respect to our common stock may be treated as unrelated business taxable income if shares of our common stock are predominately held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT share ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;

part of the income and gain recognized by a tax exempt investor with respect to our common stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the common stock; and

part or all of the income or gain recognized with respect to our common stock by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from federal income taxation under Sections 501(c)(7), (9), (17) or (20) of the Internal Revenue Code may be treated as unrelated business taxable income.

See Federal Income Tax Considerations Treatment of Tax-Exempt Stockholders section of this prospectus for further discussion of this issue if you are a tax-exempt investor.

***Complying with the REIT requirements may cause us to forego otherwise attractive opportunities.***

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of shares of our common stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, or we may be required to liquidate otherwise attractive investments in order to comply with the REIT tests. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

***Changes to federal income tax laws or regulations could adversely affect investors.***

In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and we cannot assure you that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in shares of our common stock. We urge you to consult with your own tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in shares of our common stock.

**Employee Benefit Plan and IRA Risks**

We, and our investors that are employee benefit plans or individual retirement accounts, or IRAs, will be subject to risks relating specifically to our having employee benefit plans and IRAs as stockholders, which risks are discussed below. The Employee Benefit Plan and IRA Considerations section of this prospectus provides a more detailed discussion of these employee benefit plan and IRA investor risks.



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***If you fail to meet the fiduciary and other standards under ERISA or the Internal Revenue Code as a result of an investment in our common stock, you could be subject to criminal and civil penalties.***

There are special considerations that apply to pension, profit-sharing trusts or IRAs investing in our common stock. If you are investing the assets of a pension, profit sharing or 401(k) plan, health or welfare plan, or an IRA in us, you should consider:

whether your investment is consistent with the applicable provisions of ERISA and the Internal Revenue Code, or any other applicable governing authority in the case of a government plan;

whether your investment is made in accordance with the documents and instruments governing your plan or IRA, including your plan's investment policy;

whether your investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA;

whether your investment will impair the liquidity of the plan or IRA;

whether your investment will produce unrelated business taxable income, referred to as UBTI and as defined in Sections 511 through 514 of the Internal Revenue Code, to the plan or IRA; and

your need to value the assets of the plan annually in accordance with ERISA and the Internal Revenue Code.

In addition to considering their fiduciary responsibilities under ERISA and the prohibited transaction rules of ERISA and the Internal Revenue Code, trustees or others purchasing shares should consider the effect of the plan asset rules under ERISA and regulations of the U.S. Department of Labor. To avoid our assets from being considered plan assets under those rules, our charter prohibits benefit plan investors from owning 25% or more of our common stock prior to the time that the common stock qualifies as a class of publicly-offered securities, within the meaning of the ERISA plan asset rules. However, we cannot assure you that those provisions in our charter will be effective in limiting benefit plan investor ownership to less than the 25% limit. For example, the limit could be unintentionally exceeded if a benefit plan investor misrepresents its status as a benefit plan. Even if our assets are not considered to be plan assets, a prohibited transaction could occur if we or any of our affiliates is a fiduciary (within the meaning of ERISA) with respect to an employee benefit plan or IRA purchasing shares, and, therefore, in the event any such persons are fiduciaries (within the meaning of ERISA) of your plan or IRA, you should not purchase shares unless an administrative or statutory exemption applies to your purchase.

**CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

Statements included in this prospectus that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward looking statements. These statements are only predictions. We caution that forward looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in the forward looking statements. Forward looking statements are typically identified by the use of terms such as may, will, should, expect, could, intend, plan, anticipate, believe, continue, predict, potential or the negative of such terms and other comparable terminology.

The forward looking statements included in this prospectus are based upon our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve

judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward looking statements are based on reasonable assumptions, our actual results and performance could

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differ materially from those set forth in the forward looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- our ability to effectively deploy the proceeds raised in this offering;
- changes in economic conditions generally and the real estate and securities markets specifically;
- legislative or regulatory changes (including changes to the laws governing the taxation of REITs);
- the availability of capital;
- interest rates; and
- changes to accounting principles generally accepted in the United States of America.

Any of the assumptions underlying forward looking statements could be inaccurate. You are cautioned not to place undue reliance on any forward looking statements included in this prospectus. All forward looking statements are made as of the date of this prospectus and the risk that actual results will differ materially from the expectations expressed in this prospectus will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward looking statements after the date of this prospectus, whether as a result of new information, future events, changed circumstances or any other reason. In light of the significant uncertainties inherent in the forward looking statements included in this prospectus, including, without limitation, the risks described under Risk Factors, the inclusion of such forward looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this prospectus will be achieved.

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**ESTIMATED USE OF PROCEEDS**

The following table sets forth our best estimates of how we intend to use the proceeds raised in this offering assuming that we sell specified numbers of shares pursuant to the primary offering. The number of shares of our common stock to be offered pursuant to our primary offering may vary from these assumptions since we have reserved the right to reallocate the shares offered between the primary offering and the distribution reinvestment plan. Shares of our common stock in the primary offering will be offered to the public on a best efforts basis at \$10.00 per share. The table below shows two scenarios:

the Minimum Offering assumes that we did not sell more than the minimum offering of \$2,000,000 by selling 200,000 shares at \$10.00 per share pursuant to our primary offering; and

the Maximum Offering assumes that we reach the maximum offering of \$2,000,000,000 by selling 200,000,000 shares at \$10.00 per share pursuant to our primary offering.

Under both scenarios, we have not given effect to any special sales or volume discounts that could reduce the selling commissions or marketing support fees for sales pursuant to the primary offering. Reduction in these fees will be accompanied by a corresponding reduction in the per share purchase price, but will not affect the amounts available to us for investments. See Plan of Distribution for a description of the special sales and volume discounts.

The following table assumes that we do not sell any shares in our distribution reinvestment plan. As long as our shares are not listed on a national securities exchange, it is anticipated that all or substantially all of the proceeds from the sale of shares pursuant to our distribution reinvestment plan will be used to fund repurchases of shares under our share repurchase plan. Because we do not pay selling commissions or marketing support fees or reimburse due diligence expenses for shares sold pursuant to our distribution reinvestment plan, we receive greater net proceeds from the sale of shares in the distribution reinvestment plan than in the primary offering. As a result, if we reallocate shares from the distribution reinvestment plan to the primary offering, our net proceeds could be less.

Many of the figures set forth below represent management's best estimate since they cannot be precisely calculated at this time. We expect that at least 88.5% of the money you invest will be used to buy investments in real property and real estate related securities and pay related acquisition fees and expenses, while we expect the remaining 11.5% will be used to pay expenses and fees, including the payment of fees to our advisor and the dealer manager for this offering.



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Our board of directors is responsible for reviewing our fees and expenses on at least an annual basis and with sufficient frequency to determine that the expenses incurred are in the best interest of the stockholders. The independent directors are responsible for reviewing the performance of our advisor and determining that the compensation to be paid to our advisor is reasonable in relation to the nature and quality of the services to be performed and that the provisions of the advisory agreement are being carried out. The fees set forth below may not be increased without approval of the independent directors.

|  | <b>Minimum Offering</b> |                | <b>Maximum Offering</b> |                |
|--|-------------------------|----------------|-------------------------|----------------|
|  | <b>Amount</b>           | <b>Percent</b> | <b>Amount</b>           | <b>Percent</b> |
| <b>Gross Offering Proceeds</b>                 | \$ 2,000,000            | 100.0%         | \$ 2,000,000,000        | 100.0%         |
| <i>Less Public Offering Expenses:</i>          |                         |                |                         |                |
| <b>Selling Commissions</b>                     | 140,000                 | 7.0            | 140,000,000             | 7.0            |
| <b>Marketing Support Fee</b>                   | 50,000                  | 2.5            | 50,000,000              | 2.5            |
| <b>Due Diligence Reimbursement</b>             | 10,000                  | 0.5            | 10,000,000              | 0.5            |
| <b>Organizational and Offering Expenses(1)</b> | 30,000                  | 1.5            | 30,000,000              | 1.5            |
| <br><b>Amount Available for Investment(2)</b>  | <br>\$ 1,770,000        | <br>88.5%      | <br>\$ 1,770,000,000    | <br>88.5%      |
| <i>Less Acquisition Costs:</i>                 |                         |                |                         |                |
| <b>Acquisition Fees(3)</b>                     | \$ 60,000               | 3.0%           | \$ 60,000,000           | 3.0%           |
| <b>Acquisition Expenses(4)</b>                 | 10,000                  | 0.5            | 10,000,000              | 0.5            |
| <b>Initial Working Capital Reserve(5)</b>      |                         |                |                         |                |
| <br><b>Amount Invested in Properties</b>       | <br>\$ 1,700,000        | <br>85.0%      | <br>\$ 1,700,000,000    | <br>85.0%      |

- (1) Organizational and offering expenses consist of reimbursement of, among other items, the cumulative cost of actual legal, accounting, printing and other accountable offering expenses, including, but not limited to, amounts to reimburse our advisor for marketing, salaries and direct expenses of its employees, employees of its affiliates and others while engaged in registering and marketing the shares of our common stock to be sold in this offering, which shall include, but not be limited to, development of marketing materials and marketing presentations, participating in due diligence, training seminars and educational conferences and coordinating generally the marketing process for this offering. A portion of our organizational and offering expense reimbursement may be used for wholesaling activities and therefore deemed to be additional underwriting compensation pursuant to FINRA Rule 2710. Our advisor will be responsible for the payment of our cumulative organizational and offering expenses, other than the selling commissions, the marketing support fee and the due diligence reimbursement, to the extent they exceed 1.5% of the aggregate gross proceeds from the sale of shares of our common stock sold in the primary offering without recourse against or reimbursement by us.
- (2) Until required in connection with the acquisition of real estate investments, substantially all of the net proceeds of the offering may be invested in short-term, highly-liquid investments including government obligations, bank certificates of deposit, short-term debt obligations and interest-bearing accounts or other authorized investments as determined by our board of directors.
- (3) Acquisition fees paid by any party to any person in connection with the purchase, development or construction of real properties. Acquisition fees do not include acquisition expenses. We will pay our advisor or its affiliate

acquisition fees of 3.0% of the contract purchase price of properties we acquire. We will not pay any fees for acquisitions of real estate related securities investments. We may pay up to 4.0% of the total development costs of any development property that we acquire, but we do not currently intend to acquire any properties in the development phase. For purposes of this table, we have assumed (a) that no investments are made in real estate related securities, (b) that we will only acquire properties in the operational phase and (c) no debt is incurred for property acquisitions. These assumptions may change due to different factors including changes in the allocation of shares between the primary offering and the distribution reinvestment plan, the extent to which proceeds from the distribution reinvestment plan are used to repurchase shares under our share repurchase plan the extent to which we invest in real estate related

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securities and the extent to which we invest in properties in the development stage. To the extent that we incur debt or issue new shares of our common stock outside of this offering or interests in our operating partnership in order to acquire real properties, then the acquisition fees and amounts invested in real properties will exceed the amount stated above.

- (4) Acquisition expenses include any and all expenses incurred in connection with the selection, evaluation and acquisition of, and investment in properties, whether or not acquired or made, including, but not limited to, legal fees and expenses, travel and communications expenses, cost of appraisals and surveys, nonrefundable option payments on property not acquired, accounting fees and expenses, computer use related expenses, architectural, engineering and other property reports, environmental and asbestos audits, title insurance and escrow fees, loan fees or points or any fee of a similar nature paid to a third party, however designated, transfer taxes, and personnel and miscellaneous expenses related to the selection, evaluation and acquisition of properties. We will reimburse our advisor for acquisition expenses, whether or not the evaluated property is acquired. Our acquisition expenses will not exceed 0.5% of the purchase price of properties we evaluate and acquire. The reimbursement of acquisition fees and expenses, including real estate commissions paid to third parties, will not exceed, in the aggregate, 6.0% of the purchase price or total development cost, unless fees in excess of such limits are approved by a majority of the disinterested directors and by a majority of the disinterested independent directors.
- (5) Although we do not anticipate establishing a general working capital reserve out of the proceeds from this offering, we may establish capital reserves with respect to particular investments. See Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the capital plan that our advisor will establish for each of our investments.

## **INVESTMENT OBJECTIVES, STRATEGY AND CRITERIA**

### **Investment Objectives**

Our investment objectives are:

to pay regular cash distributions;

to preserve, protect and return your capital contributions; and

to realize growth in the value of our investments upon our ultimate sale of such investments.

We cannot assure you that we will attain these objectives or that our capital will not decrease. Our board of directors may change our investment objectives if it determines it is advisable and in the best interests of our stockholders.

Decisions relating to the purchase or sale of investments will be made by our advisor, subject to oversight by our board of directors. See Management for a description of the background and experience of our directors and officers as well as the officers of our advisor.

### **Investment Strategy**

We intend to invest in a diversified portfolio of real estate and real estate related securities, focusing primarily on investments that produce current income. Our real estate investments will focus on medical office buildings, healthcare-related facilities and quality commercial office properties. We may also invest in real estate related securities. However, we do not presently intend to invest more than 15% of our total assets in real estate related securities. Our real estate related securities investments will generally focus on common and preferred stock of public

or private real estate companies, commercial mortgage-backed securities, or CMBS, other forms of mortgage debt and certain other securities, including collateralized debt obligations and foreign securities. We will seek to maximize long-term stockholder value by generating sustainable growth in cash flow and portfolio value. In order to achieve these objectives, we may invest using a number of investment structures which may include direct acquisitions, joint ventures, leveraged investments, issuing securities for property and direct and indirect investments in real estate. In order to maintain our exemption from regulation

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as an investment company under the Investment Company Act, we may be required to limit our investments in real estate related securities. See Investment Company Act Considerations below.

In addition, when and as determined appropriate by our advisor, the portfolio may also include properties in various stages of development other than those producing current income. These stages would include, without limitation, unimproved land both with and without entitlements and permits, property to be redeveloped and repositioned, newly constructed properties and properties in lease-up or other stabilization, all of which will have limited or no relevant operating histories and no current income. Our advisor will make this determination based upon a variety of factors, including the available risk adjusted returns for such properties when compared with other available properties, the appropriate diversification of the portfolio, and our objectives of realizing both current income and capital appreciation upon the ultimate sale of properties.

For each of our investments, regardless of property type, our advisor will seek to invest in properties with the following attributes:

*Quality.* We will seek to acquire properties that are suitable for their intended use with a quality of construction that is capable of sustaining the property's investment potential for the long-term, assuming funding of budgeted maintenance, repairs and capital improvements.

*Location.* We will seek to acquire properties that are located in established or otherwise appropriate markets for comparable properties, with access and visibility suitable to meet the needs of its occupants.

*Market; Supply and Demand.* We will focus on local or regional markets which have potential for stable and growing property level cash flow over the long-term. These determinations will be based in part on an evaluation of local economic, demographic and regulatory factors affecting the property. For instance, we will favor markets that indicate a growing population and employment base or markets that exhibit potential limitations on additions to supply, such as barriers to new construction. Barriers to new construction include lack of available land and stringent zoning restrictions. In addition, we will generally seek to limit our investments in areas that have limited potential for growth.

*Predictable Capital Needs.* We will seek to acquire properties where the future expected capital needs can be reasonably projected in a manner that would allow us to meet our objectives of growth in cash flow and preservation of capital and stability.

*Cash Flow.* We will seek to acquire properties where the current and projected cash flow, including the potential for appreciation in value, would allow us to meet our overall investment objectives. We will evaluate cash flow as well as expected growth and the potential for appreciation.

We will not invest more than 10% of the offering proceeds available for investment in unimproved or non-income producing properties or in other investments relating to unimproved or non-income producing property. A property: (1) not acquired for the purpose of producing rental or other operating income, or (2) with no development or construction in process or planned in good faith to commence within one year will be considered unimproved or non-income producing property for purposes of this limitation.

We are not limited as to the geographic area where we may acquire properties. We are not specifically limited in the number or size of properties we may acquire or on the percentage of our assets that we may invest in a single property or investment. The number and mix of properties we acquire will depend upon real estate and market conditions and other circumstances existing at the time we are acquiring our properties and making our investments and the amount of proceeds we raise in this and potential future offerings.



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### **Real Property Investments**

We intend to invest in a diversified portfolio of properties, focusing primarily on properties that produce current income. We will generally seek investments in medical office buildings, healthcare-related facilities and quality commercial office properties.

Our advisor will generally seek to acquire properties on our behalf of the types described above that will best enable us to meet our investment objectives, taking into account the diversification of our portfolio at the time, relevant real estate and financial factors, the location, income-producing capacity and the prospects for long-range appreciation of a particular property and other considerations. As a result, we may acquire properties other than the types described above. In addition, we may acquire properties that vary from the parameters described above for a particular property type.

The consideration for each real estate investment must be authorized by a majority of our directors or a duly authorized committee of our board of directors, ordinarily based on the fair market value of the investment. If the majority of our independent directors or a duly authorized committee of our board of directors so determines, or if the investment is to be acquired from an affiliate, the fair market value determination will be supported by an appraisal obtained from a qualified, independent appraiser selected by a majority of our independent directors.

Our investments in real estate generally will take the form of holding fee title or long-term leasehold interests. Our investments may be made either directly through our operating partnership or indirectly through investments in joint ventures, limited liability companies, general partnerships or other co-ownership arrangements with the developers of the properties, affiliates of our advisor or other persons. See [Joint Venture Investments](#) below.

In addition, we may purchase properties and lease them back to the sellers of such properties. Our advisor will use its best efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a true lease and so that we will be treated as the owner of the property for federal income tax purposes. However, no assurance can be given that the IRS will not challenge such characterization. In the event that any such sale-leaseback transaction is re-characterized as a financing transaction for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed or significantly reduced.

Our obligation to close a transaction involving the purchase of a real property asset will generally be conditioned upon the delivery and verification of certain documents from the seller or developer, including, where appropriate:

plans and specifications;

environmental reports (generally a minimum of a Phase I investigation);

building condition reports;

surveys;

evidence of marketable title subject to such liens and encumbrances as are acceptable to our advisor;

audited financial statements covering recent operations of real properties having operating histories unless such statements are not required to be filed with the SEC and delivered to stockholders;

title insurance policies; and

liability insurance policies.

In determining whether to purchase a particular property, we may, in circumstances in which our advisor deems it appropriate, obtain an option on such property, including land suitable for development. The amount paid for an option, if any, is normally surrendered if the property is not purchased, and is normally credited against the purchase price if the property is purchased. We may also enter into arrangements with the seller or developer of a property whereby the seller or developer agrees that if, during a stated period, the property does



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not generate a specified cash flow, the seller or developer will pay in cash to our company a sum necessary to reach the specified cash flow level, subject in some cases to negotiated dollar limitations.

We will not purchase or lease properties in which our sponsor, our advisor, our directors or any of their affiliates have an interest without a determination by a majority of our disinterested directors and a majority of our disinterested independent directors that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the property to the affiliated seller or lessor, unless there is substantial justification for the excess amount and the excess amount is reasonable. In no event will we acquire any such property at an amount in excess of its current appraised value as determined by an independent expert selected by our disinterested independent directors.

We intend to obtain adequate insurance coverage for all properties in which we invest. However, there are types of losses, generally catastrophic in nature, for which we do not intend to obtain insurance unless we are required to do so by mortgage lenders. See Risk Factors Risks Related to Investments in Real Estate Uninsured losses relating to real estate and lender requirements to obtain insurance may reduce your returns.

***Medical Office Buildings and Healthcare-Related Facilities***

We intend to invest a portion of the net proceeds available for investment in medical office buildings and healthcare-related facilities. Healthcare-related facilities include facilities leased to hospitals, long-term acute care centers, surgery centers, specialty medical and diagnostic service providers, laboratories, research firms, pharmaceutical and medical supply manufacturers and health insurance firms. The market for medical office buildings and healthcare-related facilities in the United States continues to expand. According to the U.S. Department of Health and Human Services, national healthcare expenditures rose from 13.7% to 16.2% of the U.S. gross domestic product (GDP) between 1999 and 2005 and are projected to reach 17% by 2008, as shown below.

Similarly, overall healthcare expenditures have risen sharply since 1999. In 2005, healthcare expenditures reached \$2 trillion and are expected to grow at a relatively stable rate of approximately 7.2% per year to reach almost \$2.5 trillion by 2008, as shown below.

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We believe that demand for medical office buildings and healthcare-related facilities will increase due to a number of factors, including:

An aging population is requiring and demanding more medical services. The U.S. population over 65 years of age is projected to continue to grow. The number of older Americans is also growing as a percentage of the total U.S. population as the baby boomers approach their 60s. In 2004, the number of persons older than 65 comprised 12% of the total U.S. population and is projected to grow to nearly 15% by 2010, as shown in the graph below.

Based on the information above and the projected increase in health expenditures per capita through 2008, as shown below, we believe that healthcare expenditures for the population over 65 years of age will also continue to rise as a disproportionate share of healthcare dollars is spent on older Americans since they require more treatment and management of chronic and acute health conditions.

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We believe this increased demand will continue to create a substantial need in many regions for the development of additional healthcare-related facilities, such as medical office buildings, clinics, outpatient facilities and ambulatory surgery centers. As a result, we believe this will increase the pool of suitable, quality properties meeting our acquisition criteria. However, our results of operations and our ability to attain our investment objectives will depend solely upon the performance of the real estate assets and real estate related investments we acquire.

Complex state and federal regulations govern physician hospital referrals. Patients typically are referred to particular hospitals by their physicians. To restrict hospitals from inappropriately influencing physicians to refer patients to them, federal and state governments adopted Medicare and Medicaid anti-fraud laws and regulations. One aspect of these complex laws and regulations addresses the leasing of medical office space by hospitals to physicians. One intent of the regulations is to restrict medical institutions from providing facilities to physicians at below market rates or on other terms that may present an opportunity for undue influence on physician referrals. The regulations are complex, and adherence to the regulations is time consuming and requires significant documentation and extensive reporting to regulators. The costs associated with regulatory compliance have encouraged many hospital and physician groups to seek third-party ownership and/or management of their healthcare-related facilities.

Physicians are increasingly forming practice groups. To increase the numbers of patients they can see and thereby increase market share, physicians have formed and are forming group practices. By doing so, physicians can gain greater influence in negotiating rates with managed care companies and hospitals in which they perform services. Also, the creation of these groups allows for the dispersion of overhead costs over a larger revenue base and gives physicians the financial ability to acquire new and expensive diagnostic equipment. Moreover, certain group practices may benefit from certain exceptions to federal and state self-referral laws, permitting them to offer a broader range of medical services within their practices and to participate in the facility fee related to medical procedures. This increase in the number of group practices has led to the construction of new medical facilities in which the groups are housed and provide medical services.

We believe that healthcare-related real estate rents and valuations are less susceptible to changes in the general economy than general commercial real estate due to demographic trends and the resistance of rising healthcare expenditures to economic downturns. For this reason, healthcare-related real estate investments could potentially offer a more stable return to investors compared to other types of real estate investments.

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We believe the confluence of these factors over the last several years has led to the following trends, which encourage third-party ownership of existing and newly developed medical properties:

*De-Centralization and Specialization.* There is a continuing evolution toward delivery of medical services through smaller facilities located near patients and designed to treat specific diseases and conditions. In order to operate profitably within a managed care environment, physician practice groups and other medical services providers are aggressively trying to increase patient populations, while maintaining lower overhead costs by building new healthcare facilities in areas of population or patient growth. Continuing population shifts and ongoing demographic changes create a demand for additional properties, including an aging population requiring and demanding more medical services.

*Increasing Regulation.* Evolving regulatory factors affecting healthcare delivery create an incentive for providers of medical services to focus on patient care, leaving real estate ownership and operation to third-party real estate professionals. Third-party ownership and management of hospital-affiliated medical office buildings substantially reduces the risk that hospitals will violate complex Medicare and Medicaid fraud and abuse statutes.

*Modernization.* Hospitals are modernizing by renovating existing properties and building new properties and becoming more efficient in the face of declining reimbursement and changing patient demographics. This trend has led to the development of new, smaller, specialty healthcare-related facilities as well as improvements to existing general acute care facilities.

*Redeployment of Capital.* Medical providers are increasingly focused on wisely investing their capital in their medical business. A growing number of medical providers have determined that third-party development and ownership of real estate with long term leases is an attractive alternative to investing their capital in bricks-and-mortar. Increasing use of expensive medical technology has placed additional demands on the capital requirements of medical services providers and physician practice groups. By selling their real estate assets and relying on third-party ownership of new healthcare properties, medical services providers and physician practice groups can generate the capital necessary to acquire the medical technology needed to provide more comprehensive services to patients and improve overall patient care.

*Physician Practice Ownership.* Many physician groups have reacquired their practice assets and real estate from national physician management companies or otherwise formed group practices to expand their market share. Other physicians have left hospital-based or HMO-based practices to form independent group practices. These physician groups are interested in new healthcare properties that will house medical businesses that regulations permit them to own. In addition to existing group practices, there is a growing trend for physicians in specialties, including cardiology, oncology, women's health, orthopedics and urology, to enter into joint ventures and partnerships with hospitals, operators and financial sponsors to form specialty hospitals for the treatment of specific diseases. We believe a significant number of these types of organizations have no interest in owning real estate and are aggressively looking for third-parties to develop and own their healthcare properties.

The current regulatory environment remains an ongoing challenge for healthcare providers, who are under pressure to comply with complex healthcare laws and regulations designed to prevent fraud and abuse. These regulations, for example, prohibit physicians from referring patients to entities in which they have investment interests and prohibit hospitals from leasing space to physicians at below market rates. As a result, healthcare providers seek reduced liability costs and have an incentive to dispose of real estate to third parties, thus reducing the risk of violating fraud and abuse regulations. This environment creates investment opportunities for owners, acquirers and joint venture partners of healthcare real estate who understand the needs of healthcare professionals and can help keep tenant costs

low. While the current regulatory environment is positive for healthcare operators, there is uncertainty as to the future of government policies and its potential impact on healthcare provider profitability.

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### ***Quality Commercial Office Properties***

We also intend to invest a portion of the offering proceeds available for investment after the payment of fees and expenses in quality commercial office properties. These properties are generally in desirable locations, generally are of high quality construction, may offer personalized tenant amenities and attract high quality tenants. We also believe that a portfolio consisting of a substantial investment in this type of property enhances our liquidity opportunities for investors by making the sale of individual properties, multiple properties or our investment portfolio as a whole attractive to institutional investors and by making a possible listing of our shares attractive to the public investment community.

### **Joint Venture Investments**

We may enter into joint ventures, general partnerships and other arrangements with one or more institutions or individuals, including real estate developers, operators, owners, investors and others, some of whom may be affiliates of our advisor, for the purpose of acquiring real estate. Such joint ventures may be leveraged with debt financing or unleveraged. We may enter into joint ventures to further diversify our investments or to access investments which meet our investment criteria that would otherwise be unavailable to us. In determining whether to invest in a particular joint venture, our advisor will evaluate the real estate that such joint venture owns or is being formed to own under the same criteria described elsewhere in this prospectus for the selection of our other properties. However, we will not participate in tenant-in-common syndications or transactions.

Joint ventures with unaffiliated third parties may be structured such that the investment made by us and the co-venturer are on substantially different terms and conditions. For example, while we and a co-venturer may invest an equal amount of capital in an investment, the investment may be structured such that we have a right to priority distributions of cash flow up to a certain target return while the co-venturer may receive a disproportionately greater share of cash flow than we are to receive once such target return has been achieved. This type of investment structure may result in the co-venturer receiving more of the cash flow, including appreciation, of an investment than we would receive. See Risk Factors Risks Associated with Joint Ventures We may structure our joint venture relationships in a manner which may limit the amount we participate in the cash flow or appreciation of an investment.

We may only enter into joint ventures with other NNN programs or affiliates of our advisor or any of our directors for the acquisition of properties if:

a majority of our directors, including a majority of the independent directors, approve the transaction as being fair and reasonable to us; and

the investment by us and such affiliate are on substantially the same terms and conditions that are no less favorable than those that would be available to unaffiliated third parties.

Our entering into joint ventures with our advisor or any of its affiliates will result in certain conflicts of interest. See Conflicts of Interest Joint Ventures with Affiliates of Our Advisor.

### **Securities Investments**

We may invest in the following types of real estate related securities: (1) equity securities such as common stocks, preferred stocks and convertible preferred securities of public or private real estate companies (including other REITs, real estate operating companies and other real estate companies); (2) debt securities such as CMBS, commercial mortgages, mortgage loan participations and debt securities issued by other real estate companies; and (3) certain other types of securities that may help us reach our diversification and other investment objectives. These other

securities may include, but are not limited to, mezzanine loans, bridge loans, various types of collateralized debt obligations and certain non-U.S. dollar denominated securities.

Our advisor will have substantial discretion with respect to the selection of specific securities investments. Our charter provides that we may not invest in equity securities unless a majority of the directors (including a majority of independent directors) not otherwise interested in the transaction approve such investment as being

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fair, competitive and commercially reasonable. Consistent with such requirements, in determining the types of real estate related securities investments to make, our advisor will adhere to a board-approved asset allocation framework consisting primarily of components such as (1) target mix of securities across a range of risk/reward characteristics, (2) exposure limits to individual securities and (3) exposure limits to securities subclasses (such as common equities, mortgage debt and foreign securities). Within this framework, our advisor will evaluate specific criteria for each prospective real estate related securities investment including:

positioning the overall portfolio to achieve an optimal mix of real property and real estate related securities investments;

diversification benefits relative to the rest of the securities assets within our portfolio;

fundamental securities analysis;

quality and sustainability of underlying property cash flows;

broad assessment of macro economic data and regional property level supply and demand dynamics;

potential for delivering high current income and attractive risk-adjusted total returns; and

additional factors considered important to meeting our investment objectives.

We are not specifically limited in the number or size of our real estate related securities investments, or on the percentage of the net proceeds from this offering that we may invest in a single real estate related security or pool of real estate related securities. However, we do not presently intend to invest more than 15% of our total assets in securities. The specific number and mix of real estate related securities in which we invest will depend upon real estate market conditions, other circumstances existing at the time we are investing in our real estate related securities and the amount of proceeds we raise in this offering. We will not invest in securities of other issuers for the purpose of exercising control and the first or second mortgages in which we intend to invest will likely not be insured by the Federal Housing Administration or guaranteed by the Veterans Administration or otherwise guaranteed or insured.

## **Borrowing Policies**

We intend to use secured and unsecured debt as a means of providing additional funds for the acquisition of properties and real estate related securities. Our ability to enhance our investment returns and to increase our diversification by acquiring assets using additional funds provided through borrowing could be adversely impacted if banks and other lending institutions reduce the amount of funds available for the types of loans we seek. When interest rates are high or financing is otherwise unavailable on a timely basis, we may purchase certain assets for cash with the intention of obtaining debt financing at a later time.

We anticipate that aggregate borrowings, both secured and unsecured, will not exceed 60.0% of all of our properties combined fair market values, as determined at the end of each calendar year beginning with our first full year of operation. For these purposes, the fair market value of each asset will be equal to the purchase price paid for the asset or, if the asset was appraised subsequent to the date of purchase, then the fair market value will be equal to the value reported in the most recent independent appraisal of the asset. Our policies do not limit the amount we may borrow with respect to any individual investment.

Our aggregate secured and unsecured borrowings will be reviewed by our board of directors at least quarterly. Our charter precludes us from borrowing in excess of 300.0% of the value of our net assets. Net assets for purposes of this



calculation are defined as our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75.0% of the sum of (1) the aggregate cost of our properties before non-cash reserves and depreciation and (2) the aggregate cost of our securities assets. However, we may temporarily borrow in excess of these amounts if such excess is approved by a majority of our independent directors and disclosed to stockholders in our next quarterly report, along with an explanation for such excess. In such event, we will review our debt levels at that time and take action to reduce any such excess as soon as practicable.

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On the acquisition dates of each of our first four real estate acquisitions, our leverage exceeded 300.0%. In accordance with our charter, a majority of our directors, including a majority of our independent directors, approved our leverage exceeding 300.0% in connection with the acquisitions. The board of directors determined that the excess leverage was justified because it enabled us to purchase the property during the initial stages of our offering, thereby improving our ability to meet our goal of acquiring a diversified portfolio of properties to generate current income for investors and preserve investor capital. As of December 13, 2007, our leverage does not exceed 300.0%. We may exceed our charter's leverage guidelines again during the early stages of our operations. We will take action to reduce any such excess as soon as practicable.

By operating on a leveraged basis, we will have more funds available for our investments. This will generally allow us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, our use of leverage increases the risk of default on loan payments and the resulting foreclosure of a particular asset. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness.

Our advisor will use its best efforts to obtain financing on the most favorable terms available to us and will refinance assets during the term of a loan only in limited circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing loan, when an existing loan matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of the refinancing may include an increased cash flow resulting from reduced debt service requirements, an increase in distributions from proceeds of the refinancing, and an increase in diversification and assets owned if all or a portion of the refinancing proceeds are reinvested.

Our charter restricts us from borrowing money from any of our directors or from our advisor and its affiliates unless such loan is approved by a majority of our directors (including a majority of the independent directors) not otherwise interested in the transaction, as fair, competitive and commercially reasonable and no less favorable to us than comparable loans between unaffiliated parties.

## **Disposition Policies**

We intend to hold each property or real estate related securities investment we acquire for an extended period. However, circumstances might arise which could result in a shortened holding period for certain investments. In general, the holding period for securities assets is expected to be shorter than the holding period for real property assets. An investment in a property or security may be sold before the end of the expected holding period if:

diversification benefits exist associated with disposing of the investment and rebalancing our investment portfolio;

an opportunity arises to pursue a more attractive investment;

in the judgment of our advisor, the value of the investment might decline;

with respect to properties, a major tenant involuntarily liquidates or is in default under its lease;

the investment was acquired as part of a portfolio acquisition and does not meet our general acquisition criteria;

an opportunity exists to enhance overall investment returns by raising capital through sale of the investment; or

in the judgment of our advisor, the sale of the investment is in our best interests.

The determination of whether a particular property or real estate related securities investment should be sold or otherwise disposed of will be made after consideration of relevant factors, including prevailing economic conditions, with a view toward maximizing our investment objectives. We cannot assure you that this objective will be realized. The selling price of a property which is net leased will be determined in large part by the amount of rent payable under the lease(s) for such property. If a tenant has a repurchase option at a formula price, we may be limited in realizing any appreciation. In connection with our sales of properties

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we may lend the purchaser all or a portion of the purchase price. In these instances, our taxable income may exceed the cash received in the sale. See **Federal Income Tax Considerations** **Failure to Qualify as a REIT**. The terms of payment will be affected by custom in the area in which the investment being sold is located and the then-prevailing economic conditions.

## **Liquidity Events**

On a limited basis, you may be able to sell shares through our share repurchase plan. However, in the future, our board of directors will also consider various forms of liquidity events, including but not limited to (1) a listing of our common stock on a national securities exchange, (2) our sale or merger in a transaction that provides our stockholders with a combination of cash and/or securities of a publicly traded company, and (3) the sale of all or substantially all of our assets for cash or other consideration. We presently intend to effect a liquidity event by September 20, 2013. However, there can be no assurance that we will effect a liquidity event within such time or at all. In making the decision whether to effect a liquidity event, our board of directors will try to determine which alternative will result in greater value for our stockholders. Certain merger transactions and the sale of all or substantially all of our assets as well as liquidation would require the affirmative vote of holders of a majority of our outstanding shares of common stock.

## **Construction and Development Activities**

From time to time, we may construct and develop real estate assets or render services in connection with these activities. We may be able to reduce overall purchase costs by constructing and developing property versus purchasing a finished property. Developing and constructing properties would, however, expose us to risks such as cost overruns, carrying costs of projects under construction or development, availability and costs of materials and labor, weather conditions and government regulation. See **Risk Factors** **Risks Relating to Investments in Real Estate** for additional discussion of these risks. We will retain independent contractors to perform the actual construction work on tenant improvements, such as installing heating, ventilation and air conditioning systems.

## **Tenant Improvements**

We anticipate that tenant improvements required at the time of our acquisition of a property will be funded from our offering proceeds. However, at such time as a tenant of one of our properties does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, in order to attract new tenants, we will be required to expend substantial funds for tenant improvements and tenant refurbishments to the vacated space. Since we do not anticipate maintaining permanent working capital reserves, we may not have access to funds required in the future for tenant improvements and tenant refurbishments in order to attract new tenants to lease vacated space.

## **Terms of Leases**

The terms and conditions of any lease we enter into with our tenants may vary substantially from those we describe in this prospectus. However, we expect that a majority of our leases will require the tenant to pay or reimburse us for some or all of the operating expenses of the building based on the tenant's proportionate share of rentable space within the building. Operating expenses typically include, but are not limited to, real estate taxes, sales and use taxes, special assessments, utilities, insurance and building repairs, and other building operation and management costs. We will probably be responsible for the replacement of specific structural components of a property such as the roof of the building or the parking lot. We expect that many of our leases will generally have terms of five or more years, some of which may have renewal options.



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**Investment Limitations**

Our charter places numerous limitations on us with respect to the manner in which we may invest our funds prior to a listing of our common stock. These limitations cannot be changed unless our charter is amended, which requires approval of our board of directors and our stockholders. Until our common stock is listed, unless our charter is amended, we will not:

make investments in unimproved property or indebtedness secured by a deed of trust or mortgage loans on unimproved property in excess of 10% of our total assets;

invest in commodities or commodity futures contracts, except for futures contracts when used solely for the purpose of hedging in connection with our ordinary business of investing in real properties;

invest in real estate contracts of sale, otherwise known as land sale contracts, unless the contract is in recordable form and is appropriately recorded in the chain of title;

make or invest in mortgage loans unless an appraisal is obtained concerning the underlying property except for those mortgage loans insured or guaranteed by a government or government agency. In cases where a majority of our independent directors determines, and in all cases in which the transaction is with any of our directors, our advisor or any of their respective affiliates, such appraisal shall be obtained from an independent appraiser. We will maintain such appraisal in our records for at least five years and it will be available for your inspection and duplication. We will also obtain a mortgagee's or owner's title insurance policy as to the priority of the mortgage;

make or invest in mortgage loans, including construction loans, on any one property if the aggregate amount of all mortgage loans on such property, including our loans, would exceed an amount equal to 85% of the appraised value of such property as determined by appraisal unless substantial justification exists for exceeding such limit because of the presence of other underwriting criteria;

make or invest in mortgage loans that are subordinate to any lien or other indebtedness of any of our directors, our advisor or any of their respective affiliates;

issue securities redeemable solely at the option of the holder (this limitation, however, does not limit or prohibit the operation of our share repurchase plan);

issue debt securities unless the historical debt service coverage (in the most recently completed fiscal year) as adjusted for known changes is anticipated to be sufficient to properly service that higher level of debt;

issue equity securities on a deferred payment basis or other similar arrangement;

issue options or warrants to purchase shares to our advisor, any of our directors or any of their respective affiliates except on the same terms as the options or warrants are sold to the general public; options or warrants may be issued to persons other than our directors, our advisor or any of their respective affiliates, but not at exercise prices less than the fair market value of the underlying securities on the date of grant and not for consideration (which may include services) that in the judgment of the independent directors has a market value less than the value of such options or warrants on the date of grant;

engage in investment activities that would cause us to be classified as an investment company under the Investment Company Act;

make any investment that is inconsistent with our objectives of qualifying and remaining qualified as a REIT unless and until our board of directors determines, in its sole discretion, that REIT qualification is not in our best interest;

invest in real estate contracts of sale unless such contracts of sale are in recordable form and appropriately recorded in the chain of title; or

engage in the business of underwriting or the agency distribution of securities issued by other persons.

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In addition, we do not intend to invest in junior debt secured by a mortgage on real estate which is subordinate to the lien or other senior debt except where the amount of such junior debt plus any senior debt does not exceed 90% of the appraised value of such property and, if after giving effect thereto, the value of all such junior debt in which we have invested would not then exceed 25% of our net assets.

### **Change in Investment Objectives and Policies**

Our charter requires that the independent directors review our investment policies at least annually to determine that the policies we are following are in the best interests of our stockholders. Each determination and the basis therefor is required to be set forth in the minutes of the applicable meetings of our directors. The methods of implementing our investment policies also may vary as new investment techniques are developed. Our investment objectives and policies may be altered by our board of directors without the approval of the stockholders.

### **Issuing Securities for Property**

Subject to limitations contained in our organizational and governance documents, we may issue, or cause to be issued, shares of our stock or limited partnership units in our operating partnership in any manner (and on such terms and for such consideration) in exchange for real estate. Existing stockholders have no preemptive rights to purchase such shares or limited partnership units in any such offering, and any such offering might cause a dilution of a stockholder's initial investment.

In order to induce the contributors of such properties to accept units in our operating partnership, rather than cash, in exchange for their properties, it may be necessary for us to provide them additional incentives. For instance, our operating partnership's partnership agreement provides that any holder of units may exchange limited partnership units on a one-for-one basis for shares of our common stock, or, at our option, cash equal to the value of an equivalent number of our shares. We may, however, enter into additional contractual arrangements with contributors of property under which we would agree to repurchase a contributor's units for shares of our common stock or cash, at the option of the contributor, at set times. In order to allow a contributor of a property to defer taxable gain on the contribution of property to our operating partnership, we might agree not to sell a contributed property for a defined period of time or until the contributor exchanged the contributor's units for cash or shares. Such an agreement would prevent us from selling those properties, even if market conditions made such a sale favorable to us. Such transactions are subject to the risks described in **Risk Factors – Risks Relating to Our Business**. We may structure acquisitions of property in exchange for limited partnership units in our operating partnership on terms that could limit our liquidity or our flexibility. Although we may enter into such transactions with other existing or future Triple Net programs, we do not currently intend to do so. If we were to enter into such a transaction with an entity managed by Triple Net Properties or its affiliates, we would be subject to the risks described in **Risk Factors – Risks Related to Conflicts of Interest**. We may acquire assets from, or dispose of assets to, entities managed by affiliates of our advisor, which could result in us entering into transactions on less favorable terms than we would receive from a third party or that negatively affect the public's perception of us. Any such transaction would be subject to the restrictions and procedures described in **Conflicts of Interest – Certain Conflict Resolution Restrictions and Procedures**.

### **Real Estate Acquisitions**

As of the date of this prospectus, we have acquired 17 properties and identified three additional proposed real estate investments. Our advisor will continually evaluate various potential investments on our behalf and engage in discussions and negotiations with real property sellers, developers, brokers, lenders, investment managers and others regarding such potential investments. While this offering is pending, if we believe that a reasonable probability exists that we will acquire a specific property or make a material investment in real estate related securities, this prospectus



will be supplemented to disclose the negotiations and pending acquisition of such property or securities investment. We expect that this will normally occur upon the signing of a purchase agreement for the acquisition of a specific property or real estate related securities investment, but may occur before or after such signing or upon the satisfaction or expiration of major contingencies in any

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such purchase agreement, depending on the particular circumstances surrounding each potential investment. A supplement to this prospectus will describe any information that we consider appropriate for an understanding of the transaction. Further data will be made available after any pending investment is consummated, also by means of a supplement to this prospectus, if appropriate. You should understand that the disclosure of any proposed investment cannot be relied upon as an assurance that we will ultimately consummate such investment or that the information provided concerning the proposed investment will not change between the date of the supplement and any actual purchase.

### **Investment Company Act Considerations**

We intend to operate in such a manner that we will not be subject to regulation under the Investment Company Act. In order to maintain our exemption from regulations under the Investment Company Act, we must comply with technical and complex rules and regulations.

In order to maintain our exemption from regulation as an investment company, we intend to engage primarily in the business of investing in interests in real estate and make these investments within one year after the offering ends. If we are unable to invest a significant portion of the proceeds of this offering in properties within one year of the termination of the offering, we may avoid being required to register as an investment company under the Investment Company Act by temporarily investing any unused proceeds in government securities with low returns. Investments in government securities likely would reduce the cash available for distribution to investors and possibly lower your returns.

Our advisor will continually review our investment activity and will take appropriate actions to attempt to ensure that we do not come within the application of the Investment Company Act. These actions may include limiting the percentage of our assets that fall into certain categories specified in the Investment Company Act, which could result in us holding assets we otherwise might desire to sell and selling assets we otherwise might wish to retain. In addition, we may have to acquire additional assets that we might not otherwise have acquired or be forced to forgo investment opportunities that we would otherwise want to acquire and that could be important to our investment strategy. In particular, our advisor will monitor our investments in real estate related securities to ensure continued compliance with one or more exemptions from investment company status under the Investment Company Act and, depending on the particular characteristics of those investments and our overall portfolio, our advisor may be required to limit the percentage of our assets represented by real estate related securities. If at any time the character of our investments could cause us to be deemed an investment company for purposes of the Investment Company Act, we will take the necessary action to attempt to ensure that we are not deemed to be an investment company. If we were required to register as an investment company, our ability to enter into certain transactions would be restricted by the Investment Company Act. See **Risk Factors** **Risks Associated with Our Organizational Structure** Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act.

## **INVESTMENTS IN REAL PROPERTIES**

### **Acquired Real Properties**

The following provides a summary of the properties acquired by us. For more information regarding the financing of these acquisitions, see **Management's Discussion and Analysis of Financial Condition and Results of Operations** **Financing**.

#### ***Southpointe Office Parke and Epler Parke I***

On January 22, 2007, we acquired all of the membership interests of NNN Southpointe, LLC for a total purchase price of \$14,800,000, plus closing costs. NNN Southpointe, LLC has a fee simple ownership of Southpointe Office Parke and Epler Parke I, a portfolio of seven multi-tenant office/medical office buildings located in Indianapolis, Indiana. We acquired the membership interests from NNN South Crawford Member, LLC, an indirect wholly-owned subsidiary of our former sponsor, NNN Realty Advisors.

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NNN Southpointe, LLC acquired Southpointe Office Parke and Epler Parke I on August 18, 2006 for a purchase price of \$14,800,000. In connection with the purchase, NNN Southpointe, LLC entered into a secured loan with LaSalle Bank National Association, or LaSalle, evidenced by a promissory note in the principal amount of \$9,146,000. We financed the purchase price of NNN Southpointe, LLC through the assumption of the \$9,146,000 secured note and used approximately \$5,115,000 of the proceeds from a \$7,500,000 unsecured loan from NNN Realty Advisors. The balance of the purchase price was provided by funds raised through this offering. Since we acquired Southpointe Office Parke and Epler Parke I from an indirect subsidiary of NNN Realty Advisors our independent directors engaged an independent appraiser to value the property. A majority of our board of directors, including a majority of our independent directors, have determined that the transaction is fair and reasonable to us and at a price to us no greater than the cost of the investment to our sponsor or its appraised value, as determined by the independent appraiser. An acquisition fee of \$444,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

The buildings in Southpointe Office Parke and Epler Parke I consist of approximately 97,000 square feet of gross leasable area. The buildings are approximately 87.1% leased with approximately 76.3% of the leased space occupied by medical tenants. We intend to continue to lease the buildings to medical, retail and office tenants.

Built between 1991 and 1996, Southpointe Office Parke is comprised of six buildings on approximately 8.5 acres and contains approximately 76,000 square feet of gross leasable area adjacent to Community Hospital South, a 150-bed acute care hospital, which is part of the Community Health Network, a five-hospital system located in Indianapolis, Indiana. Community Hospital South admits approximately 40,000 hospital patients each year and has over 8,800 employees. Approximately 84.9% of the space at Southpointe Office Parke is leased and approximately 93.8% of the space leased is occupied by medical tenants, while the remaining space is leased to two small retail tenants. No tenant occupies 10.0% or more of the gross leasable area.

Built in 2002, the Epler Parke I building is situated on approximately 2.8 acres and located approximately three miles from the Southpointe Office Parke buildings. The building contains approximately 21,000 square feet of gross leasable area and is approximately 94.9% leased to five tenants. Circle Design Group leases approximately 13,000 square feet, or approximately 63.6% of the space, pursuant to a lease that expires on July 31, 2012. Circle Design is one of the largest consulting engineering firms in Indiana. The rental rate per annum for Circle Design is approximately \$210,000 or \$15.85 per square foot. Circle Design does not have a renewal option on its lease. The four other tenants are Eric Treadwell, DDS, United Auto Credit Corporation, Brookwood Denture Specialists, Inc. and Phillip Kuntel, each of whom is engaged in the principal business of dentistry, auto finance, dentistry and insurance, respectively. Eric Treadwell, DDS is the only tenant besides Circle Design that occupies more than 10.0% of the space. Eric Treadwell, DDS leases approximately 2,000 square feet under a lease that runs until August 31, 2011. Eric Treadwell, DDS has one five-year renewal option with six months notice. The annual rent is approximately \$33,000 through August 2007 and \$34,000 through August 2009. From August 2009 until the end of the lease the annual rent is approximately \$35,000.

Triple Net Properties Realty, Inc., or Realty, serves as the property manager and provides services and receives certain fees and expense reimbursements in connection with the operation and management of Southpointe Office Parke and Epler Parke I.

There are at least 20 comparable properties located in the same submarket that might compete with Southpointe Office Parke and Epler Parke I.

Our management currently has no plans for material renovations or other capital improvements to Southpointe Office Parke and Epler Parke I and believes that the property is suitable for their intended purpose and adequately covered by insurance. For federal income tax purposes, the depreciable basis in Southpointe Office Parke and Epler Parke I is approximately \$12.4 million. We calculate depreciation for income tax purposes using the straight line method. We

depreciate buildings based upon estimated useful lives of 39 years. Real estate taxes payable on the property for 2006 were approximately \$174,000 at a rate of approximately 2.3%.

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The following table sets forth the lease expirations of Southpointe Office Parke and Epler Parke I for the next 10 years, including the number of tenants whose leases will expire in the applicable year, the total area in square feet covered by such leases and the percentage of gross annual rent represented by such leases.

| <b>Year</b> | <b>No. of Leases Expiring</b> | <b>Total Square Feet of Expiring Leases</b> | <b>Gross Annual Rent of Expiring Leases</b> | <b>% of Gross Annual Rent Represented by Expiring Leases</b> |
|-------------|-------------------------------|---|---|--|
| 2007        | 5                             | 14,000                                      | \$ 237,000                                  | 16.5%  |
| 2008        | 7                             | 20,000                                      | \$ 302,000                                  | 21.1%  |
| 2009        | 4                             | 8,000                                       | \$ 120,000                                  | 8.4%   |
| 2010        | 4                             | 13,000                                      | \$ 178,000                                  | 12.4%  |
| 2011        | 2                             | 7,000                                       | \$ 103,000                                  | 7.2%   |
| 2012        | 3                             | 19,000                                      | \$ 329,000                                  | 22.9%  |
| 2013        |                               |   | \$  | %  |
| 2014        | 1                             | 700   | \$ 31,000                                   | 2.2%   |
| 2015        | 1                             | 1,000                                       | \$ 10,000                                   | 0.7%   |
| 2016        |                               |   | \$  | %  |

For 2006, the average occupancy rate was 93.7% and the average effective annual rental rate per square foot for Southpointe Office Parke and Epler Parke I was \$14.54.

***Crawfordsville Medical Office Park and Athens Surgery Center***

On January 22, 2007, we acquired all of the membership interests of NNN Crawfordsville, LLC for a total purchase price of \$6,900,000, plus closing costs. NNN Crawfordsville, LLC has fee simple ownership of Crawfordsville Medical Office Park and Athens Surgery Center, two medical office buildings located on the north side of Crawfordsville, Indiana. We acquired the membership interests from NNN South Crawford Member, LLC, an indirect wholly owned subsidiary of our sponsor.

NNN Crawfordsville, LLC acquired Crawfordsville Medical Office Park and Athens Surgery Center on September 12, 2006 for a purchase price of \$6,900,000. In connection with the purchase, NNN Crawfordsville, LLC entered into a secured loan with LaSalle evidenced by a promissory note in the principal amount of \$4,264,000. We financed the purchase price of NNN Crawfordsville, LLC through the assumption of the \$4,264,000 secured note and used approximately \$2,385,000 of the proceeds from our \$7,500,000 unsecured note from NNN Realty Advisors. The balance of the purchase price was provided by funds raised through this offering. Since we acquired Crawfordsville Medical Office Park and Athens Surgery Center from a subsidiary of NNN Realty Advisors, our independent directors engaged an independent appraiser to value the property. A majority of our board of directors, including a majority of our independent directors, have determined that the transaction is fair and reasonable to us and at a price to us no greater than the cost of the investment to our sponsor or its appraised value, as determined by the independent appraiser. An acquisition fee of \$207,000, or 3.0% of the purchase price, was paid to our advisor and its affiliate.

Crawfordsville Medical Office Park and Athens Surgery Center is comprised of two buildings, the St. Claire Medical Pavilion, a one-story medical building, and Athens Surgery Center, a one-story surgery and imaging center. The two buildings consist of approximately 30,000 square feet of gross leasable area on approximately 2.9 acres of land and

are 100.0% leased to St. Vincent Hospital and Health Care, Inc., a member of Ascension Health, the nation's largest not-for-profit Catholic healthcare system. The master lease has been assigned to the Sisters of St. Francis Health Services, Inc., or the Sisters of St. Francis. We intend to continue to lease the buildings to the Sisters of St. Francis.

Built in 1998, St. Claire Medical Pavilion consists of approximately 14,000 square feet of gross leasable area on approximately 1.6 acres. A renovation of the building was completed in the spring of 2006. The rental rate per annum for St. Claire Medical Pavilion is approximately \$211,000, or \$14.60 per square foot, as of November 30, 2007. The single tenant credit lease with the Sisters of St. Francis terminates January 31, 2013,

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