UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)
☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 000-52566

SUMMIT HEALTHCARE REIT, INC.
(Exact name of registrant as specified in its charter)

Maryland	**73-1721791**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2 South Pointe Drive, Suite 100, Lake Forest, CA 92630
(Address of Principal Executive Offices)

800-978-8136
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class:
None

Securities registered pursuant to Section 12(g) of the Act:
Title of Each Class:
Common Stock, $0.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes ☐ No ☒

As of June 30, 2014 (the last business day of the Registrant's second fiscal quarter), there were 23,028,014 shares of common stock held by non-affiliates of the Registrant. While there is no established trading market for the Registrant's shares of common stock, the last price paid to acquire a share in the Registrant's primary public offering, which was terminated on November 23, 2010, was $8.00.

As of March 20, 2015 there were 23,028,014 shares of common stock of Summit Healthcare REIT, Inc. outstanding.

SUMMIT HEALTHCARE REIT, INC.
(A Maryland Corporation)

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PART I

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes," "project," "expects," "anticipates," "estimates," "intends," "strategy," "plan," "may," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled "Risk Factors" in Item 1A of this report. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, there can be no assurance that our expectations will be realized.

As used in this report, "we," "us," "our" and the "Company" refer to Summit Healthcare REIT, Inc. and its consolidated subsidiaries, except where the context otherwise requires.

ITEM 1. BUSINESS

Our Company

Summit Healthcare REIT, Inc., a Maryland corporation, was formed on October 22, 2004 for the purpose of engaging in the business of investing in and owning commercial real estate. We have qualified, and intend to continue to qualify, as a real estate investment trust ("REIT") for federal tax purposes. We are structured as an umbrella partnership REIT, referred to as an "UPREIT," under which substantially all of our current and future business is, and will be, conducted through a majority owned subsidiary, Summit Healthcare Operating Partnership, L.P. the ("Operating Partnership") (formerly Cornerstone Operating Partnership, L.P.), formed on November 30, 2004. We are the sole general partner of the Operating Partnership and have control over its affairs.

Until April 1, 2014 and subject to certain restrictions and limitations, our business was managed pursuant to an advisory agreement (the "Advisory Agreement") with Cornerstone Realty Advisors, LLC ("CRA"), which was terminated on April 1, 2014. Beginning April 1, 2014, the Company became self-managed and hired employees to directly manage its operations. At December 31, 2014, we own a 99.88% general partner interest in the Operating Partnership while CRA owns a 0.12% limited partnership interest.

As of December 31, 2014, approximately 20.9 million shares of our common stock had been sold in our initial and follow-on public offerings for aggregate gross proceeds of $167.1 million. This excludes shares issued under our distribution reinvestment plan.

Suspension of Distribution Reinvestment Plan - Effective December 14, 2010, we suspended our distribution reinvestment plan and any distributions paid subsequent to December 14, 2010 have been in cash. No distributions have been declared or paid for periods subsequent to June 30, 2011.

Distributions - Effective June 2011, we determined, based on our financial position, to suspend the declaration of any further cash distributions. No distributions have been declared or paid for periods subsequent to June 30, 2011. The rate and frequency of distributions is subject to the discretion of our board of directors and may change from time to time based on our operating results, cash flow and business plan. We can make no assurances when and if distributions will recommence.

Stock Repurchase Program - Effective December 31, 2010, we suspended redemptions under the stock redemption program. We can make no assurances as to when and on what terms redemptions will resume. The stock redemption program may be amended, resumed, suspended again, or terminated at any time based upon numerous factors, including our cash and debt positions.

Strategic Repositioning – In mid-2011, we began evaluating alternative strategic options, including the repositioning of our assets that we believed could enhance stockholder value. The repositioning strategy began with the sale of certain industrial properties in 2011, the use of the proceeds from those sales to de-lever our balance sheet by paying down and/or paying off short term higher interest rate debt, and the renegotiation of existing debt to lower interest rates and extend maturity dates enabling us to begin acquiring healthcare real estate properties.

Investing in healthcare real estate assets, more specifically senior housing facilities, is believed to be accretive to earnings and potentially stockholder value. Senior housing facilities include independent living facilities ("IL"), skilled-nursing facilities ("SNF"), assisted living facilities ("AL"), memory care ("MC") and continuing care retirement communities ("CCRC"). Each of these caters to different segments of the senior population. The Company's repositioning strategy includes purchasing SNF, AL, IL and MC facilities.

In 2012, we formed Cornerstone Healthcare Partners LLC ("CHP LLC") with Cornerstone Healthcare Real Estate Fund, Inc. ("CHREF"), an affiliate of CRA. We own 95% of CHP LLC, with the remaining 5% owned by CHREF.

During 2012, we acquired Sheridan Care Center, Fernhill Care Center, Farmington Square, Friendship Haven Healthcare and Rehabilitation Center and Pacific Health and Rehabilitation Center healthcare properties (collectively, the "JV Properties") through CHP LLC. In the third quarter of 2013 and through March 31, 2014, as part of our strategy to raise new property level joint venture equity capital to support growth and diversify operator, geographic and other risks, CHP LLC sold a portion of its interests in the JV Properties to third party investors. Proceeds from the sale of interests in these JV Properties were $0.9 million as of December 31, 2014, of which we received $0.8 million and CHREF received $41,000. As such, as of December 31, 2014, we own an 89.0% interest in the JV Properties, CHREF owns a 4.7% interest and third party investors own 6.3%.

During the second half of 2012 and all of 2013, we acquired through CHP LLC, and our wholly-owned subsidiaries, 11 senior-housing facilities (which include the JV Properties). We originally obtained bridge financing to purchase our healthcare facilities and in 2014, refinanced seven of the interim borrowings with long term financing (See Note 10 to the accompanying Notes to the Consolidated Financial Statements).

During 2014, we acquired five additional properties through wholly-owned subsidiaries. See Note 3 to the accompanying Notes to the Consolidated Financial Statements for additional information.

In May 2014, we formed a taxable REIT subsidiary ("Friendswood TRS") which became the licensed operator and tenant of Friendship Haven Healthcare and Rehabilitation Center (see Note 3 to the accompanying Notes to Consolidated Financial Statements).

We lease our facilities to single-tenant operators under triple net lease structures. AL and IL facilities provide residents a place to reside that offers medical monitoring and some medical care while still maintaining personal privacy and freedom. MC facilities are similar to AL facilities where residents may live in semi-private apartments or private rooms and have structured activities delivered by staff members trained specifically on caring for those with memory impairment. Most AL, IL and MC facilities are paid for with private funds. SNF operators are typically more dependent on government reimbursement programs. SNFs are for seniors that are in need of constant medical attention or recovery and therapy after a hospital visit but do not require the more extensive and sophisticated treatment available at hospitals. Sub-acute care services are provided to residents beyond room and board. Certain SNFs provide some services on an outpatient basis. Skilled nursing services are paid for either by private sources, insurance, Medicare or Medicaid programs.

We believe the outlook for raising additional third party institutional equity capital to support our growth and further diversify geographic, operator and healthcare property sector risk is currently favorable. Based in part on this environment, we continue to pursue other growth initiatives that lower capital costs and enable us to reduce or improve our ability to cover our general and administrative costs over a broader base of assets.

Management continues to evaluate opportunities for growth and secure long term debt for recent and future acquisitions and/or development opportunities. Selling portions of the properties we own through joint venture partners, and using the proceeds for acquisitions of additional healthcare assets, allows us to diversify our property holdings (as to the number of operators, geographic location, level of care acuity, and age of property) and, therefore lower the overall risk profile of our portfolio.

Investment Strategy

We periodically review our investment policies to determine whether these policies continue to be in the best interest of our stockholders. Initially we focused on industrial real estate, but as cash flow and values declined in industrial real estate from 2009 to 2011, we committed to selling our industrial properties and reinvesting the proceeds into healthcare real estate.

Although we intend to continue our focus on acquiring and developing a portfolio of healthcare real estate assets, we may also invest in other real estate-related assets that we believe may assist us in meeting our investment objectives. Our charter does not allow investments in mortgage loans on unimproved real property, but we are not otherwise restricted in our investment allocation to any specific type of property.

Acquisition Policies

Primary Investment Focus

As a result of our strategic repositioning, we are generally seeking to acquire healthcare-related assets that are:

- stabilized;
- operated by high-quality and experienced operators;
- of high-quality and currently producing income; and
- acquired on a fee simple basis.

The properties in which we invest may not meet all of these criteria and the relative importance that we assign to any one or more of these criteria may differ from asset to asset and change as general economic and real estate market conditions evolve. We may also consider additional important criteria in the future.

Joint Ventures and Other Potential Investments

We have the ability to invest in any type of real estate investment that we believe to be in the best interests of our stockholders, including other real estate funds or REITs, mortgage funds, mortgage loans and sale leasebacks. Furthermore, there are no restrictions on the number or size of properties we may purchase or on the amount that we may invest in a single property. Although we can invest in any type of real estate investment, our charter restricts certain types of investments. We do not intend to underwrite securities of other issuers or to engage in the purchase and sale of any types of investments other than real estate investments.

As of December 31, 2014, we owned six healthcare properties through a consolidated joint venture and 100% of ten additional properties. We may acquire additional properties through joint venture investments in the future, or sell a percentage of our existing properties to a joint venture partner, which may result in the deconsolidation of properties we already own. We anticipate acquiring properties through joint ventures in order to diversify our portfolio of properties in terms of geographic region, facility type and operator, among other reasons. Joint ventures typically also allow us to acquire an interest in a property without requiring that we fund the entire equity portion of the purchase price. In addition, certain properties may be available to us only through joint ventures. In determining whether to recommend a particular joint venture, management will evaluate the structure of the joint venture, the real property that such joint venture owns or is being formed to own under the same criteria. We may form additional entities in conjunction with joint ventures. These entities may employ debt financing consistent with our borrowing policies. See “Borrowing Policies” below. Our joint ventures may take the form of equity joint ventures with one or more large institutional partners. They may also include ventures with developers who contribute land, development services and expertise rather than cash.

Leases

Healthcare properties include a wide variety of lease structures. Our focus is on senior housing facilities leased to an operator on a triple net lease basis where the tenant pays or reimburses the owner for all or substantially all property operating expenses.

Borrowing Policies

We may acquire properties initially with temporary financing or permanent long-term debt financing with the objective of increasing income and increasing the amount of capital available to us so that we achieve greater property diversification.

We may incur indebtedness for working capital requirements, capital improvements, and to make distributions, including but not limited to those necessary in order to maintain our qualification as a REIT for federal income tax purposes. We will endeavor to borrow funds on an unsecured basis but we have secured and we may continue to secure indebtedness with some or all of our properties if a majority of our independent directors determine that it is in the best interests of us and our stockholders. We may also acquire properties encumbered with existing financing which cannot be immediately repaid.

We may invest in joint venture entities that borrow funds or issue senior equity securities to acquire properties, in which case our equity interest in the joint venture would be junior to the rights of the lender or preferred equity holders.

Our charter limits our borrowings to 300% of the net asset value, as defined in our charter, of the Company unless any excess borrowing is approved by a majority of our independent directors and is disclosed to our stockholders in our next quarterly report with an explanation from our independent directors of the justification for the excess borrowing.

Competition

We compete with a considerable number of other real estate companies, most of which may have greater marketing and financial resources than we do. Principal factors of competition in our business are the quality of properties (including the design and condition of improvements), leasing terms (including rent and other charges and allowances for tenant improvements), attractiveness and convenience of location, the quality and breadth of tenant services provided and reputation as an owner and operator of quality properties in the relevant market. Our ability to compete also depends on, among other factors, trends in the national and local economies, financial condition and operating results of current and prospective tenants, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

Government Regulations

Health Law Matters — Generally
The healthcare properties in our portfolio are subject to extensive federal, state, and local licensure, registration, certification, and inspection laws, regulations, and industry standards. Our tenants' failure to comply with any of these, and other, laws could result in loss of accreditation; denial of reimbursement; imposition of fines; suspension, decertification, or exclusion from federal and state healthcare programs; loss of license; or closure of the facility.

Licensing and Certification

The primary regulations that affect ALs are state licensing and registration laws. In granting and renewing these licenses, the state regulatory agencies consider numerous factors relating to a property's physical plant and operations, including, but not limited to, admission and discharge standards, staffing, and training. A decision to grant or renew a license is also affected by an operator's record with respect to patient and consumer rights, medication guidelines, and rules.

With respect to licensure, generally our SNFs are required to be licensed and certified for participation in Medicare, Medicaid, and other federal healthcare programs. This generally requires license renewals and compliance surveys on an annual or bi-annual basis. The failure of our operators to maintain or renew any required license or regulatory approval, as well as the failure of our operators to correct serious deficiencies identified in a compliance survey, could require those operators to discontinue operations at a facility. In addition, if a facility is found to be out of compliance with Medicare, Medicaid, or other healthcare program conditions of participation, the facility operator may be excluded from participating in those government healthcare programs. Any such occurrence may impair an operator's ability to meet their financial obligations to us. If we have to replace an excluded operator, our ability to replace the operator may be affected by federal and state laws, regulations, and applicable guidance governing changes in provider control. This may result in payment delays, an inability to find a replacement operator, a significant working capital commitment from us to a new operator or other difficulties.

Certain healthcare facilities are subject to a variety of licensure and certificate of need ("CON") laws and regulations. Where applicable, CON laws generally require, among other requirements, that a facility demonstrate the need for (1) constructing a new facility, (2) adding beds or expanding an existing facility, (3) investing in major capital equipment or adding new services, (4) changing the ownership or control of an existing licensed facility, or (5) terminating services that have been previously approved through the CON process. Certain state CON laws and regulations may restrict the ability of operators to add new properties or expand an existing facility's size or services. In addition, CON laws may constrain the ability of an operator to transfer responsibility for operating a particular facility to a new operator. If we have to replace an operator who is excluded from participating in a federal or state healthcare program, our ability to replace the operator may be affected by a particular state's CON laws, regulations, and applicable guidance governing changes in provider control.

Reimbursement

As a part of the Omnibus Budget Reconciliation Act ("OBRA") of 1981, Congress established a waiver program enabling some states to offer Medicaid reimbursement to AL providers as an alternative to institutional long-term care services. The provisions of OBRA and the subsequent OBRA Acts of 1987 and 1990 permit states to seek a waiver from typical Medicaid requirements to develop cost-effective alternatives to long-term care, including Medicaid payments for AL and home health.

SNFs typically receive most of their revenues from the Medicare and Medicaid programs, with the balance representing reimbursement payments from private payors, including private insurers. Consequently, changes in federal or state reimbursement policies may also adversely affect an operator's ability to cover its expenses. SNFs are subject to periodic pre- and post-payment reviews, and other audits by federal and state authorities. A review or audit of an operator's claims could result in recoupments, denials, or delay of payments in the future, which could have a material adverse effect on the operator's ability to meet its financial obligations to us. Due to the significant judgments and estimates inherent in payor settlement accounting, no assurance can be given as to the adequacy of any reserves maintained by our operators to cover potential adjustments to reimbursements, or to cover settlements made to payors. Recent attention on skilled nursing billing practices and payments or ongoing government pressure to reduce spending by government healthcare programs, could result in lower payments to SNFs and, as a result, may impair an operator's ability to meet its financial obligations to us.

SNFs are reimbursed under the Medicare Skilled Nursing Facility Prospective Payment System ("SNF PPS"). There is a risk that some SNFs' costs will exceed the fixed payments under the SNF PPS, and there is also a risk that payments under the SNF PPS may be set below the costs to provide certain items and services, which could result in immediate financial difficulties for SNFs, and could cause operators to seek bankruptcy protection.

The reimbursement methodologies applied to healthcare facilities continue to evolve. Federal and state authorities have considered and may seek to implement new or modified reimbursement methodologies that may negatively impact healthcare property operations. The impact of any such changes, if implemented, may result in a material adverse effect on our skilled nursing property operations. No assurance can be given that current revenue sources or levels will be maintained. Accordingly, there can be no assurance that payments under a government healthcare program are currently, or will be in the future, sufficient to fully reimburse the operators for their operating and capital expenses. As a result, this may impair an operator's ability to meet its financial obligations to us.

Finally, the Patient Protection and Affordable Care Act of 2010 ("PPACA") and the Healthcare and Education Reconciliation Act of 2010, which amends the PPACA (collectively, the "Health Reform Laws") may have a significant impact on Medicare, Medicaid, other federal healthcare programs, and private insurers, which impact the reimbursement amounts received by SNFs and other healthcare providers. The Health Reform Laws could have a substantial and material adverse effect on all parties directly or indirectly involved in the healthcare system.

Other Related Laws

SNFs (and senior housing facilities that receive Medicaid payments) are subject to federal, state, and local laws, regulations, and applicable guidance that govern the operations and financial and other arrangements that may be entered into by healthcare providers. Certain of these laws prohibit direct or indirect payments of any kind for the purpose of inducing or encouraging the referral of patients for medical products or services reimbursable by government healthcare programs. Other laws require providers to furnish only medically necessary services and submit to the government valid and accurate statements for each service. Still, other laws require providers to comply with a variety of safety, health and other requirements relating to the condition of the licensed property and the quality of care provided. Sanctions for violations of these laws, regulations, and other applicable guidance may include, but are not limited to, criminal and/or civil penalties and fines, loss of licensure, immediate termination of government payments, and exclusion from any government healthcare program. In certain circumstances, violation of these rules (such as those prohibiting abusive and fraudulent behavior) with respect to one property may subject other facilities under common control or ownership to sanctions, including exclusion from participation in the Medicare and Medicaid programs, as well as other government healthcare programs. In the ordinary course of its business, an operator is regularly subjected to inquiries, investigations, and audits by the federal and state agencies that oversee these laws and regulations.

Our properties may be affected by our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground and above-ground storage tanks, or activities of unrelated third parties. The presence of hazardous substances, or the failure to properly remediate these substances, may make it difficult or impossible to sell or rent such property.

We obtain satisfactory Phase I environmental assessments on each property we purchase. A Phase I assessment is an inspection and review of the property, its existing and prior uses, aerial maps and records of government agencies for the purpose of determining the likelihood of environmental contamination. A Phase I assessment includes only non-invasive testing. It is possible that environmental liabilities related to a property we purchase will not be identified in the Phase I assessments we obtain or that a prior owner, operator or current occupant has created (or will create) an environmental condition which we do not know about. There can be no assurance that future law, ordinances or regulations will not impose material environmental liability on us or that the current environmental condition of our properties will not be affected by our tenants, or by the condition of land or operations in the vicinity of our properties such as the presence of underground and above-ground storage tanks or groundwater contamination.

Acquisition Activity

As of December 31, 2014, we owned 16 healthcare properties which were acquired from August 2012 to December 31, 2014. All of these properties are included in our accompanying Consolidated Financial Statements and in the properties summary as provided under "Item 2. Properties" referenced below. We have acquired our healthcare properties using the proceeds of debt incurred upon acquisition of the properties and the net proceeds from our industrial property dispositions. See Note 14 to the accompanying Notes to Consolidated Financial Statements for 2015 acquisition activity.

Employees

Our executive offices are located at 2 South Pointe Drive, Suite 100, Lake Forest, CA 92630. We have a three year lease which expires on April 30, 2017, for approximately 4,100 square feet in a two-story office building. As of December 31, 2014, we have 10 full-time employees.

Available Information

Information about us is available on our website (http://www.summithealthcarereit.com/). We make available, free of charge, on our Internet website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission ("SEC"). Our filings with the SEC are available to the public over the Internet at the SEC's website at http://www.sec.gov. You may read and copy any filed document at the SEC's public reference room in Washington, D.C. at 100 F Street, N.E., Room 1580 Washington, D.C. Please call the SEC at (800) SEC-0330 for further information about the public reference rooms.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below can adversely affect our business, operating results, prospects and financial condition. These risks and uncertainties could cause our actual results to differ materially from those presented in our forward-looking statements.

General

We have paid, and may in the future, pay distributions from sources other than cash provided from operations which may reduce cash flow available for investments.

Until our investments in real estate generate operating cash flow sufficient to make distributions to stockholders, we may pay a substantial portion of our distributions from the proceeds of future offerings or from borrowings in anticipation of future cash flow. To the extent that we use offering proceeds or proceeds from property sales to fund distributions to stockholders, the amount of cash available for investment in properties will be reduced. Additionally, if we are unable to raise additional capital (debt and/or equity) at acceptable terms, our ability to invest in real estate and to pay distributions will be negatively impacted. We have not paid any distributions since June 30, 2011 and will not pay any for the foreseeable future.

We may not be able to execute on our repositioning strategy.

In connection with the continued implementation of our repositioning strategy, we face a number of risks and uncertainties, including:

- Ability to raise additional debt and equity capital on favorable terms to us;
- Availability of sufficient healthcare property acquisition targets with favorable terms to us;
- Completion of sufficient due diligence in connection with the additional proposed healthcare investments and negotiation of favorable lease and/or operating arrangements with the operators of such facilities;
- Availability of financing on satisfactory terms and conditions to replace our maturing loan obligations and to partially fund new real estate investments;
- Regulatory environment uncertainty due to the phased implementation of the Health Reform Laws and its impact upon healthcare facility operator reimbursement, including the impact of such regulations on reimbursement rates, or any other regulatory action, including on a state level, that serves to reduce reimbursement rates for services provided by our tenants; and
- Success of the operators of the facilities we may acquire as we are dependent on their performance.

Should the execution of the next phase of our repositioning strategy not be successful or take longer or be more expensive to execute than anticipated, then our results of operations may be harmed. Also, any such failure or delays in implementation or disruption to our business will further delay or prevent the restoration of distributions to common stockholders and the stock repurchase program. If we are not successful with our repositioning strategy, we may be forced to pursue an alternative strategy including liquidating our real estate portfolio or merging with another company.

Our limited operating history as a healthcare REIT makes it difficult for you to evaluate us. In addition we have incurred losses in the past and may continue to incur losses.

We have a limited operating history as a healthcare REIT. We cannot assure our stockholders that we will be able to operate our business successfully or implement our operating policies and strategies. Our stockholders should not assume that our performance will be similar to the past performance of other real estate investment programs. As a consequence, our past performance and the past performance of other real estate investment programs may not be indicative of the performance we will achieve. We have 17 healthcare properties as of the date of this report. We have sold all of our industrial properties. Historically, we have generated limited income, cash flow, funds from operations or funds from which to make distributions to our stockholders. In addition, we have incurred substantial losses since our inception and we may continue to incur losses.

Because there is no public trading market for our stock, it will be difficult for stockholders to sell their stock. Further, we do not expect to have funds available for redemptions during 2015 and are uncertain when and on what terms we will be able to resume ordinary redemptions. If stockholders are able to sell their stock, they will likely sell it at a substantial discount.

There is no current public market for our stock and there is no assurance that a public market will ever develop for our stock. Our charter contains restrictions on the ownership and transfer of our stock, and these restrictions may inhibit our stockholders' ability to sell their stock. Our charter prevents any one person from owning more than 9.8% in number of shares or value, whichever is more restrictive, of the outstanding shares of any class or series of our stock unless exempted by our board of directors. Our charter also limits our stockholders' ability to transfer their stock to prospective stockholders unless (i) they meet suitability standards regarding income or net worth, and (ii) the transfer complies with minimum purchase requirements. Our stock repurchase program has been suspended since December 31, 2010. If and when redemptions resume under our stock repurchase program, it is limited in terms of the number of shares of stock which may be redeemed annually and may also be limited, suspended or terminated at any time. We have no obligations to purchase our stockholders' stock if redemption would violate restrictions on cash distributions under Maryland law.

We believe the value of our stock owned by our stockholders has declined substantially from the issue price. It may be difficult for our stockholders to sell their stock promptly or at all. If our stockholders are able to sell shares of stock, they may only be able to sell them at a substantial discount from the price they paid. This may be the result, in part, because the amount of funds available for investment was reduced by sales commissions, dealer manager fees, organization and offering expenses, and acquisition fees and expenses. As of December 31, 2014, our estimated per-share value of our common stock was $2.04 per share. Unless our aggregate investments increase in value to compensate for upfront fees and expenses and prior declines in value, it is unlikely that our stockholders will be able to sell their stock, whether pursuant to our stock repurchase program or otherwise, without incurring a substantial loss. We cannot assure our stockholders that their stock will ever appreciate in value to equal the price they paid for their stock. It is also likely that their stock would not be accepted as the primary collateral for a loan. Stockholders should consider their stock as an illiquid investment, and they must be prepared to hold their stock for an indefinite period of time.

Stockholders cannot currently, and may not in the future, be able to sell their stock under our stock repurchase program.

Effective December 31, 2010, we suspended redemptions under the stock repurchase program. Effective December 14, 2010, we suspended our distribution reinvestment plan. We may amend our stock repurchase program to resume or suspend repurchases or amend other terms without stockholder approval. Our board is also free to terminate the program at any time upon 30 days written notice to our stockholders. In addition, the stock repurchase program includes numerous restrictions that would limit our stockholders' ability to sell their stock.

We have limited liquidity and we may be required to pursue certain measures in order to maintain or enhance our liquidity.

Liquidity is essential to our business and our ability to operate and to fund our existing obligations. A primary source of liquidity for us has been the issuance of common stock in our public offerings. However, we terminated our follow-on public offering on November 23, 2010. As a result, we are dependent on external debt financing and joint venture opportunities to fund our ongoing operations. We may not find suitable joint venture partners willing to provide capital at terms acceptable to us or at all. Our access to debt financing depends on the willingness of third parties to provide us with corporate- or asset-level debt. It also depends on conditions in the capital markets generally. Companies in the real estate industry have at times historically experienced limited availability of capital, and new capital sources may not be available on acceptable terms, if at all. We cannot be certain that sufficient funding will be available to us in the future on terms that are acceptable to us, if at all. If we cannot obtain sufficient funding on acceptable terms, or at all, we will not be able to operate and/or grow our business, which would likely have a negative impact on the value of our common stock and our ability to make distributions to our stockholders. In such an instance, a lack of sufficient liquidity would have a material adverse impact on our operations, cash flow, financial condition and our ability to continue as a going concern. We may be required to pursue certain measures in order to maintain or enhance our liquidity, including seeking the extension or replacement of our debt facilities, potentially selling assets at unfavorable prices and/or reducing our operating expenses. We cannot assure you that we will be successful in managing our liquidity.

The inability to retain or obtain key personnel and senior housing operators could have a material negative impact on the continuation of the implementation of our repositioning strategy, which could impair our ability to make distributions.

Our success depends to a significant degree upon our management team. If key personnel were to cease employment with the Company, we may be unable to find suitable replacements, and our operating results could suffer. We believe that our future success depends, in large part, upon our ability to hire and retain highly-skilled managerial and operational personnel. Competition for highly-skilled personnel is intense, and we and our senior housing operators may be unsuccessful in attracting and retaining such skilled personnel. If we lose or are unable to obtain the services of highly-skilled personnel and operators, our ability to implement our investment strategies could be delayed or hindered and the value of our stockholders' investments in us may decline.

If we are unable to find or experience delays in finding suitable investments, funds available for distributions to our stockholders will be reduced.

Our ability to achieve our investment objectives and to make distributions depends upon our performance in the acquisition and operation of our investments. We may be delayed in making investments in properties due to delays in raising joint venture capital or debt financing, negotiating or obtaining the necessary purchase documentation for properties, locating suitable investments or other factors. We cannot be sure that we will be successful in obtaining suitable investments on financially attractive terms or that our investment objectives will be achieved. We may also make other real estate investments such as investments in publicly traded REITs, mortgage funds and other entities which make real estate investments. Until we make real estate investments, we will hold cash proceeds from sales of assets and other sources in an interest-bearing account or invest the proceeds in short-term, investment-grade securities. We expect the rates of return on these short-term investments to be substantially less than the returns we make on real estate investments. If we are unable to invest available cash in properties or other real estate investments for an extended period of time, distributions to our stockholders may continue to be suspended and the value of our stock could be reduced.

We have not generated sufficient cash for distributions and have ceased distributions. Cash distributions to our stockholders may not resume.

If the rental revenues from the properties we own do not exceed our operational expenses, we may be unable to pay distributions to our stockholders. No distributions have been declared or made for periods after June 30, 2011. All expenses we incur in our operations, including payment of interest to finance property acquisitions, are deducted from cash funds generated by operations prior to computing the amount of cash available to be paid as distributions to our stockholders. Our directors will determine the amount and timing of distributions. Our directors will consider all relevant factors, including the amount of cash available for distribution, capital expenditure and reserve requirements and general operational requirements. We cannot determine with certainty how long it may take to generate sufficient available cash flow to support distributions to our stockholders. We may borrow funds, return capital or sell assets to make distributions. In the past, we have paid distributions from the proceeds of our offerings.

If we are unable to raise capital or resume the reinvestment of distributions under the distribution reinvestment plan, we will have less funds available to make distributions to our stockholders, which will continue until we generate operating cash flow sufficient to support distributions to stockholders. As a result, we may not resume cash distributions to stockholders. With limited prior operations, we cannot predict the amount of distributions our stockholders may receive, if any. We may be unable to resume cash distributions or increase distributions over time.

A limit on the percentage of our securities a person may own may discourage a takeover or business combination, which could prevent our stockholders from realizing a premium price for their stock.

In order for us to qualify as a REIT, no more than 50% of our outstanding stock may be beneficially owned, directly or indirectly, by five or fewer individuals (including certain types of entities) at any time during the last half of each taxable year. To assure that we do not fail to qualify as a REIT under this test, our charter restricts direct or indirect ownership by one person or entity to no more than 9.8% in number of shares or value, whichever is more restrictive, of the outstanding shares of any class or series of our stock unless exempted by our board of directors. This restriction may have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to our stockholders.

Although we are not currently afforded the protection of the Maryland General Corporation Law relating to business combinations, we could opt into these provisions of Maryland law in the future, which may discourage others from trying to acquire control of us and may prevent our stockholders from receiving a premium price for their stock in connection with a business combination.

Under Maryland law, "business combinations" between a Maryland corporation and certain interested stockholders or affiliates of interested stockholders are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. Also under Maryland law, control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, by officers or by directors who are employees of the corporation are not entitled to vote on the matter. Should our board opt into these provisions of Maryland law, it may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer. Similarly, provisions of the Maryland Unsolicited Takeover Statute could provide similar anti-takeover protection.

Our stockholders' and our rights to recover claims against our independent directors are limited, which could reduce our stockholders' and our recovery against our independent directors if they negligently cause us to incur losses.

Our charter provides that no independent director shall be liable to us or our stockholders for monetary damages and that we will generally indemnify them for losses unless they are grossly negligent or engage in willful misconduct. As a result, our stockholders and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce our stockholders' and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our officers, employees and agents) in some cases, which would decrease the cash otherwise available for distributions to our stockholders.

If we are unable to obtain funding for future capital needs, cash distributions to our stockholders could be reduced and the value of our investments could decline.

If we need additional capital in the future to improve or maintain our properties or for any other reason, we will have to obtain financing from other sources, such as cash flow from operations, borrowings, property sales, future equity offerings or from joint ventures related to existing investments, which may result in the deconsolidation of properties we already own. These sources of funding may not be available on attractive terms or at all. If we cannot procure additional funding for capital improvements, our investments may generate lower cash flows or decline in value, or both.

If we do not successfully implement a long-term liquidity strategy, our stockholders may have to hold their investment for an indefinite period.

If we determine to pursue a liquidity transaction in the future, we would be under no obligation to conclude the process within a set time. The timing of the sale of assets will depend on real estate and financial markets, economic conditions in the areas in which properties are located, and federal income tax effects on stockholders, that may prevail in the future. We cannot guarantee that we will be able to liquidate all assets. After we adopt a plan of liquidation, we would remain in existence until all properties and assets are liquidated. If we do not pursue a liquidity event, or delay such an event due to market conditions, our stockholders' shares may continue to be illiquid and they may, for an indefinite period of time, be unable to convert their investment to cash easily and could suffer losses on their investment. If we were to pursue a liquidation currently, our stockholders would likely not receive the amount of their investment.

General Risks Related to Investments in Real Estate and Real Estate-Related Investments

Economic and regulatory changes that impact the real estate market may reduce our net income and the value of our properties.

We are subject to risks related to the ownership and operation of real estate, including but not limited to:

- worsening general or local economic conditions and financial markets could cause lower demand, tenant defaults, and reduced occupancy and rental rates, some or all of which would cause an overall decrease in revenue from rents;
- increases in competing properties in an area which could require increased concessions to tenants and reduced rental rates;
- increases in interest rates or unavailability of permanent mortgage funds which may render the sale of a property difficult or unattractive; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

Some or all of the foregoing factors may affect our properties, which would reduce our net income, and our ability to make distributions to our stockholders.

Lease terminations could reduce our revenues from rents and our distributions to our stockholders and cause the value of our stockholders' investment in us to decline.

The success of our investments depends upon the occupancy levels, rental income and operating expenses of our properties and our Company. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur costs in protecting our investment and re-leasing our property. In the event of tenant default or bankruptcy, or lease terminations or expiration, we may be unable to re-lease the property for the rent previously received. We may be unable to sell a property without incurring a loss. These events and others could cause the value of our stockholders' investment in us to decline.

Competition with third parties for properties and other investments may result in our paying higher prices for properties which could reduce our profitability and the return on our stockholders investment.

We compete with many other entities engaged in real estate investment activities, including individuals, corporations, banks, insurance companies, other REITs, real estate limited partnerships, and other entities engaged in real estate investment activities, many of which have greater resources than we do. Some of these investors 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. Any such increase would result in increased demand for these assets and increased prices. If competitive pressures cause us to pay higher prices for properties, our ultimate profitability may be reduced and the value of our properties may not appreciate or may decrease significantly below the amount paid for such properties. At the time we elect to dispose of one or more of our properties, we will be in competition with sellers of similar properties to locate suitable purchasers, which may result in us receiving lower proceeds from the disposal or result in us not being able to dispose of the property due to the lack of an acceptable return. This may cause our stockholders to experience a lower return on their investment.

Newly developed and acquired properties may not produce the cash flow that we expect, which could adversely affect our overall financial performance.

We intend to continue to acquire and develop real estate properties. In deciding whether to acquire or develop a particular property, we make assumptions regarding the expected future performance of that property. If our estimated return on investment proves to be inaccurate, it may fail to perform as we expected. With certain properties we may acquire, our business plan may contemplate repositioning or redeveloping that property with the goal of increasing its cash flow, value or both. Our estimate of the costs of repositioning or redeveloping an acquired property may prove to be inaccurate, which may result in our failure to meet our profitability goals. If one or more of these new properties do not perform as expected, our financial performance and our ability to make distributions may be adversely affected.

Costs incurred in complying with governmental laws and regulations may reduce our net income and the cash available for distributions.

Our Company and the properties we own are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Federal laws such as the National Environmental Policy Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act, the Federal Water Pollution Control Act, the Federal Clean Air Act, the Toxic Substances Control Act, the Emergency Planning and Community Right to Know Act and the Hazard Communication Act govern such matters as wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials and the remediation of contamination associated with disposals. The properties we own and those we expect to acquire are subject to the Americans with Disabilities Act of 1990 which generally requires that certain types of buildings and services be made accessible and available to people with disabilities. These laws may require us to make modifications to our properties. Some of these laws and regulations impose joint and several liability on tenants, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. Compliance with these laws and any new or more stringent laws or regulations may require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. In addition, there are various federal, state and local 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. Our properties may be affected by our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties, such as the presence of underground and above-ground storage tanks, or activities of unrelated third parties. The presence of hazardous substances, or the failure to properly remediate these substances, may make it difficult or impossible to sell or rent such property. Any material expenditures, fines, or damages we must pay will reduce our ability to make distributions and may reduce the value of our stockholders' investment in us.

Discovery of environmentally hazardous conditions may reduce our cash available for distribution to our stockholders.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous real property owner or operator may be liable for the cost to remove or remediate hazardous or toxic substances on, under or in such property. These costs 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 a property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants that may be impacted by such laws. Environmental laws provide for sanctions for 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. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could be substantial and reduce our ability to make distributions and the value of our stockholders' investments in us.

Any uninsured losses or high insurance premiums will reduce our net income and the amount of our cash distributions to stockholders.

We will attempt to obtain adequate insurance to cover significant areas of risk to us as a company and to our properties. However, there are types of losses at the property level, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters, which are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. We may not have adequate coverage for such losses. If any of our properties incurs a casualty loss that is not fully insured, the value of our assets will be reduced by any such uninsured loss. In addition, other than any working capital reserve or other reserves we may establish, we have no source of funding to repair or reconstruct any uninsured damaged property. Also, to the extent we must pay unexpectedly large amounts for insurance, we could suffer reduced earnings that would result in lower distributions to stockholders.

We may have difficulty selling real estate investments, and our ability to distribute all or a portion of the net proceeds from such sale to our stockholders may be limited.

Equity real estate investments are relatively illiquid. Therefore, we will have a limited ability to vary our portfolio in response to changes in economic or other conditions. We may also have a limited ability to sell assets in order to fund working capital and similar capital needs. When we sell any of our properties, we may not realize a gain on such sale. We may elect not to distribute any proceeds from the sale of properties to our stockholders; for example, we may use such proceeds to:

- purchase additional properties;
- repay debt, if any;
- buy out interests of any co-venturers or other partners in any joint venture in which we are a party;
- create working capital reserves; or
- make repairs, maintenance, tenant improvements or other capital improvements or expenditures to our remaining properties.

Our ability to sell our properties may also be limited by our need to avoid a 100% penalty tax that is imposed on gain recognized by a REIT from the sale of property characterized as dealer property. In order to ensure that we avoid such characterization, we may be required to hold our properties for a minimum period of time, generally two years, and comply with certain other requirements in the Internal Revenue Code.

Real estate market conditions at the time we decide to dispose of a property may be unfavorable which could reduce the price we receive for a property and lower the return on our stockholders' investment in us.

We intend to hold the properties in which we invest until we determine that selling or otherwise disposing of properties would help us to achieve our investment objectives. General economic conditions, availability of financing, interest rates and other factors, including supply and demand, all of which are beyond our control, affect the real estate market. We may be unable to sell a property for the price, on the terms, or within the time frame we want. Accordingly, the gain or loss on our stockholders' investment in us could be affected by fluctuating market conditions.

As part of otherwise attractive portfolios of properties, we may acquire some properties with existing lock-out provisions which may inhibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties.

Loan provisions could materially restrict us from selling or otherwise disposing of or refinancing properties. These provisions would affect our ability to turn our investments into cash and thus affect cash available for distributions to our stockholders. Loan provisions may prohibit us from reducing the outstanding indebtedness with respect to properties, refinancing such indebtedness on a non-recourse basis at maturity, or increasing the amount of indebtedness with respect to such properties.

Loan provisions could impair our ability to take actions that would otherwise be in the best interests of our stockholders, and therefore, may have an adverse impact on the value of our stock, relative to the value that would result if the loan provisions did not exist. In particular, loan provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders. These provisions usually restrict our operations for one year.

Our debt agreements typically contain provisions charging us prepayment penalties for certain periods of time and in certain circumstances which may make it cost prohibitive to prepay the principal balances of our loans prior to the expiration of any lock-out periods.

Actions of our joint venture partners could subject us to liabilities in excess of those contemplated or prevent us from taking actions that are in the best interests of our stockholders which could result in lower investment returns to our stockholders.

We have and are likely to continue to enter into joint ventures with third parties to acquire or improve properties. We may also purchase properties in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present when acquiring real estate directly, including, for example:

- joint venturers may share certain approval rights over major decisions;
- that such co-venturer, co-owner or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint venture or the timing of termination or liquidation of the joint venture;
- the possibility that our co-venturer, co-owner or partner in an investment might become insolvent or bankrupt;
- the possibility that we may incur liabilities as a result of an action taken by our co-venturer, co-owner or partner;
- that such co-venturer, co-owner or 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;
- disputes between us and our joint venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in subjecting the properties owned by the applicable joint venture to additional risk; or
- that under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached which might have a negative influence on the joint venture.

These events might subject us to liabilities in excess of those contemplated and thus reduce our stockholders' investment returns. If we have a right of first refusal or buy/sell right to buy out a co-venturer, co-owner or partner, we may be unable to finance such a buy-out if it becomes exercisable or we may be required to purchase such interest 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 elect to purchase an interest of a co-venturer subject to the buy/sell right, in which case we may be forced to sell our interest as the result of the exercise of such right when we would otherwise prefer to keep our interest. Finally, we may not be able to sell our interest in a joint venture if we desire to exit the venture.

If we make or invest in mortgage loans, our mortgage loans may be affected by unfavorable real estate market conditions, including interest rate fluctuations, which could decrease the value of those loans and the return on our stockholders' investments in us.

If we make or invest in mortgage loans, we will be at risk of defaults by the borrowers on those mortgage loans as well as interest rate risks. To the extent we incur delays in liquidating such defaulted mortgage loans; we may not be able to obtain sufficient proceeds to repay all amounts due to us under the mortgage loan. Further, we will not know whether the values of the properties securing the mortgage loans will remain at the levels existing on the dates of origination of those mortgage loans. If the values of the underlying properties fall, our risk will increase because of the lower value of the security associated with such loans. In addition, interest rate fluctuations could reduce our returns as compared to market interest rates and reduce the value of the mortgage loans in the event we sell them.

Our stockholders' investment return may be reduced if we are required to register as an investment company under the Investment Company Act of 1940 (the "ICA"); if we or our subsidiaries become an unregistered investment company, we could not continue our business.

Neither we nor any of our subsidiaries intend to register as investment companies under the ICA. If we or our subsidiaries were obligated to register as investment companies, we would have to comply with a variety of substantive requirements under the ICA that impose, 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 increase our operating expenses.

Under the relevant provisions of Section 3(a)(1) of the ICA, an investment company is any issuer that:

- is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities (the "primarily engaged test"); or
- is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire "investment securities" having a value exceeding 40% of the value of such issuer's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis (the "40% test"). "Investment securities" excludes U.S. government securities and securities of majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company under Section 3(c)(1) or Section 3(c)(7) (relating to private investment companies).

Depending on the nature of our portfolio, we believe that we and our Operating Partnership may be able to satisfy both tests above. With respect to the 40% test, we expect that most of the entities through which we and our Operating Partnership own our assets will be majority-owned subsidiaries that are not themselves investment companies and are not relying on the exceptions from the definition of investment company under Section 3(c)(1) or Section 3(c)(7).

With respect to the primarily engaged test, we and our Operating Partnership are holding companies and do not intend to invest or trade in securities ourselves. Rather, through the majority-owned subsidiaries of our Operating Partnership, we and our Operating Partnership will be primarily engaged in the non-investment company businesses of these subsidiaries.

We expect that most of the subsidiaries of our Operating Partnership will be able to rely on Section 3(c)(5)(C) of the ICA for an exception from the definition of an investment company. (Any other subsidiaries of our Operating Partnership should be able to rely on the exceptions for private investment companies pursuant to Section 3(c)(1) and Section 3(c)(7) of the ICA.) As reflected in no-action letters, the SEC staff's position on Section 3(c)(5)(C) generally requires that an issuer maintain at least 55% of its assets in "mortgages and other liens on and interests in real estate," or qualifying assets; at least 80% of its assets in qualifying assets plus real estate-related assets; and no more than 20% of the value of its assets in other than qualifying assets and real estate-related assets, which we refer to as miscellaneous assets. To constitute a qualifying asset under this 55% requirement, a real estate interest must meet various criteria based on no-action letters.

If, however, the value of the subsidiaries of our Operating Partnership that must rely on Section 3(c)(1) or Section 3(c)(7) is greater than 40% of the value of the assets of our Operating Partnership, then we and our Operating Partnership may seek to rely on the exception from registration under Section 3(c)(6) if we and our Operating Partnership are "primarily engaged," through majority-owned subsidiaries, in the business of purchasing or otherwise acquiring mortgages and other interests in real estate. The SEC staff has issued little interpretive guidance with respect to Section 3(c)(6); however, it is our view that we and our Operating Partnership may rely on Section 3(c)(6) if 55% of the assets of our Operating Partnership consist of, and at least 55% of the income of our Operating Partnership is derived from, majority-owned subsidiaries that rely on Section 3(c)(5)(C).

To maintain compliance with the ICA, our subsidiaries may be unable to sell assets we would otherwise want them to sell and may need to sell assets we would otherwise wish them to retain. In addition, our subsidiaries may have to acquire additional assets that they might not otherwise have acquired or may have to forego opportunities to make investments that we would otherwise want them to make and would be important to our investment strategy. Moreover, the SEC may issue interpretations with respect to various types of assets that are contrary to our views and current SEC staff interpretations are subject to change, which increases the risk of non-compliance and the risk that we may be forced to make adverse changes to our portfolio. 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 required enforcement and a court could appoint a receiver to take control of us and liquidate our business.

Rapid changes in the values of our assets may make it more difficult for us to maintain our qualification as a REIT or our exception from the definition of an investment company under the ICA.

If the market value or income potential of our qualifying real estate assets changes as compared to the market value or income potential of our non-qualifying assets, or if the market value or income potential of our assets that are considered "real estate-related assets" under the ICA or REIT qualification tests changes as compared to the market value or income potential of our assets that are not considered "real estate-related assets" under the ICA or REIT qualification tests, whether as a result of increased interest rates, prepayment rates or other factors, we may need to modify our investment portfolio in order to maintain our REIT qualification or exception from the definition of an investment company. If the decline in asset values or income occurs quickly, this may be especially difficult, if not impossible, to accomplish. This difficulty may be exacerbated by the illiquid nature of many of the assets that we may own. We may have to make investment decisions that we otherwise would not make absent REIT and ICA considerations.

Risks Related to Investments in Healthcare-Related Real Estate

Failure to succeed in the healthcare sector may have adverse consequences on our performance.

Our success in the healthcare sector will be dependent, in part, upon our ability to evaluate local healthcare sector conditions, identify appropriate acquisition opportunities, and find qualified tenants or, where properties are acquired through a taxable REIT subsidiary, to engage and retain qualified independent managers to operate these properties. In addition, we may abandon opportunities to enter a local market or acquire a property that we have begun to explore for any reason and may, as a result, fail to recover expenses already incurred. Furthermore, we will be competing with many other entities engaged in real estate investment activities for acquisitions of healthcare properties, including healthcare REITs, national, regional and local operators, acquirers and developers. The competition for healthcare properties may significantly increase the price we must pay for properties we seek to acquire and our competitors may succeed in acquiring those properties themselves. Our potential acquisition targets may find our competitors to be more attractive because they may have greater resources and/or a lower cost of capital, may be willing to pay more for the properties or may have a more compatible operating philosophy. If we are unable to succeed in the healthcare sector as a result of any of the factors described above, our business, financial condition and results of operations and our ability to make distributions to our stockholders may be materially and adversely affected.

Adverse trends in the healthcare service industry may negatively affect lease revenues from healthcare properties that we may acquire and the values of those investments.

The healthcare service industry may be affected by the following:

- trends in the method of delivery of healthcare services;
- competition among healthcare providers;
- lower increases or decreases in reimbursement rates from government and commercial payors, high uncompensated care expense, investment losses and limited admissions growth pressuring operating profit margins for healthcare providers;
- availability of capital;
- liability insurance expense;
- health reform initiatives to address healthcare costs through expanded pay-for-performance criteria, value-based purchasing programs, bundled provider payments, accountable care organizations, state health insurance exchanges, increased patient cost-sharing, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions;
- regulatory environment uncertainty due to the phased implementation of the PPACA (commonly called “Obamacare”) and its impact upon healthcare facility operator reimbursement, including the impact of Obamacare on reimbursement rates;
- Congressional efforts to reform the Medicare physician fee-for-service formula that dictates annual updates in payment rates for physician services, including significant reductions in the sustainable growth rate, whether through a short-term fix or a more long-term solution;
- scrutiny and formal investigations by federal and state authorities;
- prohibitions on additional types of contractual relationships between physicians and the healthcare facilities and providers to which they refer, and related information-collection activities;
- efforts to increase transparency with respect to pricing and financial relationships among healthcare providers and drug/device manufacturers;
- increased regulation to limit medical errors and conditions acquired inside health facilities and improve patient safety; and
- heightened health information technology standards for healthcare providers.

These changes, among others, can adversely affect the economic performance of some or all of the lessees and operators of healthcare properties that we may acquire and, in turn, negatively affect the lease revenues and the value of our property investments.

Our healthcare properties derive a substantial portion of their income from third-party payors.

Many of the operators of SNFs derive a substantial portion of their net operating revenues from third-party payors, including the Medicare and Medicaid programs. These programs are highly regulated by federal, state and local laws, rules and regulations and are subject to frequent and substantial change. There are no assurances that payments from governmental and other third-party payors will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement under these programs. Efforts by such third-party payors to reduce healthcare costs have intensified in recent years and will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of our potential tenants. In addition, the failure of any of our potential 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. The financial impact on tenants of healthcare properties that we may acquire 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.

Lessees of healthcare properties that we may acquire may be affected by the financial deterioration, insolvency and/or bankruptcy of other significant operators in the healthcare industry.

Certain companies in the healthcare industry, including some key senior housing operators, are experiencing considerable financial, legal and/or regulatory difficulties which have resulted or may result in financial deterioration and, in some cases, insolvency and/or bankruptcy. The adverse effects on these companies could have a significant impact on the industry as a whole, including but not limited to negative public perception by investors, lenders and consumers. As a result, lessees of healthcare facilities that we may acquire could experience the damaging financial effects of a weakened industry sector driven by negative headlines, ultimately making them unable to meet their obligations to us, and our business could be adversely affected.

Risk factors related to our operators' revenues and expenses

Our operators' revenues are primarily driven by occupancy, private pay rates, and Medicare and Medicaid reimbursement, if applicable. Expenses for these facilities are primarily driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Revenues from government reimbursement have, and may continue to, come under pressure due to reimbursement cuts and state budget shortfalls. Operating costs continue to increase for our operators. To the extent that any decrease in revenues and/or any increase in operating expenses result in a property not generating enough cash to make payments to us, our revenues may be reduced and the credit of our operator and the value of other collateral would have to be relied upon. To the extent the value of such property is reduced, we may need to record an impairment for such asset. Furthermore, if we determine to dispose of an underperforming property, such sale may result in a loss. Any such impairment or loss on sale would negatively affect our financial results.

Future economic weakness may have an adverse effect on our operators and tenants, including their ability to access credit or maintain occupancy and/or private pay rates. If the operations, cash flows or financial condition of our operators are materially adversely impacted by economic or other conditions, our revenue and operations may be adversely affected. Increased competition may affect our operators' ability to meet their obligations to us. The operators of our properties compete on a local and regional basis with operators of properties and other healthcare providers that provide comparable services. We cannot be certain that the operators of all of our facilities will be able to achieve and maintain occupancy and rate levels that will enable them to meet all of their obligations to us. Our operators are expected to encounter increased competition in the future that could limit their ability to attract residents or expand their businesses.

Our properties expose us to various operational risks, liabilities and claims that could adversely affect our ability to generate revenues or increase our costs and could have a material adverse effect on us.

On May 1, 2014, a subsidiary of ours became the licensed operator of the Friendship Haven Healthcare and Rehabilitation Center, a SNF in Friendswood, Texas. The subsidiary becoming the operator of this property exposes us to new operational risks, liabilities and claims that could increase our costs or adversely affect our ability to generate revenues, thereby reducing our profitability. These operational risks include fluctuations in occupancy levels, the inability to achieve economic resident fees (including anticipated increases in those fees), increased cost of compliance, increases in the cost of food, materials, energy, labor (as a result of unionization or otherwise) or other services, national and regional economic conditions, the imposition of new or increased taxes, capital expenditure requirements, professional and general liability claims, and the availability and cost of professional and general liability insurance. Any one or a combination of these factors could result in operating deficiencies in our operations and decreases in cash flow, which could have a material adverse effect on us. We are currently seeking to secure a long term triple net lease with an operator and plan to finalize an arrangement in 2015.

Transfers of healthcare facilities may require regulatory approvals and these facilities may not have efficient alternative uses.

Transfers of healthcare facilities to successor operators frequently are subject to regulatory approvals or notifications, including, but not limited to, change of ownership approvals under CON or determination of need laws, state licensure laws and Medicare and Medicaid provider arrangements, that are not required for transfers of other types of real estate. The replacement of a healthcare facility operator could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. Alternatively, given the specialized nature of our facilities, we may be required to spend substantial time and funds to adapt these properties to other uses. If we are unable to timely transfer properties to successor operators or find efficient alternative uses, our revenue and operations may be adversely affected.

Risk factors related to government regulations

Our operators' businesses are affected by government reimbursement. To the extent that an operator/tenant receives a significant portion of its revenues from government payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, court decisions, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries or carriers, government funding restrictions (at a program level or specific to certain facilities) and interruption or delays in payments due to any ongoing government investigation amid audits at such property. In recent years, government payors have frozen or reduced payments to healthcare providers due to budgetary pressures. Healthcare reimbursement will likely continue to be of paramount importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or effect any future legislative reforms may have on the financial condition of our operators and properties. There can be no assurance that adequate reimbursement levels will be available for services provided by any operator, whether the property receives reimbursement from Medicare, Medicaid or private payors. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on an obligor's liquidity, financial condition and results of operations, which could adversely affect the ability of an obligor to meet its obligations to us.

Our operators and tenants generally are subject to varying levels of federal, state, local, and industry-regulated licensure, certification and inspection laws, regulation and standards. Our operators' or tenants' failure to comply with any of these laws, regulations, or standards could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension, decertification or exclusion from federal and state healthcare programs, loss of license or closure of the facility. Such actions may have an effect on our operators' or tenants' ability to make lease payments to us and, therefore, adversely impact us.

Many of our properties may require a license, registration, and/or CON to operate. Failure to obtain a license, registration, or CON, or loss of a required license, registration, or CON would prevent a facility from operating in the manner intended by the operators or tenants. These events could materially adversely affect our operators' or tenants' ability to make rent payments to us. State and local laws also may regulate the expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction or renovation of healthcare facilities, by requiring a CON or other similar approval from a state agency.

The Health Reform Laws provide individual states with an increased federal medical assistance percentage under certain conditions. On June 28, 2012, the United States Supreme Court upheld the individual mandate of the Health Reform Laws but partially invalidated the expansion of Medicaid. The ruling on Medicaid expansion will allow states not to participate in the expansion-and to forego funding for the Medicaid expansion-without losing their existing Medicaid funding. Given that the federal government substantially funds the Medicaid expansion, it is unclear whether any state will pursue this option, although at least some appear to be considering this option at this time. The participation by states in the Medicaid expansion could have the dual effect of increasing our tenants' revenues through new patients while further straining state budgets. While the federal government will pay for approximately 100% of those additional costs from 2014 to 2016, states will be expected to begin paying for part of those additional costs in 2017. With increasingly strained budgets, it is unclear how states will pay their share of these additional Medicaid costs and what other healthcare reimbursements could be reduced as a result. A significant reduction in other healthcare related spending by states to pay for increased Medicaid costs could affect our operators' revenue streams.

More generally, and because of the dynamic nature of the legislative and regulatory environment for healthcare products and services, and in light of existing federal deficit and budgetary concerns, we cannot predict the impact that broad-based, far-reaching legislative or regulatory changes could have on the US economy, our business or that of our operators.

Risk factors related to liability claims and insurance costs

In recent years, skilled nursing and senior housing operators have experienced substantial increases in both the number and size of patient care liability claims. As a result, general and professional liability insurance costs have increased in some markets. General and professional liability insurance coverage may be restricted or very costly, which may adversely affect the operators' future operations, cash flows and financial condition, and may have a material adverse effect on the operators' ability to meet their lease obligations to us.

Risk factors related to acquisitions

We are exposed to the risk that some of our acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and acquired properties might require significant management attention that would otherwise be devoted to our ongoing business. If we agree to provide construction funding to an operator/tenant and the project is not completed, we may need to take steps to ensure completion of' the project. Such expenditures may negatively affect our results of operations. Furthermore, there can be no assurance that our anticipated acquisitions and investments, the completion of which is subject to various conditions, will be consummated in accordance with anticipated timing, on anticipated terms, or at all.

Risks Associated with Debt Financing

We expect to continue to use temporary acquisition financing to acquire properties and otherwise incur other indebtedness, including long-term financing, which will increase our expenses and could subject us to the risk of losing properties in foreclosure if our cash flow is insufficient to make loan payments.

We have used temporary acquisition financing to acquire our healthcare properties. We have also used long-term debt financing to increase the amount of capital available to us and to achieve greater property diversification. We may also acquire properties encumbered with existing financing which cannot be immediately repaid. We may also invest in joint venture entities that borrow funds or issue senior equity securities to acquire properties, in which case our equity interest in the joint venture would be junior to the rights of the lender or preferred stockholders. Our charter limits our borrowings to 300% of the net asset value, as defined in our charter, of the Company unless any excess borrowing is approved by a majority of our independent directors and is disclosed to our stockholders in our next quarterly report with an explanation from our independent directors of the justification for the excess borrowing. We may borrow funds for operations, tenant improvements, capital improvements or other working capital needs. We may also borrow funds to make distributions, including but not limited to funds to satisfy the REIT tax qualification requirement that we distribute at least 90% of our annual REIT taxable income to our stockholders. We may also borrow, if we otherwise deem it necessary or advisable, to ensure that we maintain our qualification as a REIT for federal income tax purposes. To the extent we borrow funds, we may raise additional equity capital or sell properties to pay such debt.

If there is a shortfall between the cash flow from a property and the cash flow needed to service acquisition financing 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 collateralized 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. For tax purposes, a foreclosure of any of our properties would 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 would 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 not paid by such entity. If any mortgages contain 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, the value of our stockholders’ investments in us will be reduced.

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 distribution and operating policies and our ability to incur additional debt. Loan documents we have entered into contain covenants that limit our ability to further mortgage the property or discontinue insurance coverage. These or other limitations may limit our flexibility and prevent us from achieving our operating plans.

High levels of debt or increases in interest rates could increase the amount of our loan payments, reduce the cash available for distribution to stockholders and subject us to the risk of losing properties in foreclosure if our cash flow is insufficient to make loan payments.

Our policies do not limit us from incurring debt. High debt levels would cause us to incur higher interest charges, would result in higher debt service payments, and could be accompanied by restrictive covenants. Interest we pay could reduce cash available for distribution to stockholders. Additionally, variable rate debt could result in increases in interest rates which would increase our interest costs, which would reduce our cash flows and our ability to make distributions to our stockholders. In addition, 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 and could result in a loss.

High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our cash flows from operations and the amount of cash distributions we can make

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the debt becomes due or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced. We may be unable to refinance properties. If any of these events occurs, our cash flow would be reduced. This, in turn, would reduce cash available for distribution and may hinder our ability to raise capital or borrow more money.

Federal Income Tax Risks

Failure to qualify as a REIT would subject us to federal income tax, which would reduce the cash available for distribution our stockholders.

We expect to operate in a manner that will allow us to continue to qualify as a REIT for federal income tax purposes. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Qualifying as a REIT requires us to meet various tests regarding the nature of our assets and our income, the ownership of our outstanding stock, and the amount of our distributions on an ongoing basis. While we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, including the tax treatment of certain investments we may make, and the possibility of future changes in our circumstances, no assurance can be given that we will so qualify for any particular year. If we fail to qualify as a REIT in any calendar year and we do not qualify for certain statutory relief provisions, we would be required to pay federal income tax on our taxable income. We might need to borrow money or sell assets to pay that tax. Our payment of income tax would decrease the amount of our income available for distribution. Furthermore, if we fail to maintain our qualification as a REIT and we do not qualify for certain statutory relief provisions, we no longer would be required to distribute substantially all of our REIT taxable income to our stockholders. Unless our failure to qualify as a REIT were excused under federal tax laws, we would be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to our stockholders.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property. For example:

- In order to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends-paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.
- We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.
- If we elect to treat property that we acquire in connection with a foreclosure of a mortgage loan or certain leasehold terminations as "foreclosure property," we may avoid the 100% tax on gain from a resale of that property, but the income from the sale or operation of that property may be subject to corporate income tax at the highest applicable rate.
- If we sell an asset, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% "prohibited transaction" tax unless such sale were made by one of our taxable REIT subsidiaries.

We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code.

To maintain our REIT status, we may be forced to forego otherwise attractive opportunities, which may delay or hinder our ability to meet our investment objectives and reduce the overall return to our stockholders.

To qualify as a REIT, we must satisfy certain tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits and the value of our stockholders' investments in us.

If we borrow money to meet the REIT minimum distribution requirement or for other working capital needs, our expenses will increase, our net income will be reduced by the amount of interest we pay on the money we borrow and we will be obligated to repay the money we borrow from future earnings or by selling assets, which will decrease future distributions to stockholders.

To qualify as a REIT, we generally must distribute annually to our stockholders a minimum of 90% of our taxable income, excluding capital gains. We will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our REIT taxable income each year. Additionally, we will be subject to a 4% nondeductible excise tax on any amount by which distributions paid (or deemed paid) by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from previous years. Payments we make to redeem our shares generally are not taken into account for purposes of these distribution requirements. If we do not have sufficient cash to make distributions necessary to preserve our REIT status for any year or to avoid taxation, we may be forced to borrow funds or sell assets even if the market conditions at that time are not favorable for these borrowings or sales. We may decide to borrow funds in order to meet the REIT minimum distribution requirements even if our management believes that the then prevailing market conditions generally are not favorable for such borrowings or that such borrowings would not be advisable in the absence of such tax considerations. Distributions made in excess of our net income will generally constitute a return of capital to stockholders.

If we were considered to actually or constructively pay a "preferential dividend" to certain of our stockholders, our status as a REIT could be adversely affected.

In order to qualify as a REIT, we must distribute to our stockholders at least 90% of our annual REIT taxable income (excluding net capital gain), determined without regard to the deduction for dividends paid. In order for distributions to be counted as satisfying the annual distribution requirements for REITs, and to provide us with a REIT-level tax deduction, the distribution must not be "preferential dividends." A dividend is not a preferential dividend if the distribution is pro rata among all outstanding shares of stock within a particular class, and in accordance with the preferences among different classes of stock as set forth in our organizational documents. There is no de minimis exception with respect to preferential dividends; therefore, if the IRS were to take the position that we paid a preferential dividend, we may be deemed to have failed the 90% distribution test, and our status as a REIT could be terminated for the year in which such determination is made if we were unable to cure such failure.

If our Operating Partnership is classified as a "publicly-traded partnership" under the Internal Revenue Code, it could be subjected to tax on its income and the amount of potential distributions we make to our stockholders will be less.

We structured the Operating Partnership so that it would be classified as a partnership for federal income tax purposes. In this regard, the Internal Revenue Code generally classifies "publicly traded partnerships" (as defined in Section 7704 of the Internal Revenue Code) as associations taxable as corporations (rather than as partnerships), unless substantially all of their taxable income consists of specified types of passive income. In order to minimize the risk that the Internal Revenue Code would classify the Operating Partnership as a "publicly traded partnership" for tax purposes, we placed certain restrictions on the transfer and/or redemption of partnership units in our Operating Partnership. If the Internal Revenue Service were to assert successfully that our Operating Partnership is a "publicly traded partnership," and substantially all of the Operating Partnership's gross income did not consist of the specified types of passive income, the Internal Revenue Code would treat our Operating Partnership as an association taxable as a corporation. In such event, the character of our assets and items of gross income would change and would likely prevent us from qualifying and maintaining our status as a REIT. In addition, the imposition of a corporate tax on our Operating Partnership would reduce the amount of cash distributable to us from our Operating Partnership, and therefore, would reduce our amount of cash available to make distributions to our stockholders.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of assets, other than foreclosure property, deemed held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of or securitize loans in a manner that was treated as a sale of the loans for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us.

It may be possible to reduce the impact of the prohibited transactions tax by conducting certain activities through taxable REIT subsidiaries. However, to the extent that we engage in such activities through taxable REIT subsidiaries, the income associated with such activities may be subject to full corporate income tax.

We may be subject to adverse legislative or regulatory tax changes.

At any time, the federal income tax laws or regulations governing REITs or the administrative interpretations of those laws or regulations may be amended. We cannot predict when or if any new federal income tax law, regulation or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation or interpretation may take effect retroactively. We and our stockholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

Distributions to tax-exempt investors may be classified as unrelated business taxable income and tax-exempt investors would be required to pay tax on the unrelated business taxable income and to file income tax returns.

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

- under certain circumstances, part of the income and gain recognized by certain qualified employee pension trusts with respect to our stock may be treated as unrelated business taxable income if our stock is predominately held by qualified employee pension trusts, such that we are a "pension-held" REIT (which we do not expect to be the case);
- part of the income and gain recognized by a tax-exempt investor with respect to our stock would constitute unrelated business taxable income if such investor incurs debt in order to acquire the common stock; and
- part or all of the income or gain recognized with respect to our stock held 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 Code may be treated as unrelated business taxable income.

Foreign investors may be subject to FIRPTA tax on the sale of our stock if we are unable to qualify as a "domestically controlled" REIT.

A foreign person disposing of a U.S. real property interest, including stock of a U.S. corporation whose assets consist principally of U.S. real property interests is generally subject to a tax, known as the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") tax, on the gain recognized on the disposition. Distributions that are attributable to gains from the disposition of U.S. real property interests by a REIT are subject to FIRPTA tax for foreign investors as though they were engaged in a trade or business and the distribution constitutes income which is effectively connected with such a business. Such FIRPTA tax does not apply, if the REIT is "domestically controlled." A REIT is "domestically controlled" if less than 50% of the REIT's capital stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT's existence.

We cannot be sure that we will qualify as a "domestically controlled" REIT. If we were to fail to so qualify, any gain realized by foreign investors on a sale of our stock would be subject to FIRPTA tax, unless our stock were traded on an established securities market and the foreign investor did not at any time during a specified testing period, directly or indirectly, own more than 5% of the value of our outstanding common stock.

Retirement Plan Risks

If the fiduciary of an employee benefit plan subject to ERISA (such as a profit sharing, Section 401(k) or pension plan) or an owner of a retirement arrangement subject to Section 4975 of the Internal Revenue Code (such as an individual retirement account ("IRA")) fails to meet the fiduciary and other standards under ERISA or the Internal Revenue Code ("IRC") as a result of an investment in our stock, the fiduciary could be subject to penalties and other sanctions.

There are special considerations that apply to employee benefit plans subject to the Employee Retirement Income Security Act ("ERISA") (such as profit sharing, Section 401(k) or pension plans) and other retirement plans or accounts subject to Section 4975 of the IRC (such as an IRA) that are investing in our shares. Fiduciaries and IRA owners investing the assets of such a plan or account in our common stock should satisfy themselves that:

- the investment is consistent with their fiduciary and other obligations under ERISA and the IRC;
- the investment is made in accordance with the documents and instruments governing the plan or IRA, including the plan's or account's investment policy;
- the investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the IRC;

- the investment in our shares, for which no public market currently exists, is consistent with the liquidity needs of the plan or IRA;
- the investment will not produce an unacceptable amount of "unrelated business taxable income" for the plan or IRA;
- our stockholders will be able to comply with the requirements under ERISA and the IRC to value the assets of the plan or IRA annually; and
- the investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the IRC.

With respect to the annual valuation requirements described above, we will provide an estimated value for our shares annually. We can make no claim whether such estimated value will or will not satisfy the applicable annual valuation requirements under ERISA and the IRC. The Department of Labor or the Internal Revenue Service may determine that a plan fiduciary or an IRA custodian is required to take further steps to determine the value of our common stock. In the absence of an appropriate determination of value, a plan fiduciary or an IRA custodian may be subject to damages, penalties or other sanctions.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the IRC may result in the imposition of civil and criminal penalties and could subject the fiduciary to claims for damages or for equitable remedies, including liability for investment losses. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the IRC, the fiduciary or IRA owner who authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested. In addition, the investment transaction must be undone. In the case of a prohibited transaction involving an IRA owner, the IRA may be disqualified as a tax-exempt account and all of the assets of the IRA may be deemed distributed and subjected to tax. ERISA plan fiduciaries and IRA owners should consult with counsel before making an investment in our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2014, our healthcare portfolio consisted of 16 properties which were 100% leased. Our healthcare properties are leased to operators on a triple net basis. The following table provides summary information regarding our properties:

Property [1]	Location	Date Purchased	Type	Purchase Price	Debt as of Dec 31, 2014	Number of Beds
Sheridan Care Center	Sheridan, OR	August 3, 2012	SNF	$ 4,100,000	$ 5,177,000	51
Fernhill Care Center	Portland, OR	August 3, 2012	SNF	4,500,000	4,542,000	63
Farmington Square	Medford, OR	September 14, 2012	AL/MC	8,500,000	6,864,000	71
Friendship Haven Healthcare and Rehabilitation Center [2]	Galveston County, TX	September 14, 2012	SNF	15,000,000	6,374,000	150
Pacific Health and Rehabilitation Center	Tigard, OR	December 24, 2012	SNF	8,140,000	7,571,000	73
Danby House	Winston-Salem, NC	January 31, 2013	AL/MC	9,700,000	7,275,000	100
Brookstone of Aledo [3]	Aledo, IL	July 2, 2013	AL	8,625,000	5,843,000	66
The Shelby House	Shelby, NC	October 4, 2013	AL	4,500,000	4,938,000	72
The Hamlet House	Hamlet, NC	October 4, 2013	AL	6,500,000	4,173,000	60
The Carteret House	Newport, NC	October 4, 2013	AL	4,300,000	3,520,000	64
Sundial Assisted Living [4]	Redding, CA	December 18, 2013	AL	3,500,000	2,800,000	65
Lamar Estates [5]	Lamar, CO	September 22, 2014	SNF	4,500,000	3,418,000	60
Monte Vista Estates [5]	Monte Vista, CO	September 22, 2014	SNF	3,400,000	2,582,000	60
Myrtle Point Care Center	Myrtle Point, OR	October 31, 2014	SNF	4,150,000	3,075,000	54
Gateway Care and Retirement Center	Portland, OR	December 31, 2014	SNF/IL	11,250,000	8,435,000	91
Applewood Retirement Community	Salem, OR	December 31, 2014	IL	2,900,000	2,165,000	69
Total:				$ 103,565,000	$ 78,752,000	1,169

(1) The above table excludes Sherburne Commons Residences, LLC ("Sherburne Commons"), a variable interest entity ("VIE") for which we became the primary beneficiary and began consolidating its financial results as of June 30, 2011. As of October 19, 2011, Sherburne Commons was classified as held for sale (See Note 12 to the accompanying Notes to Consolidated Financial Statements).
(2) We terminated the lease with the operator of this facility on March 16, 2014 and became the licensed operator of the facility on May 1, 2014 through a wholly-owned taxable REIT subsidiary (Friendswood TRS).
(3) Formerly known as Heritage Woods of Aledo.
(4) Formerly known as Redding Assisted Living.
(5) Formerly known as Juniper Village Lamar and Monte Vista.

Portfolio Lease Expirations

The following table sets forth lease expiration information for the ten years following December 31, 2014:

Year Ending December 31	No. of Leases Expiring	Base Rent In Final Year of Expiring Leases (Annual $)	Percent of Total Leasable Area Expiring (%)	Percent of Total Annual Base Rent Expiring (%)
2015 - 2022	1	$ 977,000	6.9%	7.5%
2023	2	1,451,000	11.2%	11.2%
2024 and later [(1)]	13	10,566,000	81.9%	81.3%
	16	$ 12,994,000	100.0%	100.0%

(1) Includes Friendswood TRS

Real Estate-Related Investment

As of December 31, 2014 and 2013, we had one investment in a real estate note receivable, the Sherburne Commons Mortgage Loan in the amount of $9.6 million and $9.4 million, respectively, which has been eliminated in consolidation:

Loan Name Location of Related Property or Collateral	Date Originated	Loan Type	Payment Type	Book Value as of December 31, 2014	Book Value as of December 31, 2013	Rate Type	Annual Interest Rate	Maturity Date
Sherburne Commons Mortgage Loan Nantucket, MA	12/14/2009	1st Mortgage	Interest Only	$ —	$ —	Fixed	8.0%	1/1/2015

Due to the borrower suspending their interest payments in the first quarter of 2011, we issued them a notice of default on June 30, 2011. By issuing them a notice of default, we became the primary beneficiary of the borrower and the borrower a VIE to us as a result of our enhanced ability to direct the activities of the VIE. A primary beneficiary of a VIE is required to consolidate the operations of the VIE. Consequently, we have consolidated the operations of the VIE as of June 30, 2011, and accordingly eliminated the note receivable in consolidation (See Notes 6 and 7 to the accompanying Notes to Consolidated Financial Statements).

As of October 19, 2011, the Sherburne Commons property was reclassified to real estate held for sale. Consequently, the related assets and liabilities of the property are classified as assets of variable interest entity held for sale and liabilities of variable interest entity held for sale on our consolidated balance sheets. Operating results for the property have been reclassified to discontinued operations on our consolidated statements of operations for all periods presented (See Notes 6 and 12 to the accompanying Notes to Consolidated Financial Statements).

On October 6, 2014, we successfully foreclosed on the Sherburne Commons property, however we did not take possession of the property. In January 2015, we sold the property. See Note 14 in the accompanying Notes to Consolidated Financial Statements for further information.

ITEM 3. LEGAL PROCEEDINGS

From time to time in the ordinary course of business, we may become subject to legal proceedings, claims, or disputes.

On April 1, 2014 CRA and Cornerstone Ventures, Inc. filed a complaint in the Superior Court of California for the County of Orange-Central Justice Center, Case No. 30-2014-00714004-CU-BT-CJC, naming the Company, its directors and two of its officers as defendants, seeking declaratory and injunctive relief and compensatory and punitive damages. On April 17, 2014, Judge Nakamura denied in its entirety plaintiffs' ex parte application for a temporary restraining order to show cause why a preliminary injunction against the defendants should not issue. On May 19, 2014, the Company filed a counter claim against plaintiffs and certain individuals affiliated with CRA and affiliated entities. The Company continues to believe that all of plaintiffs' claims are without merit and will continue to vigorously defend itself. Plaintiffs and defendants are conducting discovery.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

During the period covered by this report, there was no established public trading market for our shares of common stock. In order for Financial Industry Regulatory Authority ("FINRA") members to participate in the offering and sale of shares of common stock pursuant to our prior public offerings, we were required to disclose in each annual report distributed to stockholders a per-share estimated value of the shares, the method by which it was developed and the date of the data used to develop the estimated value. In addition, we prepare annual statements of estimated share values to assist fiduciaries of retirement plans subject to the annual reporting requirements of ERISA in the preparation of their reports relating to an investment in our shares.

On December 31, 2014 the estimated common stock per-share value is $2.04 per share, adjusted from the previous estimated common stock per-share value of $2.09 established on December 31, 2013. The estimated value per share was based on the methodologies and assumptions described further below. The estimated per-share value determined below neither represents the fair value according to U.S. generally accepted accounting principles ("GAAP") of our assets less liabilities, nor does it represent the amount our shares would trade at on a national securities exchange or the amount a stockholder would obtain if he or she tried to sell his or her shares or if we liquidated our assets. As of the date of this filing, we had no potentially dilutive securities outstanding that would impact the estimated value per share of our common stock.

As with any valuation methodology, our methodology is based on a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different estimated per-share amount. Accordingly, with respect to our estimated per-share value, we can provide no assurance that:

- a stockholder would be able to realize this estimated value per share upon attempting to resell his or her shares;
- we would be able to achieve, for our stockholders, the estimated value per share, upon a listing of our shares of common stock on a national securities exchange, selling our real estate portfolio, or merging with another company;
- an independent third-party appraiser or other third-party valuation firm would agree with our estimated value per share; or
- the estimated share value, or the methodologies relied upon to estimate the share value, will be found by any regulatory authority to comply with FINRA, ERISA, or any other regulatory requirements.

Our estimated per-share value was calculated by aggregating the estimated fair value of our investments in real estate and the estimated fair value of our other assets, subtracting the estimated fair value of our liabilities, and dividing the total by the number of our common shares outstanding as of December 31, 2014. Our estimated per-share value is the same as our net asset value. Our estimated per-share value does not reflect "enterprise value," which may include a premium for the portfolio or the potential increase in our share value if we were to list our shares on a national securities exchange. Our estimated per-share value also does not reflect a liquidity discount for the fact that the shares are not currently traded on a national securities exchange.

The following is a summary of the valuation methodologies used:

Investments in Real Estate and Variable Interest Entity Held for Sale. For purposes of calculating an estimated value per share, we used the value of the 2015 lease payments and applied the current market lease rates for each asset type to determine fair market value of our properties.

For our variable interest entity held for sale, we used the value of the purchase money note from the buyer of the asset that represents 100% of the purchase price executed as of January 7, 2015 to derive an estimate of fair value.

Our board of directors reviewed the report prepared by management which recommended an estimated per-share value, and considering all information provided in light of its own knowledge regarding our assets and unanimously agreed upon an estimated value of $2.04 per share, which is consistent with the recommendations of management.

Loans Payable. We estimated the value of our loans payable using a discounted cash flow analysis. The cash flows were based on the remaining loan terms and on management's estimates of current market interest rates for instruments with similar characteristics, including remaining loan term, loan-to-value ratio and type of collateral. The weighted-average discount rate applied to the future estimated debt payments, which have a weighted-average remaining term of 16.05 years, was 4.62%.

We believe that the assumptions employed in estimating the fair value of our loans payable are reasonable and reflect the terms currently available on similar borrowing arrangements to borrowers with credit profiles similar to ours. However, a change in the assumptions would impact the fair value of our loans payable.

Other Assets and Liabilities. The carrying values of our other assets and liabilities are considered to be equal to fair value due to their short maturities. Certain balances, including straight-line rent related assets and liabilities, have been eliminated for the purpose of the valuation due to the fact that the value of those balances have no value or decrement to the assets going forward.

Our estimated per-share value was calculated as follows:

	December 2014
Investments in real estate and variable interest entity	$ 4.95
Loans payable	(3.31)
Other assets and liabilities, net	0.40
Estimated net asset value per-share value	$ 2.04
Estimated enterprise value premium	None assumed
Estimated liquidity discount	None assumed
Total estimated per-share value	$ 2.04

Furthermore, the estimated value of our shares was calculated as of December 31, 2014. The value of our shares will fluctuate over time in response to, among other things, changes in real estate market fundamentals, capital markets activities, and attributes specific to the properties within our portfolio. We are not required to update the estimated value per share more frequently than every eighteen months. We expect that any future estimates of the value of our properties will be performed by the Company; however, our board of directors may direct us to engage one or more independent, third-party valuation firms in connection with such estimates.

Stock Repurchase Program

We suspended redemptions under our stock repurchase program effective December 31, 2010. We can make no assurances as to when and on what terms our redemptions will resume. The stock redemption program may be amended, resumed, suspended again, or terminated at any time based in part on our cash and debt position.

During the years ended December 31, 2014 and 2013, we have received requests to redeem 23,242 and 13,587 shares, respectively. However, due to the current suspension of the stock repurchase program, we were not able to fulfill any of these requests.

Stockholders

As of March 20, 2015 we had approximately 23.0 million shares of common stock outstanding held by 4,948 stockholders of record.

Distributions

In order to qualify for tax treatment as a REIT under the IRC, we must pay distributions to our stockholders each taxable year equal to at least 90% of our net ordinary taxable income. We adopted a distribution reinvestment plan that allows our stockholders to have their distributions invested in additional shares of our common stock and have registered 21,100,000 shares of our common stock for sale pursuant to the distribution reinvestment plan. The purchase price per share is 95% of the price paid by the purchaser for our common stock, but not less than $7.60 per share. As of December 31, 2014 and 2013, approximately 2.3 million shares had been issued under the distribution reinvestment plan. Effective December 14, 2010, our board of directors suspended the distribution reinvestment plan indefinitely. As a result, distributions for the six months of 2011 were paid entirely in cash and suspended after June 2011. We cannot provide any assurance as to if or when we will resume our distribution reinvestment plan.

The declaration, rate, frequency and amount of distributions are at the discretion of our board of directors and will depend on numerous factors including, but not limited to, our funds from operations, financial condition, capital requirements, annual distribution requirements under the REIT provisions of the IRC and other factors our board of directors deems relevant. Our board determined, based on the financial condition of the Company, to suspend the declaration of further distributions.

From our inception in October 2004 through December 31, 2014, we declared aggregate distributions of $32.8 million. No distributions have been declared or paid for periods subsequent to June 30, 2011.

Funds from Operations

Funds from operations ("FFO") is a non-GAAP supplemental financial measure that is widely recognized as a measure of REIT operating performance. We compute FFO in accordance with the definition outlined by the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as net income (loss), computed in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains (or losses) from sales of property, plus depreciation and amortization on real estate assets, and after adjustments for unconsolidated partnerships, joint ventures, noncontrolling interests and subsidiaries.

NAREIT issued in early 2013 updated reporting guidance that directs companies, for their computation of NAREIT FFO, to exclude impairments of depreciable real estate when write-downs are driven by measurable decreases in the fair value of real estate holdings. Previously, the Company's calculation of FFO (consistent with NAREIT's previous guidance) did not exclude impairments of, or related to, depreciable real estate.

Our FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. We believe that FFO is helpful to investors and our management as a measure of operating performance because it excludes depreciation and amortization, gains and losses from property dispositions, impairments and extraordinary items, and as a result, when compared year to year, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, which is not immediately apparent from net income. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting alone to be insufficient. As a result, our management believes that the use of FFO, together with the required GAAP presentations, provide a more complete understanding of our performance. Factors that impact FFO include start-up costs, fixed costs, delays in buying assets, lower yields on cash held in accounts pending investment, income from portfolio properties and other portfolio assets, interest rates on acquisition financing and operating expenses. FFO should not be considered as an alternative to net income (loss), as an indication of our performance, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions.

The following is reconciliation from net loss applicable to common shares, the most direct comparable financial measure calculated and presented with GAAP to FFO for each of the last two years:

	Year Ended December 31	
	2014	**2013**
Net loss applicable to common stockholders (GAAP)	$ (3,777,000)	$ (890,000)
Adjustments:		
Depreciation and amortization of real estate assets:		
Continuing operations	3,998,000	2,340,000
Discontinued operations	—	506,000
Gain on sales of real estate, net	—	(5,967,000)
Impairment of real estate assets:		
Continuing operations	—	—
Discontinued operations	—	3,368,000
Noncontrolling interests' share in losses	(837,000)	(980,000)
Noncontrolling interests' share in FFO	873,000	1,011,000
Funds provided by (used in) operations (FFO) applicable to common shares	$ 257,000	$ (612,000)
Weighted-average number of common shares outstanding – basic and diluted	23,028,014	23,028,285
FFO per weighted average common shares	$ 0.01	$ (0.03)

Recent Sales of Unregistered Securities

We did not sell any equity securities that were not registered under the Securities Act of 1933 during the period covered by this Form 10-K.

Equity Compensation Plans

See the “Equity Plan Compensation Information” in Item 12 of this report.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. See also the “Special Note about Forward-Looking Statements” preceding Item 1 of this report.

Overview

Market Outlook — Senior Housing

Key demand drivers for senior housing include the strengthening demographics which include the growing number of baby boomers, a better understanding and acceptance of residents and senior housing as an alternative, and increase in the number of potential residents that can afford senior housing and have more affluence. Residents are living longer and have better healthcare insurance. Fewer family care givers are available and residents have fewer alternatives. It is forecasted that demographics will remain strong for decades.

Senior housing average cap rates tend to be higher than other asset classes, which improves returns on investment. Currently, we believe that there are several lenders in the senior housing market with attractive rates and leverage restrictions. Sources of debt include high yield bonds, insurance companies, commercial finance companies, commercial banks, Department of Housing & Urban Development (HUD), Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac have nearly $20 billion in total outstanding senior housing loans (AL and IL).

Throughout the U.S., there are just over 22,000 SNF, AL and ILs. In general, with experienced, quality operators mitigating risks associated with senior housing, the senior housing market has a strong outlook for market fundamentals and is projected to provide solid and relatively stable returns.

Results of Operations

In 2013 we completed phase one of our transition strategy - disposing of the industrial real estate. The second phase of our transition strategy, acquiring the healthcare real estate assets, commenced mid-2012 and will continue going forward. The third phase of our transition strategy will be to grow our Company primarily by attracting and securing third party equity. We started 2013 owning nine industrial properties and five healthcare properties. However, during that year, we sold the remaining industrial properties (see Note 12 to the accompanying Notes to Consolidated Financial Statements). The proceeds were used to pay-off industrial debt and acquire several properties (see Note 3 to the accompanying Notes to Consolidated Financial Statements).

Since we completed our transition to healthcare properties and sold all remaining industrial properties, the manner in which we report our operations has changed. Healthcare operations will be reported as continuing operations while all industrial operations have been reclassified and reported as held for sale on our balance sheet and discontinued operations on our statement of operations for all periods presented.

During 2013, we owned healthcare and industrial real estate properties which represents two reportable business segments for management and internal financial reporting purposes. This represents two segments for which separate financial information is available and for which operating results are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. However, since all of our industrial properties were sold by the end of 2013, the industrial operations are reported as Discontinued Operations for all periods presented. In 2014, we operated in one reportable business segment: healthcare.

Until April 1, 2014 and subject to certain restrictions and limitations, our business was managed pursuant to an advisory agreement, as amended, (the "Advisory Agreement") with CRA. Beginning April 1, 2014, we became self-managed and hired employees to directly manage our operations.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

	Years Ended December 31,			
	2014	**2013**	**$ Change**	**% Change**
Rental revenues, tenant reimbursements & other income	$ 7,789,000	$ 6,686,000	$ 1,103,000	16.5%
Resident services and fee income	5,626,000	—	5,626,000	—%
Total Revenues	13,415,000	6,686,000	6,729,000	100.0%
Less expenses:				
Property operating costs	(1,684,000)	(766,000)	(918,000)	(119.8)%
Resident services costs	(4,655,000)	—	(4,655,000)	—%
Net operating income [(1)]	7,076,000	5,920,000	1,156,000	19.5%
Interest income from notes receivable	5,000	50,000	(45,000)	(90.0)%
General and administrative	(3,949,000)	(3,352,000)	(597,000)	17.8%
Asset management fees and expenses	(205,000)	(1,080,000)	875,000	(81.0)%
Real estate acquisition costs	—	(522,000)	522,000	(100.0)%
Recovery of (reserve for) excess advisor obligation	(189,000)	125,000	(314,000)	(251.2)%
Depreciation and amortization	(3,998,000)	(2,340,000)	(1,658,000)	70.9%
Interest and other expense and income, net	(3,128,000)	(2,180,000)	(948,000)	43.5%
Loss from continuing operations	(4,388,000)	(3,379,000)	(1,009,000)	29.9%
(Loss) income from discontinued operations	(226,000)	1,509,000	(1,735,000)	(115.0)%
Net loss	(4,614,000)	(1,870,000)	(2,744,000)	146.7%
Noncontrolling interests' share in losses	837,000	980,000	(143,000)	(14.6)%
Net loss applicable to common stockholders	$ (3,777,000)	$ (890,000)	$ (2,887,000)	324.4%

(1) Net operating income ("NOI") is a non-GAAP supplemental measure used to evaluate the operating performance of real estate properties. We define NOI as total rental revenues, tenant reimbursements and other income less property operating and maintenance expenses. NOI excludes interest income from notes receivable, general and administrative expense, asset management fees and expenses, real estate acquisition costs, depreciation and amortization, impairments, interest income, interest expense, and income (loss) from discontinued operations. We believe NOI provides investors relevant and useful information because it measures the operating performance of the REIT's real estate at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess and compare property-level performance. We believe that net income (loss) is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income (loss) as defined by GAAP since it does not reflect the aforementioned excluded items. Additionally, NOI as we define it may not be comparable to NOI as defined by other REITs or companies, as they may use different methodologies for calculating NOI.

Total rental revenue for our healthcare properties includes rental revenues and tenant paid and/or reimbursements for property taxes and insurance. Property operating expenses include insurance, property taxes and other operating expenses. Resident services and fee income and resident services costs are generated from Friendship Haven, our wholly-owned TRS, which began operations on May 1, 2014. Net operating income increased to approximately $7.1 million for the year ended December 31, 2014 from $5.9 million for the year ended December 31, 2013 primarily due to the revenue derived from the TRS, 2014 healthcare acquisitions and owning the 2013 acquisitions for a full year in 2014.

Interest income from notes receivable decrease is due to the Servant Healthcare Investments, LLC note paid in full on May 2, 2014.

General and administrative expense was $3.9 million for the year ended December 31, 2014 and $3.4 million for the year ended December 31, 2013. The increase was primarily due to increases in employee payroll expenses of $1.0 million, legal fees of $0.8 million and professional fees of $0.2 million, offset by lower audit and tax fees of $0.3 million and lower advisor fees of $1.3 million due to the termination of the Advisory Agreement in April 2014.

Asset management fees were $0.2 million for the year ended December 31, 2014 and $1.1 million for December 31, 2013. Asset management fee and expense decreases are due to the termination of the Advisory Agreement in April 2014.

Real estate acquisition costs decreased in 2014 due to acquisition costs paid to the former advisor for the purchase of properties in 2013. Due to the termination of the Advisory Agreement in April 2014, we no longer pay acquisition fees for new property purchases.

As the Advisory Agreement was terminated on April 1, 2014, for the years ended December 31, 2014 and 2013, the following is a reconciliation of the fees paid to CRA that will no longer be incurred:

Years Ended December 31,	**2014**	**2013**
Organizational and offering costs	$ -	$ 125,000
Acquisition fees	-	522,000
Asset management fees	206,000	1,080,000
Property management fees	42,000	163,000
Leasing fees	-	1,204,000
Disposition fees	-	616,000
	$ 248,000	$ 3,710,000

Reserve for excess advisor obligation represents organizational and offering costs incurred in excess of 3.5% limitation of the gross proceeds from our follow-on offering which terminated on June 10, 2012 (See Note 9 to the accompanying Notes to Consolidated Financial Statements). The Advisory Agreement provides that CRA will reimburse any excess costs that were paid by us. In 2012, we recorded a receivable for the excess of $1.0 million which we fully reserved for based on our evaluation of CRA’s ability to repay at that time. At December 31, 2014, we increased our reserve by $0.2 million for additional excess operating expenses paid to CRA in prior periods. The 2013 credit of $0.1 million represents the additional amount collected in 2013 from CRA which is recognized as collected and was previously reserved.

Depreciation and amortization increases are due to the timing of our healthcare property acquisitions. We owned 16 healthcare properties in 2014 as opposed to 11 properties in 2013.

Interest, other expense and income increases in 2014 are primarily due to the write-off of the deferred financing cost for GE and The PrivateBank Loans' due to HUD-insured financing through Lancaster Pollard and also interest expense for new loans on the new properties acquired in 2014.

The loss from discontinued operations in 2014 represents the Sherburne Commons net loss where the 2013 net income from discontinued operations represents the results of operations for properties that were held for sale or sold in 2013.

Liquidity and Capital Resources

Going forward, we expect our primary sources of cash to be rental revenues, tenant reimbursements, joint venture equity and refinancing of existing debt. In addition, we may increase cash through the sale of additional properties, which may result in the deconsolidation of properties we already own, or borrowing against currently-owned properties. For the foreseeable future, we expect our primary uses of cash to be for the repayment of principal on loans payable, funding future acquisitions, operating expenses, and interest expense on outstanding indebtedness.

As of December 31, 2014, we had approximately $4.4 million in cash and cash equivalents on hand. Our liquidity will increase if cash from operations exceeds expenses, additional shares are offered, we receive net proceeds from the sale of whole or partial interest in a property or if refinancing results in excess loan proceeds and decrease as proceeds are expended in connection with the acquisitions, and operation of properties. Based on current conditions, we believe that we have sufficient capital resources for the next twelve months.

Credit Facilities and Loan Agreements

As of December 31, 2014, we had debt obligations of approximately $78.8 million. The outstanding balance by loan agreement is as follows:

- The PrivateBank and Trust Company – approximately $7.3 million maturing January 2016,
- The PrivateBank and Trust Company – approximately $9.1 million maturing September 2017,
- GE Capital – approximately $6.4 million maturing September 2017,
- GE Capital – approximately $5.8 million maturing July 2018,
- GE Capital – approximately $13.4 million maturing December 2017,
- Lancaster Pollard (HUD) – approximately $24.2 million maturing from September 2039 through December 2049, and
- Lancaster Pollard (HUD) – approximately $12.6 million maturing December 2049

Short-Term Liquidity Requirements

In addition to the capital requirements for recurring capital expenditures, we may incur expenditures for future healthcare acquisitions and/or renovations of our existing properties, such as increasing the size of the properties by developing additional rentable square feet and/or making the space more appealing.

As of December 31, 2014, all the industrial properties have been sold and Sherburne Commons, Nantucket, was sold in January 2015 (see Note 14 to the accompanying Notes to Consolidated Financial Statements). We continue to pursue options for repaying and/or refinancing debt obligations. We believe that conditions may be acceptable to raise money through joint venture arrangements although there can be no assurances that any such transactions will have terms acceptable to us or will be consummated.

In recent years, financial markets have experienced unusual volatility and uncertainty and liquidity has tightened in all financial markets, including the debt and equity markets. Our ability to repay or refinance debt could be adversely affected by an inability to secure financing at reasonable terms, if at all.

Beginning April 1, 2014, we became self-managed. We believe that on an intermediate to long-term basis, becoming a self-managed REIT will create numerous opportunities for cost savings as compared to the overhead reimbursement and fee structure under our former Advisory Agreement. However we did incur incremental costs in the short term as a result of the transition.

Distributions

Effective June 2011, we suspended the declaration of further distributions. No distributions have been declared for periods after June 30, 2011. The rate and frequency of distributions is subject to the discretion of our board of directors and may change from time to time based on numerous factors, including operating results and cash flow.

Organization and Offering Costs

Please see Note 9 to the accompanying Notes to Consolidated Financial Statements for a detailed discussion of organization and offering costs.

Other than the financial market conditions discussed above and market conditions discussed under the caption "Market Outlook—Senior Housing," we are not aware of any material trends or uncertainties, favorable or unfavorable, affecting real estate generally, which we anticipate may have a material impact on either capital resources or the revenues or income to be derived from the operation of real estate properties.

Election as a REIT

We elected to be taxed as a REIT under the IRC of 1986, as amended, in 2006. Under the IRC of 1986, we are not subject to federal income tax on income that we distribute to our stockholders. REITs are subject to numerous organizational and operational requirements in order to avoid taxation as a regular corporation, including a requirement that they generally distribute at least 90% of their annual ordinary taxable income to their stockholders. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Our failure to qualify as a REIT could result in us having a significant liability for taxes.

Other Liquidity Needs

Property Acquisitions

Our ability to purchase properties over the next twelve months is dependent on our ability to raise additional equity capital through joint ventures or other capital raise opportunities.

Debt Service Requirements

Please refer to Note 10 to the accompanying Consolidated Financial Statements for a detailed discussion of our debt.

Off-Balance Sheet Arrangements

There are no off-balance sheet transactions, arrangements or obligations (including contingent obligations) that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Inflation

Although the real estate market has not been affected significantly by inflation in recent years, we expect that the contractual rent escalations in our tenants' triple net leases will protect us to some extent from the impact of inflation. Our ongoing ability to include provisions in the leases that protect us against inflation is subject to competitive conditions that vary from market to market.

Subsequent Events

Please refer to Note 14 in the accompanying Notes to Consolidated Financial Statements for a detailed discussion of our subsequent events.

Critical Accounting Policies

The preparation of financial statements in accordance with GAAP, requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe that our critical accounting policies are those that require significant judgments and estimates such as those related to real estate purchase price allocation, evaluation of possible impairment of real property assets, valuation of receivables, and income taxes. These estimates are made and evaluated on an on-going basis using information that is currently available as well as various other assumptions believed to be reasonable under the circumstances. Actual results could vary from those estimates, perhaps in materially adverse ways, and those estimates could be different under different assumptions or conditions. Our significant accounting policies are described in more detail in Note 2 to the accompanying Notes to Consolidated Financial Statements. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments.

Real Estate Purchase Price Allocation and Useful Lives

Upon acquisition of a property, we allocate the purchase price of the property based upon the fair value of the assets acquired, which generally consist of land, buildings, site improvements, furniture and fixtures. We allocate the purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the assets to determine the appropriate useful lives.

Impairment of Real Property Assets

An assessment as to whether our investments in real estate are impaired is highly subjective. Impairment calculations, which can be based on undiscounted or discounted cash flow analyses, involve management's best estimate of the holding period, market comparables, future occupancy levels, rental rates, capitalization rates, lease-up periods and capital requirements for each property at the point in time when a valuation analysis is performed. On a quarterly basis, we review our properties for recoverability when events or circumstances, including significant physical changes in the property, significant adverse changes in general economic conditions and significant deteriorations of the underlying cash flows of the property, indicate that the carrying amount of the property may not be recoverable. The need to recognize an impairment charge is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment charge is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property. A change in any one or more of these factors could materially impact whether a property is impaired as of any given valuation date.

While we recorded no impairment charges as of December 31, 2014 for properties held and used, we performed Step 1 tests on two of our properties. Neither of these properties required a Step 2 test.

Valuation of Receivables

We recognize resident services and fees as services are provided in cases where we serve as the licensed operator (we are currently the licensed operator of Friendship Haven, under Friendswood TRS). We derive revenues primarily from Medicare, Medicaid and other government programs. Amounts paid under these government programs are subject to legislative and government budget constraints. From time to time, there may be material changes in government reimbursement. We estimate allowances for uncollectible amounts and contractual allowances based upon factors which include, but are not limited to, the age of the receivable and the terms of the agreements, the residents' or third party payers' stated intent to pay, the payers' financial capacity to pay and other factors. We periodically review and revise these estimates based on new information and these revisions may be material (see Note 2 to the accompanying Notes to Consolidated Financial Statements.).

Income Taxes

We have elected to be taxed as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 2006. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to currently distribute at least 90% of the REIT's ordinary taxable income to stockholders. No distributions were declared or paid in 2014 or 2013. We believe that we are organized and operate in such a manner as to qualify for treatment as a REIT, and we intend to operate in the foreseeable future in such a manner so that we will remain qualified as a REIT in subsequent tax years for federal income tax purposes.

New Accounting Pronouncements

Please see Note 2 to the accompanying Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the index included at Item 15. Exhibits and Financial Statement Schedules.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management, under the supervision of our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), periodically evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our senior management, including our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), as appropriate, to allow timely decisions regarding required disclosure. Based upon this evaluation, as of December 31, 2014, our President (Principal Executive Officer) and our Chief Financial Officer (Principal Financial Officer) have concluded that these disclosure controls and procedures are effective.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's Report on Internal Control over Financial Reporting

Our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13(a)-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our President and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on their evaluation, our President (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) have concluded that we maintained effective internal control over financial reporting as of December 31, 2014.

This report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting As a smaller reporting company, management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Board of Directors

Our Board of Directors (our "Board") is currently comprised of three members, Messrs. Johnson, Danchik and Roush, each of whom is an independent director.

Daniel Johnson, age 59, serves on the Audit, Independent Directors, Compensation, and Investment committees. Mr. Johnson chairs the Independent Director committee. Mr. Johnson's terms on the Board and the committees noted above expire on the date of the 2015 Annual Meeting. He served until 2008 as the Senior Vice President of Sales for InfoSpan, Inc., a company that he co-founded in 2003 to develop and operate customer interaction centers for U.S. and Canadian-based corporations. InfoSpan conducted operations in Mexico, Canada and the Indian sub-continent. From 2000 to 2003, Mr. Johnson was the President of Rutilus Software, Inc., a developer of disk-based storage software. Prior to 2000, Mr. Johnson spent 14 years with Toshiba America where he was Vice President of OEM Sales. In this capacity he was responsible for worldwide sales for products within his Division of Toshiba America. Mr. Johnson earned a Bachelor of Arts degree from Southern Illinois University.

Mr. Johnson's 25 years of corporate and entrepreneurial experience in sales, customer service and operations in the United States and abroad provide the Board with valuable insight in the area of capital raising, which is critical to our success. Mr. Johnson is also able to apply knowledge and perspective developed through years of experience with developing, evaluating and executing business plans and strategy in a diverse range of business contexts, from startups to large corporations. Furthermore, Mr. Johnson's management and entrepreneurial experience are valuable strengths.

Paul Danchik, age 64, serves on the Audit, Independent Directors, Compensation, and Investment committees. Mr. Danchik chairs the Compensation and Investment committees. Mr. Danchik's terms on the Board and the committees noted above expire on the date of the 2015 Annual Meeting. Mr. Danchik retired in 2003 as Senior Vice President for Warner Media Services, a division of Time Warner, Inc. Mr. Danchik was a member of the Executive Management Team of Warner Media Services and was responsible for their Consumer Products Division. Mr. Danchik began his career with Ivy Hill Packaging in 1973, which was acquired by Time Warner, Inc. in 1989. From 2005-2009, Mr. Danchik served in various development roles for Acres of Love, a non-profit organization licensed in South Africa that operates homes to rescue and care for vulnerable children living with or affected by HIV/AIDS, and Mr. Danchik currently serves on the Acres of Love Board of Directors. Mr. Danchik earned a Bachelor of Science Degree in Business Administration from the University of La Verne and graduated from the Master's Program, an executive leadership course. Mr. Danchik also holds a current California State Real Estate license.

Mr. Danchik brings to the Board over 30 years of demonstrated management ability, and he is a well-rounded business executive with financial, legal, sales and operations exposure at senior levels. Mr. Danchik also has extensive board service experience. His service on our Board since 2006 provides him with knowledge and perspective regarding our operations and investments and, recently, he participated in the strategic decision process to reposition the REIT from its' ownership of Industrial properties and to alternatively acquire Healthcare properties. In addition, he has served on the boards of directors for several non-profit organizations and participated in a number of formal seminars designed to promote effective board governance skills. In the course of his career, Mr. Danchik has cultivated strong communication and consensus building skills, which are assets to our Board.

J. Steven Roush, CPA, age 68, serves on the Audit, Independent Directors, Compensation and Investment Committees. Mr. Roush chairs the Audit Committee. Mr. Roush's terms on the Board and the Committee noted above on the date of the 2015 Annual Meeting. Mr. Roush retired from PricewaterhouseCoopers in 2007 after 39 years, 30 of those as a Partner. Mr. Roush brings experience in a diverse number of industries ranging from manufacturing, non-profits and retail (restaurants) with a concentration in real estate, (office, residential, hospitality and commercial) telecommunications and pharmaceutical. He has a background in dealing with both private and public company boards of directors. Mr. Roush has a Bachelor of Science Degree in Accounting from Drake University and Professional Director Certification from the American College of Corporate Directors.

Mr. Roush brings to the Board years of dealing with the SEC and its various regulatory filings, Sarbanes Oxley (SOX 404) implementation and maintenance and the experience of working with many diverse boards running across varied industries. Over the years, he has served as an office managing partner, an SEC review Partner (over 20 years) and a Risk Management Partner. Mr. Roush currently serves as a member of the board and Chairman of the Audit Committee of AirTouch Communications, Inc., a public telecommunications device company. He is also a member of the Board and Chairman of the Audit Committee of W.E. Hall Company, a privately held manufacturer and distributor of corrugated pipe and related drainage products. Mr. Roush is also on the Board of Trustees and Chairman of the Audit Committee of the Orange County Museum of Art and had previously served on the Audit Committee of the National American Heart Association Our Board has determined that Mr. Roush satisfies the SEC's requirements of an "audit committee financial expert."

Executive Officers

Mr. Kent Eikanas is our President and Chief Operating Officer. Our Chief Financial Officer and Treasurer is Ms. Elizabeth Pagliarini. Mr. Peter Elwell was our Vice President throughout 2014 and is currently our Chief Investment Officer.

Kent Eikanas, age 45, currently serves as our President and Chief Operating Officer. From 2008 to 2012, Mr. Eikanas served as Vice President of Senior Housing for Granite Investment Group ("**Granite**"), where he closed over $100 million in senior housing real estate refinances, dispositions and acquisitions. In addition, Mr. Eikanas managed over $700 million in senior housing assets. Mr. Eikanas was a key contributor to the launch of a skilled nursing operating company based in Dallas, Texas, while at Granite and helped the operating company grow from 14 facilities to 35 facilities. From 2003 to 2008, Mr. Eikanas was the Vice President of Acquisitions for a private real estate company and closed over $200 million in senior housing real estate. Mr. Eikanas has overseen licensing for skilled nursing facilities, assisted living facilities and memory care facilities in California, Texas, Rhode Island, Oregon and Pennsylvania. Mr. Eikanas graduated from California State University Sacramento with a Bachelor of Arts Degree in Psychology and a minor in Business Administration.

Elizabeth Pagliarini, age 44, currently serves as our Chief Financial Officer and Treasurer. Since 2008, Ms. Pagliarini has served as a principal at The Elizabeth Group, a company she founded to provide out-sourced chief financial officer services to registered investment advisers and broker-dealers, as well as services relating to securities litigation consulting. From 2005 to 2008, Ms. Pagliarini served as chief financial officer and chief compliance officer of an investment bank. Prior to that, she founded a boutique investment bank and registered broker-dealer, and served as chief executive officer and chairwoman of a Nasdaq-listed investment brokerage subsidiary. Ms. Pagliarini received her B.S. in Business Administration with a concentration in Finance from Valparaiso University where she was honored with their highest academic award, the Presidential Scholarship. She is also a Certified Fraud Examiner (CFE) and has studied law and forensic accounting at UCLA. Ms. Pagliarini proudly serves on the Emeritus Board of Directors for Forever Footprints, a non-profit organization that provides support to families that have suffered the loss of a baby during pregnancy or infancy and educates the medical community to improve quality of care and response.

Peter Elwell, age 41, currently serves as our Chief Investment Officer, where he focuses on the sourcing, underwriting, acquisition and asset management of senior housing facilities. From 2008 through 2011, Mr. Elwell ran a consulting practice providing advice to small business and start-up clients primarily on financial and capital raising matters. From 2002 to 2005, Mr. Elwell was a Vice President at PRIMEDIA, Inc., where he focused on mergers, acquisitions and divestitures. In 2005, Mr. Elwell was appointed CFO of the Company's digital division, overseeing all financial aspects of the company's 70 online brands. Mr. Elwell also held senior accounting and finance positions at KPMG and The Walt Disney Company. Mr. Elwell is a Certified Public Accountant and a CFA Charterholder.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act, requires each director, officer and individual beneficially owning more than 10% of a registered security of us to file initial statements of beneficial ownership (Form 3) and statements of changes in beneficial ownership (Forms 4 and 5) of common stock of us with the SEC. Based solely upon our review of copies of these reports filed with the SEC and written representations furnished to us by our officers and directors, we believe that all of the persons subject to the Section 16(a) reporting requirements filed the required reports on a timely basis with respect to fiscal year 2014.

Code of Business Conduct and Ethics

Our Board has adopted a Code of Business Conduct and Ethics that is applicable to all members of our Board and our executive officers. The Code of Business Conduct and Ethics can be accessed through our website: www.Summithealthcarereit.com.

Audit Committee

The Board has a standing Audit Committee that selects the independent public accountants that audit our annual financial statements, reviews the plans and results of the audit engagement with the independent public accountants, approves the audit and non-audit services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees and reviews the adequacy of our internal accounting controls. The current members of the Audit Committee are J. Steven Roush, Paul Danchik and Daniel Johnson. J. Steven Roush serves as the Chairman of the Audit Committee and satisfies the SEC's requirements of an "audit committee financial expert."

ITEM 11. EXECUTIVE COMPENSATION

Executive Compensation

The following table provides certain information concerning compensation for services rendered in all capacities by our named executive officers during the fiscal years ended December 31, 2014 and 2013.

Name and Principal Position	Year	Salary	Bonus	Total
Kent Eikanas				
President & Chief Operating Officer	2014	$ 252,500	$ 114,137	$ 366,637
	2013	$ 56,597[1]	$ —	$ 56,597
Elizabeth Pagliarini				
Chief Financial Officer and Treasurer [3]	2014	$ 97,500	$ 20,000	$ 117,500
	2013	$ —	$ —	$ —
Peter Elwell [4]				
Chief Investment Officer	2014	$ 157,875	$ 39,827	$ 197,702
	2013	$ —	$ —	$ —
Dominic Petrucci				
Former Interim Chief Financial Officer and Treasurer	2014	$ 243,000[2]	$ —	$ 243,000
	2013	$ 20,000[2]	$ —	$ 20,000

(1) Reimbursements for our executive officer's salary includes a 7% surcharge intended to cover our allocable portion of such executive officers benefits and payroll expenses and taxes paid by Cornerstone Realty Advisors, LLC ("CRA"), our former advisor and its affiliates for 2013 and through March 31, 2014. Effective April 1, 2014 salaries were paid by the Company.

(2) Appointed effective November 1, 2013. Mr. Petrucci reported directly to the Board. The amounts shown reflect consultation service fees made by us. Mr. Petrucci resigned as our interim Chief Financial Officer and was replaced by Ms. Elizabeth Pagliarini in September 2014.

(3) Ms. Elizabeth Pagliarini was hired as Controller in June 2014 and appointed Chief Financial Officer effective September 1, 2014.

(4) Mr. Peter Elwell was previously Vice President and appointed Chief Investment Officer effective January 1, 2015.

There are currently no employment agreements with any of the above named officers.

Director Compensation

The following table provides certain information concerning compensation of the directors during the fiscal year ended December 31, 2014.

Name	Fees Earned or Paid in Cash
Paul Danchik	$ 105,000
Daniel Johnson	$ 107,000
J. Steven Roush	$ 4,333

The amount and form of compensation payable to our directors for their service to us is determined by the compensation committee of our Board, based in part on their evaluation of third party board compensation information.

During 2014, we paid each of our independent directors as follows:

- A $60,000 annual retainer, to be pro rata paid twice monthly ($15,000 per director per quarter);
- A Board meeting fee of $3,000 per meeting for each regularly scheduled Board meeting ($3,000 per director per quarter) (which was reduced to $2,000 per director per quarter, effective as of February 26, 2015);
- Special Board meeting fee of $1,000 per meeting, per director, which will apply to any Board meeting called by an officer of the Company that is not a regular scheduled Board meeting;
- Committee fees of $1,000 per committee meeting duly called by an officer of the Company (approximately $1,000 per director per quarter, plus other meetings); and
- An additional committee chair fee of $500 for the Audit Committee for each duly called meeting ($500 per chair per quarter).

All directors are reimbursed for all reasonable out-of-pocket expenses incurred in connection with attendance at meetings of the Board and committees. Consistent with the Board's expectations, total director compensation for 2014 was significantly less than it was for 2013.

Employee and Director Incentive Stock Plan

We previously adopted an Employee and Director Incentive Stock Plan (the "Incentive Stock Plan") which provided for the grant of awards to directors, full-time employees, and other eligible participants that provide services to us.

The purpose of the Incentive Stock Plan was to: (i) provide incentives to individuals who are granted stock awards because of their ability to improve our operations and increase profits; (ii) encourage selected persons to accept or continue employment with us; and (iii) increase the interest of directors in our success through their participation in the growth in value of our stock.

Through March 31, 2014, we had no employees, and only granted awards under the Incentive Stock Plan to our directors. Awards granted under the Incentive Stock Plan could consist of nonqualified stock options, incentive stock options, restricted stock, share appreciation rights, and distribution equivalent rights. The total number of shares of common stock reserved for issuance under the Incentive Stock Plan was equal to 10% of our outstanding shares of stock at any time. Outstanding stock options were immediately exercisable in full on the grant date, expire ten years after their grant date, and had no intrinsic value as of December 31, 2014.

The Incentive Stock Plan expired on December 31, 2014.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

Our equity compensation plan information as of December 31, 2014 and 2013 is as follows**:**

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	40,000	$ 8.00	See footnote(1)
Equity compensation plans not approved by security holders	—	—	—
Total	40,000	$ 8.00	See footnote(1)

(1) Our Employee and Director Incentive Stock Plan was approved by our security holders and provides that the total number of shares issuable under the plan is a number of shares equal to ten percent (10%) of our outstanding common stock. The maximum number of shares that may be granted under the plan with respect to "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code is 5,000,000. As of December 31, 2014 and 2013, there were approximately 23.0 million shares of our common stock issued and outstanding.

OWNERSHIP OF EQUITY SECURITIES

The following table sets forth information as of March 20, 2015, regarding the beneficial ownership of our common stock by each person known by us to own 5% or more of the outstanding shares of common stock, each of our directors, each of our named executive officers, and our directors and executive officers as a group. The percentage of beneficial ownership is calculated based on 23,028,014 shares of common stock outstanding as of March 20, 2015.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership [1]	Percentage of Class
Kent Eikanas	None	*
Elizabeth Pagliarini	None	*
Peter Elwell	None	*
Paul Danchik[2]	20,000	*
Daniel Johnson[2]	20,000	*
J. Steven Roush	None	*
All current directors and executive officers as a group (6 persons)	40,000	*

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities and shares issuable pursuant to options, warrants and similar rights held by the respective person or group that may be exercised within 60 days following March 20, 2015. Except as otherwise indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. None of the securities listed are pledged as security.

(2) Consists of shares of common stock underlying options that are immediately exercisable.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Our Relationships with CRA, our former advisor

On March 17, 2014 we delivered written notice to CRA, our advisor, terminating the Advisory Agreement effective May 16, 2014. We attempted to effectuate an orderly transition with CRA. However, on April 1, 2014, CRA and certain of its affiliates filed suit in Orange County (CA) Superior Court containing assertions against the Company, its directors and officers. The filing of this claim effectively accelerated termination of the Advisory Agreement as of April 1, 2014. Cornerstone Industrial Properties, LLC is the sole member of CRA. Cornerstone Ventures, Inc. ("CVI") is the managing member of Cornerstone Industrial Properties, LLC. Terry G. Roussel, our former Chairman, President and Chief Executive Officer, is the majority shareholder of CVI. The fees that we paid to CRA are summarized below.

- During the fiscal year ended December 31, 2014 and 2013, CRA earned approximately $0 and $0.5 million respectively in acquisition fees from us and did not incur any acquisition expenses on our behalf.
- During the year ended December 31, 2014 and 2013, CRA earned approximately $0.2 million and $0.8 million respectively in asset management fees and expenses from us.
- For the year ended December 31, 2014 and 2013, we reimbursed CRA for approximately $0.2 million and $1.6 million, respectively, for operating expenses allocated to us.
- For the year ended December 31, 2014 and 2013, property management fees paid to CRA was $42,000 and $0.2 million, respectively.
- For the year ended December 31, 2014 and 2013, leasing fees paid by us to CRA was $0 and $1.2 million, respectively.
- During the year ended December 31, 2014 and 2013, CRA earned approximately $0 and $0.6 million, respectively, in property disposition fees from us.

- During the year ended December 31, 2014, we did not pay any subordinated participation in net sales proceeds, subordinated termination fees due upon termination, or subordinated incentive listing fees to CRA or its affiliates. None of these fees have been earned, nor are we expected to be paid based upon Advisory Agreement termination and investment performance since inception.

Listing/Liquidation Stage Fees and Expenses

- Property disposition fees (payable to CRA or its affiliates), if CRA or its affiliates performed substantial services in connection with property sales, equal to an amount up to 3.0% of the price of the properties sold; provided that the total real estate commissions (including any property disposition fee payable to CRA or its affiliates) paid to all persons with respect to any property may not exceed an amount equal to the lesser of (i) 6.0% of the aggregate contract sales price of such property or (ii) the competitive real estate commission for such property.

- After stockholders had received cumulative distributions equal to $8 per share (less any returns of capital) plus cumulative, non-compounded annual returns on net invested capital, CRA would have been entitled to a subordinated participation in net sales proceeds ranging from a low of 5% of net sales proceeds; provided that investors earned annualized returns of 6%, to a high of 15% of net sales proceeds, if investors earned annualized returns of 10% or more. Based upon investment performance from inception to date and the termination of the Advisory Agreement, no incentive fee of this type has been paid or would be earned by CRA.

- Upon termination of the Advisory Agreement, CRA would have been entitled to receive the subordinated performance fee due upon termination, payable in the form of a promissory note. This fee ranges from a low of 5% of the amount by which the sum of the appraised value of our assets minus our liabilities on the date the Advisory Agreement is terminated plus total dividends (other than stock dividends) paid prior to termination of the Advisory Agreement exceeds the amount of invested capital plus annualized returns of 6%, to a high of 15% of the amount by which the sum of the appraised value of our assets minus our liabilities plus all prior dividends (other than stock dividends) exceeds the amount of invested capital plus annualized returns of 10% or more. Based upon investment performance from inception to date and the termination of the Advisory Agreement, no incentive fee of this type has been paid or would be earned by CRA.

- In the event that we list our stock for trading, CRA would have been entitled to receive a subordinated incentive listing fee instead of a subordinated participation in net sales proceeds. This fee ranges from a low of 5% of the amount by which the market value of our common stock plus all prior dividends (other than stock dividends) exceeds the amount of invested capital plus annualized returns of 6%, to a high of 15% of the amount by which the sum of the market value of our stock plus all prior dividends (other than stock dividends) exceeds the amount of invested capital plus annualized returns of 10% or more. Based upon investment performance from inception to date and the termination of the Advisory Agreement, no incentive fee of this type has been paid or would be earned by CRA.

- During the year ended December 31, 2014, we did not pay any subordinated participation in net sales proceeds, subordinated termination fees due upon termination, or subordinated incentive listing fees to CRA or its affiliates.

Other Transactions involving Affiliates

Sherburne Commons Mortgage Loan

On December 14, 2009, we made a participating first mortgage loan commitment of $8.0 million to Nantucket Acquisition LLC, a Delaware limited liability company managed by CVI, an affiliate of CRA, in connection with Nantucket Acquisition's purchase of a 60-unit senior living community known as Sherburne Commons located on the island of Nantucket, MA. The loan would have matured on January 1, 2015. Due to the borrower suspending their interest payments in the first quarter of 2011, we issued them a notice of default on June 30, 2011. On October 6, 2014, we foreclosed on the Sherburne Commons property, however we did not take possession of the property. In January 2015, we sold the property (see Note 14 to the accompanying Notes to Consolidated Financial Statements).

Director Independence

Our charter contains detailed criteria for determining the independence of our directors and requires a majority of the members of our Board to qualify as independent. The Board consults with our legal counsel to ensure that the Board's independence determinations are consistent with our charter and applicable securities and other laws and regulations. Consistent with these considerations, after reviewing all relevant transactions or relationships between each director, or any of his family members and the Company, our senior management and our independent registered public accounting firm, the Board has determined that each member of our Board has been determined to be independent. Furthermore, although our shares are not listed on a national securities exchange, our Board reasonably believes that each member of the Board and, thus, each member of the Board's Audit Committee, Independent Directors Committee, Compensation Committee and Investment Committee are independent under the NASDAQ listing standards.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table lists the aggregate fees billed for services rendered by BDO USA, LLP, our principal accountant, for 2014 and 2013:

Services	2014	2013
Audit Fees[(1)]	$ 260,000	$ 276,170
Tax Fees[(2)]	90,500	—
Total	$ 350,500	$ 276,170

[(1)]Audit fees billed in 2014 and 2013 consisted of the audit of our annual financial statements, reviews of our quarterly financial statements, consents, statutory and regulatory audits, financial accounting and reporting consultations and other services related to filings with the SEC.

[(2)]Tax services billed in 2014 and 2013 consisted of tax compliance and tax planning and advice which were 100% approved by the audit committee.

The Audit Committee pre-approves all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for us by our independent auditor, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act and the rules and regulations of the SEC which are approved by the Audit Committee prior to the completion of the audit.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS

(a)(1) Financial Statements

The following financial statements are included in a separate section of this Annual Report on Form 10-K commencing on the page numbers specified below:

Report of Independent Registered Public Accounting Firm (BDO USA, LLP)

Consolidated Balance Sheets as of December 31, 2014 and 2013

Consolidated Statements of Operations for the Years Ended December 31, 2014 and 2013

Consolidated Statements of Equity for the Years Ended December 31, 2014 and 2013

Consolidated Statements of Cash Flows for the Years Ended December 31, 2014 and 2013

Notes to Consolidated Financial Statements for the Years Ended December 31, 2014 and 2013

(2) Exhibits

The exhibits listed on the Exhibit Index (following the signatures section of this report) are included, or incorporated by reference, in this annual report.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Summit Healthcare REIT, Inc.
Lake Forest, California

We have audited the accompanying consolidated balance sheets of Summit Healthcare REIT, Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013 and the related consolidated statements of operations, equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit Healthcare REIT, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Costa Mesa, California
March 20, 2015

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	December 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 4,405,000	$ 10,538,000
Restricted cash	3,759,000	646,000
Real estate properties (certain assets held in variable interest entity see Note 3):		
Land	8,432,000	6,502,000
Buildings and improvements, net	84,428,000	63,358,000
Furniture and fixtures, net	5,862,000	5,454,000
Real estate properties, net	98,722,000	75,314,000
Notes receivable	132,000	208,000
Deferred costs and deposits	356,000	114,000
Deferred financing costs, net	1,453,000	1,023,000
Tenant and other receivables, net	2,599,000	1,173,000
Deferred leasing commissions, net	1,859,000	2,389,000
Other assets, net	657,000	299,000
Assets of variable interest entity held for sale	4,139,000	4,299,000
Total assets	$ 118,081,000	$ 96,003,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	$ 2,337,000	$ 972,000
Payable to related parties	—	175,000
Prepaid rent and deferred revenue	—	32,000
Security deposits	2,029,000	1,774,000
Liabilities (certain liabilities held in variable interest entity See Note 10):		
Loans payable, net of debt discounts	77,972,000	52,819,000
Liabilities of variable interest entity held for sale	2,700,000	2,769,000
Total liabilities	85,038,000	58,541,000
Commitments and contingencies and subsequent events (Note 14)		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding at December 31, 2014 and 2013		
Common stock, $0.001 par value; 290,000,000 shares authorized; 23,028,014 and 23,028,285 shares issued and outstanding at December 31, 2014 and 2013, respectively	23,000	23,000
Additional paid-in capital	117,226,000	117,226,000
Accumulated deficit	(80,873,000)	(77,096,000)
Total stockholders' equity	36,376,000	40,153,000
Noncontrolling interest	(3,333,000)	(2,691,000)
Total equity	33,043,000	37,462,000
Total liabilities and stockholders' equity	$ 118,081,000	$ 96,003,000

The accompanying notes are an integral part of these consolidated financial statements

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2014 and 2013

	2014	2013
Revenues:		
Rental revenues	$ 6,999,000	$ 6,120,000
Resident services and fee income	5,626,000	—
Tenant reimbursements and other income	790,000	566,000
Interest income from notes receivable	5,000	50,000
	13,420,000	6,736,000
Expenses:		
Property operating costs	1,684,000	766,000
Resident services costs	4,655,000	—
General and administrative	3,949,000	3,352,000
Asset management fees and expenses	205,000	1,080,000
Real estate acquisition costs	—	522,000
Depreciation and amortization	3,998,000	2,340,000
Reserve for (collection of) excess advisor obligation	189,000	(125,000)
	14,680,000	7,935,000
Operating loss	(1,260,000)	(1,199,000)
Other income and (expense):		
Other income	108,000	63,000
Interest expense	(3,236,000)	(2,243,000)
Loss from continuing operations	(4,388,000)	(3,379,000)
Discontinued operations:		
Loss from discontinued operations	(226,000)	(1,090,000)
Impairment of real estate	—	(3,368,000)
Gain on sales of real estate	—	5,967,000
Income (loss) income from discontinued operations	(226,000)	1,509,000
Net loss	(4,614,000)	(1,870,000)
Noncontrolling interests' share in losses	837,000	980,000
Net loss applicable to common stockholders	$ (3,777,000)	$ (890,000)
Basic and diluted (loss) income per common share		
Continuing operations applicable to common stockholders	$ (0.19)	$ (0.15)
Discontinued operations	0.03	0.11
Net loss applicable to common stockholders	$ (0.16)	$ (0.04)
Weighted average shares used to calculate basic and diluted net loss per common share	23,028,014	23,028,285

The accompanying notes are an integral part of these consolidated financial statements

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
For the Years Ended December 31, 2014 and 2013

	Common Stock						
	Number of Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity	Noncontrolling Interests	Total
BALANCE — January 1, 2013	**23,028,285**	**$ 23,000**	**$ 117,226,000**	**$ (76,206,000)**	**$ 41,043,000**	**$ (2,286,000)**	**$ 38,757,000**
Dividends paid to noncontrolling interests	—	—	—	—	—	(109,000)	(109,000)
Noncontrolling interest contribution	—	—	—	—	—	684,000	684,000
Net loss	—	—	—	(890,000)	(890,000)	(980,000)	(1,870,000)
BALANCE — December 31, 2013	**23,028,285**	**23,000**	**117,226,000**	**(77,096,000)**	**40,153,000**	**(2,691,000)**	**37,462,000**
Surrendered shares	(271)	—	—	—	—	—	—
Dividends paid to noncontrolling interests	—	—	—	—	—	(62,000)	(62,000)
Noncontrolling interest contribution	—	—	—	—	—	257,000	257,000
Net loss	—	—	—	(3,777,000)	(3,777,000)	(837,000)	(4,614,000)
BALANCE — December 31, 2014	**23,028,014**	**$ 23,000**	**$ 117,226,000**	**$ (80,873,000)**	**$ 36,376,000**	**$ (3,333,000)**	**$ 33,043,000**

The accompanying notes are an integral part of these consolidated financial statements

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net loss	$ (4,614,000)	$ (1,870,000)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Amortization of deferred financing costs and debt discounts	186,000	166,000
Depreciation and amortization	3,641,000	2,846,000
Straight line rents	(592,000)	(659,000)
Bad debt expense	111,000	7,000
Impairment of real estate	—	3,368,000
Write-off of lease commission, deferred financing costs and other assets, net	586,000	1,049,000
Gain on sales of real estate	—	(5,967,000)
Change in operating assets and liabilities:		
Tenant and other receivables, net	(1,021,000)	162,000
Other assets, net	(167,000)	254,000
Deferred leasing commissions	—	(1,386,000)
Prepaid rent and deferred revenue and security deposits	(425,000)	(133,000)
Deferred costs and deposits	—	21,000
Payable to related parties	(171,000)	44,000
Accounts payable and accrued liabilities	1,397,000	472,000
Net cash and cash equivalents used in operating activities	(1,069,000)	(1,626,000)
Cash flows from investing activities:		
Restricted cash	(3,113,000)	(321,000)
Real estate acquisitions and capitalized costs	(26,513,000)	(37,695,000)
Deferred acquisition costs	(225,000)	(113,000)
Real estate improvements	(409,000)	(54,000)
Proceeds from note receivable, net	76,000	700,000
Proceeds from real estate dispositions	—	46,026,000
Net cash and cash equivalents (used in) provided by investing activities	(30,184,000)	8,543,000
Cash flows from financing activities:		
Proceeds from issuance of loans payable	58,567,000	24,525,000
Security deposits received, net	628,000	327,000
Payments of loans payable	(33,514,000)	(22,004,000)
Non-controlling interest contribution	257,000	684,000
Distributions paid to non-controlling interests	(62,000)	(109,000)
Deferred financing costs	(844,000)	(745,000)
Net cash and cash equivalents provided by financing activities	25,032,000	2,678,000
Net (decrease) increase in cash and cash equivalents	(6,221,000)	9,595,000
Cash and cash equivalents — beginning of period	10,662,000	1,067,000
Cash and cash equivalents – ending of period (including cash of VIE)	4,441,000	10,662,000
Cash and cash equivalents of VIE held for sale – end of period (see Note 7)	(36,000)	(124,000)
Cash and cash equivalents – end of period	$ 4,405,000	$ 10,538,000
NON CASH INVESTING AND FINANCING		
Supplemental disclosure of cash flow information:		
Cash paid for interest:	$ 2,720,000	$ 2,420,000

The accompanying notes are an integral part of these consolidated financial statements

SUMMIT HEALTHCARE REIT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2014 and 2013

1. Organization

Summit Healthcare REIT, Inc., a Maryland Corporation, was formed on October 22, 2004 under the General Corporation Law of Maryland for the purpose of engaging in the business of investing in and owning commercial real estate. As used in this report, the "Company", "we", "us" and "our" refer to Summit Healthcare REIT, Inc. and its consolidated subsidiaries (including variable interest entities) except where the context otherwise requires. Until April 1, 2014 and subject to certain restrictions and limitations, our business was managed pursuant to an advisory agreement, as amended (the "Advisory Agreement") with Cornerstone Realty Advisors, LLC ("CRA"), which was terminated on April 1, 2104. Beginning April 1, 2014, the Company became self-managed and has employees to directly manage its operations.

Generally, we conduct substantially all of our operations through Summit Healthcare Operating Partnership, L.P. (the "Operating Partnership") (formerly Cornerstone Operating Partnership L.P.), a Delaware limited partnership, which was formed on November 30, 2004. At December 31, 2014, we own a 99.88% general partner interest in the Operating Partnership while CRA owns a 0.12% limited partnership interest. Our financial statements and the financial statements of the Operating Partnership are consolidated in the accompanying consolidated financial statements. These financial statements include consolidation of a variable interest entity ("VIE") that is currently classified as held for sale (see Notes 7 and 14). All intercompany accounts and transactions have been eliminated in consolidation.

In 2012, we formed Cornerstone Healthcare Partners LLC ("CHP LLC") with Cornerstone Healthcare Real Estate Fund, Inc. ("CHREF"), an affiliate of CRA. We own 95% of CHP LLC, with the remaining 5% owned by CHREF. As CHP LLC's equity holders have voting rights disproportionate to their economic interests in the entity, CHP LLC is considered to be a VIE. We have a controlling financial interest in CHP LLC because we have the power to direct the activities of the VIE that most significantly impact its economic performance and we have the obligation to absorb the VIE's losses and the right to receive benefits from the VIE. Consequently, we are deemed to be the primary beneficiary of the VIE, and therefore have consolidated the operations of the VIE beginning in the third quarter of 2012.

During 2012, we acquired Sheridan Care Center, Fernhill Care Center, Farmington Square, Friendship Haven Healthcare and Rehabilitation Center ("Friendship Haven") and Pacific Health and Rehabilitation Center ("Pacific") healthcare properties (collectively, the "JV Properties") through CHP LLC. In the third quarter of 2013 and through March 31, 2014, as part of our strategy to raise new property level joint venture equity capital to support growth and diversify operator, geographic and other risks, CHP LLC sold a portion of its interests in the JV Properties to third party investors. Proceeds from the sale of interests in these JV Properties were $0.9 million as of December 31, 2014, of which we received $0.8 million and CHREF received $41,000. As such, as of December 31, 2014, we own an 89.0% interest in the JV Properties, CHREF owns a 4.7% interest and third party investors own 6.3%.

In May 2014, we formed a taxable REIT subsidiary ("Friendswood TRS") which became the licensed operator and tenant of Friendship Haven (see Note 3).

2. Summary of Significant Accounting Policies

The summary of significant accounting policies presented below is designed to assist in understanding our consolidated financial statements. Such consolidated financial statements and accompanying notes are the representations of our management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, or GAAP, in all material respects, and have been consistently applied in preparing the accompanying consolidated financial statements.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, CHP, LLC (of which the Company owns 95%) and Nantucket Acquisition LLC, a variable interest entity (see Notes 7 and 14). All intercompany accounts and transactions have been eliminated in consolidation.

The Financial Accounting Standards Board ("FASB") issued Accounting Standard Codification ("ASC") 810, *Consolidation*, which addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights and accordingly should consolidate the entity. Before concluding that it is appropriate to apply the voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity. We evaluate, as appropriate, our interests, if any, in joint ventures and other arrangements to determine if consolidation is appropriate.

Use of Estimates

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates on various assumptions that we believe to be reasonable under the circumstances, and these estimates form the basis for our judgments concerning the carrying values of assets and liabilities that are not readily apparent from other sources. We periodically evaluate these estimates and judgments based on available information and experience. Actual results could differ from our estimates under different assumptions and conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

Cash and Cash Equivalents

We consider all short-term, highly liquid investments that are readily convertible to cash with a maturity of three months or less at the time of purchase to be cash equivalents. As of December 31, 2014, we had cash accounts in excess of FDIC-insured limits. The Company does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash

Restricted cash represents cash held in interest bearing accounts related to impound reserve accounts for property taxes, insurance and capital improvements or commitments as required under the terms of mortgage loan agreements. Based on the intended use of the restricted cash, we have classified changes in restricted cash within the statements of cash flows as investing activities and the prior year presentation has been revised to conform to this classification.

Investments in Real Estate and Depreciation

We allocate the purchase price of our properties in accordance with ASC 805 – *Business Combinations*. If the acquisition does not meet the definition of a business, we record the acquisition as an asset acquisition. Under both methods, all assets acquired and liabilities assumed are measured at their acquisition date fair values. For transactions that are business combinations, acquisition costs are expensed as incurred and restructuring costs that do not meet the definition of a liability at the acquisition date are expensed in periods subsequent to the acquisition date. For transactions that are an asset acquisition, acquisition costs are capitalized as incurred. Upon acquisition of a property, we allocate the purchase price of the property based upon the fair value of the assets acquired and liabilities assumed, which generally consists of land, buildings, site improvements, and furniture and fixtures. We allocate the purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant.

We are required to make subjective assessments as to the estimated useful lives of our depreciable assets. We consider the period of future benefit of the assets to determine the appropriate estimated useful lives. Depreciation of our assets is being charged to expense on a straight-line basis over the estimated useful lives. We depreciate the fair value allocated to building and improvements over estimated useful lives ranging from 15 to 39 years.

We estimate the value of furniture and fixtures based on the assets' depreciated replacement cost. We depreciate the fair value allocated to furniture and fixtures over estimated useful lives ranging from three to six years. Assets held for sale are not depreciated.

Impairment of Real Estate Assets

In accordance with ASC 360, *Property, Plant, and Equipment*, we conduct a comprehensive review of our real estate assets for impairment. ASC 360 requires that asset values be analyzed whenever events or changes in circumstances indicate that the carrying value of a property may not be fully recoverable.

Indicators of potential impairment include the following:

- Change in strategy resulting in a decreased holding period;
- Decreased occupancy levels;
- Deterioration of the rental market as evidenced by rent decreases over numerous quarters;
- Properties adjacent to or located in the same submarket as those with recent impairment issues;
- Significant decrease in market price; and/or
- Tenant financial problems.

The intended use of an asset, either held for sale or held and used, can significantly impact the measurement of asset recoverability. If an asset is intended to be held and used, the impairment analysis is based on a two-step test.

The first test measures estimated expected future cash flows over the holding period, including a residual value (undiscounted and without interest charges), against the carrying value of the property. If the asset fails that test, the asset carrying value is compared to the estimated fair value with the excess of the asset's carrying value over the estimated fair value recognized as an impairment charge to earnings.

When assets are classified as held for sale, they are recorded at the lower of carrying value or the estimated fair value of the asset, net of estimated selling costs. A gain is recognized for any subsequent increases in fair value less costs to sell, but not in excess of the cumulative loss previously recognized.

We recorded no impairment charges related to properties held and used in 2014 and 2013. We recorded impairments of $0 and $3.4 million related to assets held for sale during the years ended December 31, 2014 and 2013.

Fair Value Measurements

ASC 825, *Financial Instruments*, requires the disclosure of fair value information about financial instruments whether or not recognized on the face of the balance sheet, for which it is practical to estimate that value.

Fair value represents the estimate of the proceeds to be received, or paid in the case of a liability, in a current transaction between willing parties. ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. Inputs are either observable or unobservable in the marketplace. Observable inputs are based on market data from independent sources and unobservable inputs reflect the reporting entity's assumptions about market participant assumptions used to value an asset or liability.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Quoted prices in active markets for identical instruments.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are classified according to the lowest level input that is significant to their valuation. A financial instrument that has a significant unobservable input along with significant observable inputs may still be classified as a Level 3 instrument.

We generally determine or calculate the fair value of financial instruments using quoted market prices in active markets when such information is available or use appropriate present value or other valuation techniques, such as discounted cash flow analyses, incorporating available market discount rate information for similar types of instruments and our estimates for non-performance and liquidity risk. These techniques are significantly affected by the assumptions used, including the discount rate, credit spreads, and estimates of future cash flow.

As a result of our ongoing analysis for potential impairment of our investments in real estate, including properties classified as held for sale, we were required to adjust the carrying value of certain assets to their estimated fair values as of December 31, 2013 (see Note 3).

There were no assets measured at fair value on a nonrecurring basis during the years ended December 31, 2014 and 2013.

The variable interest entity held for sale measured at fair value, less estimated selling costs, was deemed to be a Level 2 asset in 2013 and 2014.

Fair Value of Financial Instruments

Our consolidated balance sheets include the following financial instruments: cash and cash equivalents, restricted cash, notes receivable, certain other assets, deferred costs and deposits, payable to related parties, security deposits and loans payable. With the exception of loans payable discussed below, we consider the carrying values to approximate fair value for such financial instruments because of the short period of time between origination of the instruments and their expected payment.

As of December 31, 2014 and 2013, the fair value of loans payable was $80.1 million and $52.9 million, compared to the carrying value of $78.8 million and $52.8 million, respectively. The fair value of loans payable was estimated using lending rates available to us for financial instruments with similar terms and maturities. To estimate fair value as of December 31, 2014, we utilized a discount rate ranging of 4.62%. As the inputs to our valuation estimate are neither observable in nor supported by market activity, our loans payable are classified as Level 3 assets within the fair value hierarchy.

At December 31, 2014 and 2013, the Company does not have any significant financial assets or financial liabilities that are measured at fair value on a recurring basis in our consolidated financial statements.

Variable Interest Entities

The Company analyzes its contractual and/or other interests to determine whether such interests constitute an interest in a variable interest entity (“VIE”) in accordance with ASC 810, *Consolidation,* and, if so, whether the Company is the primary beneficiary. If the Company is determined to be the primary beneficiary of a VIE, it must consolidate the VIE. A VIE is an entity with insufficient equity investment or in which the equity investors lack some of the characteristics of a controlling financial interest. In determining whether it is the primary beneficiary, the Company considers, among other things, whether it has the power to direct the activities of the VIE that most significantly impact the entity’s economic performance, including, but not limited to, determining or limiting the scope or purpose of the VIE, selling or transferring property owned or controlled by the VIE, or arranging financing for the VIE. The Company also considers whether it has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE (see Notes 6, 7 and 14).

Tenant and Other Receivables and Valuation of Receivables

Tenant and other receivables are comprised of rental and reimbursement billings due from tenants, fees earned for resident services and the cumulative amount of future adjustments necessary to present rental income on a straight-line basis. Tenant receivables for rental revenues are recorded at the original amount earned, less an allowance for any doubtful accounts. Management assesses the realizability of tenant receivables and other fees on an ongoing basis and provides for allowances as such balances, or portions thereof, are estimated to become uncollectible. As of December 31, 2014 and 2013, there were no allowances recorded for these receivables.

As of May 1, 2014, Friendswood TRS became the operator for Friendship Haven and under this facility, fees earned for resident services are recorded at billed amounts less contractual allowances and allowances for doubtful accounts, which approximates fair value. We estimate allowances for uncollectible amounts and contractual allowances based upon factors which include, but are not limited to, the age of the receivable and the terms of the agreements, the residents' or third party payers' stated intent to pay, the payers' financial capacity to pay and other factors. Accounts receivable allowances are estimates. We periodically review and revise these estimates based on new information and these revisions may be material. The allowance for doubtful accounts was $107,000 as of December 31, 2014.

For the years ended December 31, 2014 and 2013, provisions for bad debt amounted to approximately $111,000 and $7,000, respectively, which are included in resident services costs and property operating costs in the accompanying consolidated statements of operations.

Deferred Costs and Deposits

Deferred costs and deposits primarily consist of deposits on potential acquisitions.

Deferred Financing Costs

Costs incurred in connection with debt financing are recorded as deferred financing costs. Deferred financing costs are amortized using the straight-line basis which approximates the effective interest rate method, over the contractual terms of the respective financings.

Deferred Leasing Commissions

Leasing commissions are stated at cost and amortized on a straight-line basis over the related lease term. As of December 31, 2014 and 2013, the unamortized balance was approximately $1.9 and $2.4 million in leasing commissions, respectively. The amortization of Friendship Haven’s leasing commission totaling $0.4 million was accelerated due to the lease termination on March 16, 2014 (see Note 3). Amortization expense for the years ended December 31, 2014 and 2013 was approximately $0.5 million and $0.2 million, respectively.

Other Assets

Other assets consist primarily of prepaid insurance. Additionally, other assets will be amortized to expense over their future service periods. Balances without future economic benefit are expensed as they are identified.

Revenue Recognition

Revenue is recorded in accordance with ASC 840, *Lease*s, and SEC Staff Accounting Bulletin No. 104, “*Revenue Recognition in Financial Statements, as amended*” (“SAB 104”). Such accounting provisions require that revenue be recognized after four basic criteria are met. These four criteria include persuasive evidence of an arrangement, the rendering of service, fixed and determinable income and reasonably assured collectability. Leases with fixed annual rental escalators are recognized on a straight-line basis over the initial lease period, subject to a collectability assessment. Rental income related to leases with contingent rental escalators is generally recorded based on the contractual cash rental payments due for the period. Because our leases provide for free rent, lease incentives, or other rental increases at specified intervals, we straight-line the recognition of revenue, which results in the recording of a receivable for rent not yet due under the lease terms. Our rental revenues are comprised of lease rental income and straight-line rent. Straight line rent for the years ended December 31, 2014 and 2013 was approximately $0.6 million and $0.7 million, respectively.

We recognize resident services and fee income as services are provided in cases where we serve as the licensed operator of our facilities (see Note 3). Revenue is recorded as net charges for resident services, which are the gross charges less contractual adjustments and discounts based upon negotiated rates.

Noncontrolling Interest in Consolidated Subsidiary

Noncontrolling interest relates to the interest in the consolidated entities that are not wholly-owned by us. Included in noncontrolling interest for the years ended December 31, 2014 and 2013 is the VIE related to Sherburne Commons (see Note 12), a discontinued operation.

ASC 810-10-65, "*Consolidation*", clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. ASC 810-10-65 also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest and requires disclosure, on the face of the consolidated statements of operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest.

We periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling interest as permanent equity in the consolidated balance sheets. Any noncontrolling interest that fails to qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (a) the carrying amount, or (b) its redemption value as of the end of the period in which the determination is made.

Income Taxes

We have elected to be taxed as a REIT, under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code") beginning with our taxable year ending December 31, 2006. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to currently distribute at least 90% of the REIT's ordinary taxable income to stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will then be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service were to grant us relief under certain statutory provisions. Such an event could materially and adversely affect our net income and net cash available for distribution to stockholders. However, we believe that we will be organized and operate in such a manner as to qualify for treatment as a REIT and intend to operate for the foreseeable future in such a manner so that we will remain qualified as a REIT for federal income tax purposes. Given the applicable statute of limitations, we generally are subject to audit by the Internal Revenue Service ("IRS") for the year ended December 31, 2011 and subsequent years, and state income tax returns are subject to audit for the year ended December 31, 2010 and subsequent years.

We have elected to treat Friendswood TRS as a taxable REIT subsidiary, which generally may engage in any business, including the provision of customary or non-customary services for our tenants. Friendswood TRS is treated as a regular corporation and is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. Friendswood TRS has deferred tax assets related to their net operating loss ("NOL") (which expires after 2034 for federal and state) and timing differences for a total of $247,000, which has a full valuation allowance as of December 31, 2014. Due to the losses incurred and the full valuation allowance on deferred tax assets, there was no tax provision related to Friendswood TRS in 2014.

Uncertain Tax Positions

In accordance with the requirements of ASC 740, "*Income Taxes,*" favorable tax positions are included in the calculation of tax liabilities if it is more likely than not that our adopted tax position will prevail if challenged by tax authorities. As a result of our REIT status, we are able to claim a dividends-paid deduction on our tax return to deduct the full amount of common dividends paid to stockholders when computing our annual taxable income, which results in our taxable income being passed through to our stockholders. A REIT is subject to a 100% tax on the net income from prohibited transactions. A "prohibited transaction" is the sale or other disposition of property held primarily for sale to customers in the ordinary course of a trade or business. There is a safe harbor provision which, if met, expressly prevents the Internal Revenue Service from asserting the prohibited transaction test. We have no income tax expense, deferred tax assets or deferred tax liabilities associated with any such uncertain tax positions for the operations of any entity included in the consolidated results of operations.

Basic and Diluted Net Loss and Distributions per Common Share

Basic and diluted net loss per common share applicable to common stockholders is computed by dividing net loss applicable to common stockholders by the weighted-average number of common shares outstanding for the period. For each of the years ended December 31, 2014 and 2013, 40,000 stock options, held by our independent directors, have been excluded from the weighted-average number of shares outstanding since their effect was anti-dilutive. The basic and diluted (loss) income per common share from continuing operations is computed by dividing the loss from continuing operations of $4.4 million by the weighted average number of shares outstanding of 23,028,014.

The Company declared no cash distributions per common share during the years ended December 31, 2014 and 2013.

Reclassification

Certain amounts in the Company's Consolidated Financial Statements for prior year have been reclassified to conform to the current period presentation. These reclassifications had no effect on total assets or net loss.

New Accounting Pronouncements

In February 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions).

The ASU will be effective for periods beginning after December 15, 2015, for public companies. Early adoption is permitted, including adoption in an interim period. The Company is still evaluating the impact of this new standard.

In January 2015, the FASB has issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The FASB issued this ASU as part of its initiative to reduce complexity in accounting standards. The objective of the simplification initiative is to identify, evaluate, and improve areas of U.S. GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to the users of financial statements.

The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities. The Company is still evaluating the impact of this new standard but does not expect it to have a material effect on the Consolidated Financial Statements, when adopted.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern (ASU 2014-15). This ASU requires an entity's management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The ASU requires disclosures that will enable financial statement users to understand the conditions and events that raise substantial doubt about the entity's ability to continue as a going concern and management's plans to alleviate such conditions and events. If substantial doubt cannot be alleviated, an entity must include a statement in the footnotes to the financial statements indicating that there is substantial doubt about the entity's ability to continue as a going concern.

The standard is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. Upon adoption, the Company will use this new standard to assess going concern.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This ASU changes the requirements for reporting discontinued operations by raising the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The standard limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results.

This standard is effective for the Company on a prospective basis for annual periods beginning on January 1, 2015 and interim periods within that year. Early adoption is permitted but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued. Upon adoption the Company will use the guidance in this new standard to assess whether future disposals will meet the criteria for classification as discontinued operations.

3. Investments in Real Estate Properties

As of December 31, 2014 and 2013, adjusted cost and accumulated depreciation and amortization related to investments in real estate properties including those acquired through our subsidiaries and CHP, LLC, and excluding assets of variable interest entity held for sale, were as follows:

	2014	2013
Land	$ 8,432,000	$ 6,502,000
Buildings and improvements	88,241,000	65,045,000
Less: accumulated depreciation	(3,813,000)	(1,687,000)
Buildings and improvements, net	84,428,000	63,358,000
Furniture and fixtures	8,133,000	6,393,000
Less: accumulated depreciation	(2,271,000)	(939,000)
Furniture and fixtures, net	5,862,000	5,454,000
Real estate properties, net	$ 98,722,000	$ 75,314,000

Friendship Haven Taxable REIT Subsidiary

Beginning in January 2014, the tenant/operator of Friendship Haven ceased paying rent payments due to us under the lease agreement. On March 16, 2014, we terminated the lease agreement. Effective May 1, 2014, we became the licensed operator of the facility through a wholly-owned taxable REIT subsidiary, Friendswood TRS. Upon becoming the licensed operator of the facility, we entered into a two year management agreement with an affiliate of Stonegate Senior Living ("Stonegate"). We plan to operate the facility with the Stonegate affiliate or another operator until a long-term lease agreement can be secured with a financially stable tenant/operator. We are currently seeking to secure a long term triple net lease with an operator and plan to finalize an arrangement in 2015.

Real Estate Held for Sale

We sold our remaining industrial assets in 2013. Consequently, we reclassified these properties to real estate held for sale and their financial operations to discontinued operations in 2013. For the years ended December 31, 2014 and 2013, we recorded $0 and $3.4 million impairment to real estate held for sale. See Note 12 for discussion of amounts recorded in discontinued operations.

Future Minimum Lease Payments

The future minimum lease payments to be received under existing operating leases for properties owned as of December 31, 2014 are as follows:

Years ending December 31,	
2015	$ 9,596,000
2016	10,087,000
2017	10,322,000
2018	10,563,000
2019 and thereafter	101,092,000
	$141,660,000

The schedule does not reflect future rental revenues from the potential renewal or replacement of existing and future leases, includes the rental revenues for the tenant of Friendship Haven and excludes tenant reimbursements.

Acquisitions

The following acquisitions were accounted for as asset acquisitions.

Acquisitions -2013

Winston Salem, North Carolina
On January 31, 2013, we, through CHP LLC, acquired the Danby House, an assisted living and memory care facility located in Winston-Salem, North Carolina ("Danby House") for $9.7 million in cash and a collateralized loan. Danby House has an operational capacity of 100 beds. Danby House is leased to an affiliate of Meridian Senior Living, LLC ("Meridian"), the current operator of the facility, pursuant to a long-term triple net lease. The initial lease term is ten years with a lessee option to renew for two additional five-year periods.

Aledo, Illinois
On July 2, 2013, we acquired Brookstone of Aledo (formerly Heritage Woods) property ("Aledo") located in Aledo, Illinois for $8.6 million in cash and a collateralized loan. Aledo is an assisted living facility with an operational capacity of 66 units. Aledo is leased to an affiliate of Meridian pursuant to a long-term triple net lease. The lease term is 15 years with a lessee option to renew for an additional five-year period.

North Carolina Portfolio (Carteret House, Hamlet House, and Shelby House)
On October 4, 2013, we acquired a 32 unit and 64 bed assisted living facility in Newport, North Carolina ("Carteret House"), a 60 unit and 60 bed assisted living facility in Hamlet, North Carolina ("Hamlet House"), and a 40 unit and 72 bed assisted living facility in Shelby, North Carolina ("Shelby House") (together, the "Properties") from affiliates of Meridian for $15.3 million in cash and collateralized loans.

The Properties are leased back to an affiliate of Meridian, the current operator of the Properties, under long-term triple net leases. The lease terms are 15 years, with lessee options to renew for one additional five-year period. In November 2014, we refinanced the properties with Lancaster Pollard (see Note 10).

Redding, California
On December 18, 2013, we acquired Sundial Assisted Living (formerly Redding Assisted Living), a 40 unit and 65 bed assisted living facility located in Redding, California for $3.5 million in cash. The property is leased to an affiliate of Compass Senior Living, LLC ("Compass"), the new operator of the facility, pursuant to a ten year triple net lease. In December 2014, in conjunction with the purchase of the Oregon properties (see below), we entered into a loan with GE for $2.8 million (see Note 10).

The following summary provides the allocation of the acquired assets and liabilities of the facilities acquired in 2013. We have accounted for the acquisitions as asset purchases under GAAP. The following sets forth the allocation of the purchase prices of the acquired properties as well as the third party associated acquisitions costs, which have been capitalized, except for fees paid to CRA.

	Winston-Salem	Aledo	North Carolina	Redding	Total
Land	$ 973,000	$ 215,000	$ 793,000	$ —	$ 1,981,000
Buildings & improvements	7,578,000	7,642,000	10,833,000	2,787,000	28,840,000
Site improvements	292,000	451,000	2,227,000	275,000	3,245,000
Furniture & fixtures	978,000	426,000	1,597,000	478,000	3,479,000
Tenant improvements	—	—	—	150,000	150,000
Real estate acquisitions	$ 9,821,000	$8,734,000	$ 15,450,000	$3,690,000	$37,695,000
Real estate acquisition costs	$ 136,000	$ 121,000	$ 214,000	$ 51,000	$ 522,000

Acquisitions - 2014

Colorado Properties
On September 22, 2014, we acquired two skilled nursing facilities ("SNFs") in Lamar ("Lamar Estates") and Monte Vista ("Monte Vista Estates"), Colorado for a total purchase price of $7.9 million, which was funded through cash on hand plus a collateralized loan, and leased the facilities under a triple net lease to an affiliate of Dakavia Management Corporation ("Dakavia") for an initial term of 15 years, plus one five year renewal option. Each facility has a total of 60 beds.

Myrtle Point, Oregon
On October 31, 2014, we acquired a 54 bed skilled nursing facility in Myrtle Point, Oregon ("Myrtle Point") from KEmry Properties LLC ("Seller"), an affiliate of Dakavia, for $4.2 million, which was funded through cash on hand plus a collateralized loan. Myrtle Point is leased back to an affiliate of Dakavia, the current operator of the property, under a 15 year triple net lease. The lease also includes an earn-out which would entitle the Seller to an earn-out payment of up to $450,000 based on certain factors, if occurring within the first 24 months of the lease term.

Oregon Properties (Gateway and Applewood)
On December 31, 2014, we acquired a facility in Portland, Oregon ("Gateway") with 59 skilled nursing beds and 32 independent living units and a facility in Salem, Oregon ("Applewood") with 69 independent living units for $14.2 million including cash on hand plus the proceeds of a collateralized loan. The properties are leased to affiliates of Sapphire Health Services, LLC under a 15 year triple net lease, plus two five year renewal options.

The following sets forth the allocation of the purchase price of the properties acquired in 2014 as well as the associated acquisitions costs, all of which have been capitalized.

	Lamar	Monte Vista	Myrtle Point	Gateway	Applewood	Total
Land	$ 159,000	$ 111,000	$ 360,000	$ 770,000	$ 530,000	$ 1,930,000
Buildings & improvements	4,087,000	2,961,000	3,400,000	9,600,000	2,100,000	22,148,000
Site improvements	59,000	144,000	40,000	200,000	90,000	533,000
Furniture & fixtures	195,000	184,000	350,000	680,000	180,000	1,589,000
Real estate acquisitions	$ 4,500,000	$ 3,400,000	$ 4,150,000	$ 11,250,000	$ 2,900,000	$ 26,200,000
Real estate acquisition costs	$ 76,000	$ 69,000	$ 53,000	$ 65,000	$ 49,000	$ 312,000

4. Concentration of Risk

Financial instruments that potentially subject us to a concentration of credit risk are primarily notes receivable and the note receivable from related party. Refer to Notes 5 and 6 with regard to credit risk evaluation of notes receivable and the note receivable from related party, respectively. Our cash is generally invested in investment-grade short-term instruments.

Concentrations of credit risk also arise when a number of tenants or obligors related to one investment are engaged in similar business activities or activities in the same geographic regions, have similar economic features that would cause their ability to meet contractual obligations, including those of the Company, to be similarly affected by changes in economic conditions. We regularly monitor our portfolio to assess potential concentration risk.

As of December 31, 2014, excluding the Sherburne Commons VIE, we owned one property in California, seven properties in Oregon, four properties in North Carolina, one property in Texas, one property in Illinois and two properties in Colorado. Accordingly, there is a geographic concentration of risk subject to economic conditions in certain states. Additionally, as of December 31, 2014 and 2013, we leased our sixteen healthcare properties to six different tenants under long-term triple net leases, two of which comprise 46% and 32% percent of our tenant rental revenue as of December 31, 2014 and 20% and 23% as of December 31, 2013.

5. Notes Receivable

In May 2008, we agreed to loan up to $10.0 million at a rate of 10% per year to two real estate operating companies, Servant Investments, LLC (“SI”) and Servant Healthcare Investments, LLC (“SHI” and collectively with SI, “Servant”). In May 2010, the loan commitments were reduced to $8.75 million. The loans were scheduled to mature on May 19, 2013. At the time the loans were negotiated, Servant was an advisor to an affiliate of the managing member of CRA.

In December 2011, the notes receivable were restructured to provide for the settlement of the notes in the amount of $2.5 million, $1.5 million of which was received from the borrower in December 2011. The remaining $1.0 million is payable pursuant to a promissory note of SHI which provides for interest at a fixed rate of 5.00% per annum. A principal payment of $0.7 million, plus any accrued and unpaid interest, was due and paid on December 22, 2013 and the remaining balance of $0.3 million, including any accrued and unpaid interest, was due on December 22, 2014. The Servant Healthcare Investments, LLC note was paid in full on May 2, 2014.

Our policy is to recognize interest income for the reserved loan on a cash basis. For the years ended December 31, 2014 and 2013, interest income related to this note receivable was $5,000 and $50,000, respectively.

In September 2014, the Company loaned to the operator of the Fernhill facility approximately $140,000 for certain property improvements. The note provides for interest at a fixed rate of 6% and is payable in monthly installments through January 2019. As of December 31, 2014, the balance on the note was approximately $0.1 million.

6. Note Receivable from Related Party (eliminated in consolidation)

We hold a note receivable from the participating first mortgage loan made to Nantucket Acquisition LLC (“Nantucket”), a Delaware limited liability company owned and managed by Cornerstone Ventures Inc., an affiliate of CRA. We have not recorded interest income on this loan since October 2010 because of the doubtfulness of collection.

For our financial reporting purposes, Nantucket is considered a VIE as we are the primary beneficiary due to our enhanced ability to direct the activities of the VIE. Therefore, we have consolidated the operations since June 30, 2011 and, accordingly, eliminated the note receivable from related party in consolidation (see Note 7). As of October 19, 2011, the Sherburne Commons property met the requirements for reclassification to real estate held for sale. Consequently, the related assets and liabilities of the property are classified as assets of variable interest entity held for sale and liabilities of variable interest entity held for sale, respectively, on our condensed consolidated balance sheets. Operating results for the property have been reclassified to discontinued operations on our consolidated statements of operations for all periods presented.

The following table reconciles note receivable from related party from January 1, 2013 to December 31, 2014**:**

	2014	2013
Balance at January 1	$ —	$ —
Additions:		
Additions to note receivable from related parties	135,000	292,000
Deductions:		
Elimination of balance in consolidation of VIE	(135,000)	(292,000)
Balance at December 31,	$ —	$ —

7. Consolidation of Nantucket Variable Interest Entity

In compliance with ASC 810, *Consolidation,* we continuously analyze and reconsider our initial determination of VIE status to determine whether we are the primary beneficiary. As a result of our issuing a notice of default with respect to the note, we determined that we were the primary beneficiary of the VIE. Therefore, we consolidated the operations of the VIE beginning June 30, 2011. Assets of the VIE may only be used to settle obligations of the VIE and creditors of the VIE have no recourse to the general credit of the Company.

As of December 31, 2014 and 2013, we had a variable interest in a VIE in the form of a note receivable from Nantucket Acquisition in the amount of $9.6 million and $9.4 million, respectively, which has been eliminated in consolidation (see Note 6). As of October 19, 2011, the Sherburne Commons property was reclassified to real estate held for sale.

As of December 31, 2014 and 2013, adjusted cost, net of accumulated depreciation and amortization related to real estate and related intangible lease assets and liabilities of the VIE held for sale were as follows:

	Buildings and Improvements	Acquired Above Market Leases	In-Place Lease Value	Acquired Below-Market Leases
Net investments in real estate and related intangible lease assets (liabilities) of VIE held for sale	$ 688,000	$ 3,172,000	$ 45,000	$ (145,000)

On October 6, 2014, we foreclosed on the Sherburne Commons property, however we did not take possession of the property. In January 2015, we sold the property (see Note 14 Subsequent Events).

8. Equity

Common Stock

Our articles of incorporation authorize 290,000,000 shares of common stock with a par value of $0.001 and 10,000,000 shares of preferred stock with a par value of $0.001. As of December 31, 2014 and 2013, we had cumulatively issued approximately 20.9 million shares of common stock for a total of $167.1 million of gross proceeds, exclusive of shares issued under our distribution reinvestment plan. We are not currently offering our shares of common stock for sale.

Distributions

Our distribution reinvestment plan was suspended indefinitely effective December 31, 2010. At this time, we cannot provide any assurance as to if or when we will resume distributions or our distribution reinvestment plan. We did not pay any distributions to stockholders for the years ended December 31, 2014 and 2013.

Employee and Director Incentive Stock Plan

We adopted an Employee and Director Incentive Stock Plan (the "Plan") which grants awards of stock to directors, full-time employees, and other eligible participants that provide services to us. We do not intend to grant awards under the Plan to persons who are not directors. Awards granted under the Plan may consist of nonqualified stock options, incentive stock options, restricted stock, share appreciation rights, and distribution equivalent rights. The term of the Plan is ten years and the total number of shares of common stock reserved for issuance under the Plan is equal to 10% of our outstanding shares of stock at any time. The Plan terminated in December 2014.

ASC 718, *Compensation – Stock Compensation* requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. All outstanding stock options became immediately exercisable in full on the grant date, will expire ten years after their grant date, and had no intrinsic value as of December 31, 2014. No stock options were granted, exercised or canceled during the years ended December 31, 2014 and 2013. No stock compensation expense was recorded during the years ended December 31, 2014 and 2013.

We record compensation expense for stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes option-pricing model. Assumptions required by the model include the risk-free interest rate, the expected life of the options, and the expected stock price volatility over the expected life of the options, and the expected distribution yield. Compensation expense for employee stock options is recognized ratably over the vesting term. The expected life of the options was based on evaluations of expected future exercise behavior. The risk-free interest rate was based on the U.S. Treasury yield curve at the date of grant with maturity dates approximating the expected term of the options at the date of grant. Volatility was based on historical volatility of the stock prices for a sample of publicly traded companies with risk profiles similar to ours. The valuation model applied in this calculation utilizes highly subjective assumptions that could potentially change over time, including the expected stock price volatility and the expected life of an option. Therefore, the estimated fair value of an option does not necessarily represent the value that will ultimately be realized by an independent, non-employee director.

Our equity compensation plan information as of December 31, 2014 and 2013 is as follows:

	Stock Option Plan		
	Options	**Option Price Per Share**	**Weighted Average Exercise Price**
Options outstanding at January 1, 2013	40,000	$ 8.00	$ 8.00
Granted	—		
Exercised	—		
Cancelled/forfeited	—		
Options outstanding at December 31, 2013	40,000	$ 8.00	$ 8.00
Granted	—		
Exercised	—		
Cancelled/forfeited	—		
Options outstanding at December 31, 2014	40,000	$ 8.00	$ 8.00
Options exercisable at December 31, 2014	40,000	$ 8.00	$ 8.00

As of December 31, 2014, the weighted average remaining contractual term is 2.2 years. All compensation expense related to the options outstanding has been previously recognized.

9. Related Party Transactions with CRA

Prior to the Company terminating the Advisory Agreement with CRA effective April 1, 2014, the Company had no employees. CRA was primarily responsible for managing our business affairs and carrying out the directives of our board of directors. The Advisory Agreement entitled CRA to specified fees upon the provision of certain services with regard to the investment of funds in real estate projects, among other services, as well as reimbursement of certain costs and expenses incurred by CRA in providing services to us. Specific fees described in the Advisory Agreement which would have been owed to CRA are described below. We do not believe that we owe CRA any amounts due under the terminated Advisory Agreement.

Related party transactions relate to fees paid and costs reimbursed to CRA for services rendered to us through March 31, 2014 are as noted below. Payables to related parties consisted of asset management fees and expense reimbursements payable to CRA. As of December 31, 2014 and 2013, the balance of this payable to related party was $0 and $0.2 million, respectively. All receivables due from CRA, as noted below, are fully reserved.

Advisory Agreement

Under the terms of the Advisory Agreement, which was terminated effective April 1, 2014, CRA was required to use commercially reasonable efforts to present to us investment opportunities to provide a continuing and suitable investment program consistent with the investment policies and objectives adopted by our board of directors. The Advisory Agreement called for CRA to provide for our day-to-day management and to retain property managers and leasing agents, subject to the authority of our board of directors, and to perform other duties.

Organizational and Offering Costs - Organizational and offering costs of our Offerings have been paid by CRA on our behalf and have been reimbursed to CRA from the proceeds of our Offerings. Organizational and offering costs consist of all expenses (other than sales commissions and the dealer manager fee) to be paid by us in connection with our Offerings, including our legal, accounting, printing, mailing and filing fees, charges of our escrow holder and other accountable offering expenses, including, but not limited to, (i) amounts to reimburse CRA for all marketing-related costs and expenses such as salaries and direct expenses of employees of CRA and its affiliates in connection with registering and marketing our shares; (ii) technology costs associated with the offering of our shares; (iii) the costs of conducting our training and education meetings; (iv) the costs of attending retail seminars conducted by participating broker-dealers; and (v) payment or reimbursement of bona fide due diligence expenses. In no event will we have any obligation to reimburse CRA for organizational and offering costs totaling in excess of 3.5% of the gross proceeds from our primary offering and follow-on offering. At times during our offering stage, before the maximum amount of gross proceeds has been raised, the amount of organization and offering expenses that we incur, or that CRA and its affiliates incur on our behalf, may exceed 3.5% of the gross offering proceeds then raised.

On June 10, 2012, our follow-on offering terminated. Our Advisory Agreement provided for reimbursement by CRA for organizational and offering costs in excess of 3.5% of the gross proceeds from our primary offering and follow-on offering. Under the Advisory Agreement, within 60 days after the end of the month in which our follow-on offering terminates, CRA is obligated to reimburse us to the extent that the organization and offering expenses related to our follow-on offering borne by us exceeds 3.5% of the gross proceeds of the follow-on offering. As of June 10, 2012, we had reimbursed CRA a total of $1.1 million in organizational and offering costs related to our follow-on offering, of which $1.0 million was in excess of the contractual limit. Consequently, in the second quarter of 2012, we recorded a receivable from CRA for $1.0 million reflecting the excess reimbursement. However, based on our evaluation of various factors related to collectability of this receivable, we reserved the full amount of the receivable as of June 30, 2012. During 2013, we collected and recognized approximately an additional $0.3 million. As of December 31, 2014 and 2013, the gross balance of this receivable was $0.7 million and $0.7 million, respectively. CRA has repaid varying amounts against this receivable quarterly during 2013, but no repayment has occurred in 2014. The balance of this receivable has been fully reserved for as of December 31, 2014 and 2013.

Acquisition Fees and Expenses – The Advisory Agreement allows for the acquisition fee payable to CRA not to exceed 2.0% of the purchase price of an acquired property. For the years ended December 31, 2014 and 2013, CRA earned $0 and $0.5 million of acquisition fees. These fees are included in real estate acquisition costs on our consolidated statements of operations.

Management Fees and Expenses - The Advisory Agreement provided that, beginning on October 1, 2011, the asset management fee payable by us to CRA shall be reduced to a monthly rate of one-twelfth of 0.75% of our Average Invested Assets, as defined in the Advisory Agreement. For the years ended December 31, 2014 and 2013, CRA earned $0.2 million and $0.8 million, respectively, of asset management fees which were expensed and included in asset management fees and expenses in our consolidated statements of operations.

In addition, the Advisory Agreement provided for our reimbursement of CRA for the direct and indirect costs and expenses incurred by CRA in providing asset management services to us, including personnel and related employment costs. For the years ended December 31, 2014 and 2013, CRA was reimbursed $31,000 and $0.3 million, respectively, of such direct and indirect costs and expenses. These costs are included in asset management fees and expenses in our consolidated statements of operations.

In 2013 and 2014, we overpaid CRA approximately $32,000 for asset management fees. We have recorded this amount as receivable from related party on our December 31, 2014 consolidated balance sheet and reserved for the entire amount due to the uncertainty of collectability.

Operating Expenses - The Advisory Agreement provided for reimbursement of the Advisor's direct and indirect costs of providing administrative and management services to us. For the years ended December 31, 2014 and 2013, $0.2 million and $1.3 million of operating expenses incurred on our behalf were reimbursed to CRA, respectively. These costs are included in general and administrative expenses in our consolidated statements of operations. The Company paid $189,000 in excess operating expense reimbursements to CRA in prior periods. Accordingly, we have recorded this receivable due from CRA and reserved for the entire amount due to the uncertainty of collectability.

Pursuant to provisions contained in our terminated Advisory Agreement, our board of directors had the responsibility of limiting our total operating expenses for each trailing four consecutive quarters to amounts that do not exceed the greater of 2% of our average invested assets or 25% of our net income, calculated in the manner set forth in our charter, unless a majority of the directors (including a majority of the independent directors) made a finding that a higher level of expenses was justified (the "2%/25% Test"). In the event that a majority of the directors had not determined that such excess expenses were justified, CRA was required to reimburse to us the amount of the excess expenses paid or incurred (the "Excess Amount").

For each four-fiscal-quarter period prior to March 31, 2014, our board of directors determined that the Excess Amount was justified and had consequently waived such Excess Amount. For the four-fiscal-quarter period ended March 31, 2014, our total operating expenses exceeded the greater of 2% of our average invested assets and 25% of our net income. We incurred operating expenses of approximately $3.7 million and incurred an Excess Amount of approximately $1.7 million during this period. Our board of directors did not waive this Excess Amount and therefore such Excess Amount is due to the Company from CRA. Accordingly, we have recorded this receivable and reserved for the entire amount due to the uncertainty of collectability.

Property Management and Leasing Fees and Expenses. The Advisory Agreement provided that if we retained CRA or an affiliate to manage and lease some of our properties, we would pay a market-based property management fee or property leasing fee, which may include reimbursement of CRA's or affiliate's personnel costs and other costs of managing the properties. For the years ended December 31, 2014 and 2013, CRA earned approximately $42,000 and $163,000 respectively, of property management fees. On July 31, 2012, we executed a Property Management and Leasing Agreement with CRA pursuant to which it will perform property management and leasing services with respect to our healthcare properties. This agreement stipulated that when CRA identifies tenants and negotiates a lease on our behalf for the healthcare properties, we will pay to CRA a market based leasing fee. For the years ended December 31, 2014 and 2013, CRA earned approximately $0 and $1.2 million of leasing fees, respectively. These costs are included in property operating expenses in our consolidated statements of operations.

Disposition Fee - The Advisory Agreement provided that if CRA or its affiliates provide a substantial amount of the services (as determined by a majority of our directors, including a majority of our independent directors) in connection with the sale of one or more properties, we will pay CRA or such affiliate a disposition fee up to 1% of the sales price of such property or properties upon closing. This disposition fee may be paid in addition to real estate commissions paid to non-affiliates, provided that the total real estate commissions (including such disposition fee) paid to all persons by us for each property shall not exceed an amount equal to the lesser of (i) 6% of the aggregate contract sales price of each property or (ii) the competitive real estate commission for each property. We paid the disposition fees for a property at the time the property was sold. For the years ended December 31, 2014 and 2013 CRA earned $0 and $0.6 million, respectively, of such disposition fees. These fees are included in discontinued operations on our consolidated statements of operations.

Subordinated Participation Provisions - CRA was entitled to receive a subordinated participation upon the sale of our properties, listing of our common stock or termination of CRA, contingent upon meeting/exceeding certain performance thresholds. There will not be any of these fees earned in the future based upon the Advisory Agreement termination. For the years ended December 31, 2014 and 2013, we did not incur any subordinated participation fees.

10. Loans Payable

For the years ended December 31, 2014 and 2013, loans payable consisted of the following:

	2014	2013
Loans payable to GE Capital in monthly installments of approximately $123,000, including interest at LIBOR (floor of .50%) plus 4.5% (5.0% at December 31, 2014 and 2013, respectively), due in September 2017 through July 2018, collateralized by Friendship Haven, Brookstone of Aledo, Redding, Gateway and Applewood.	$ 25,617,000	$ 34,144,000
Loans payable to The PrivateBank in monthly installments of approximately $96,000, including interest at LIBOR (floor of up to 1.0%) plus 4% (4.50% to 5.0% and 5.0% at December 31, 2014 and 2013, respectively), due in January 2016 through September 2017, collateralized by Danby House, Myrtle Point, Lamar Estates and Monte Vista Estates	16,350,000	18,675,000
Loans payable to Lancaster Pollard (insured by HUD) in monthly installments of approximately $193,000, including interest ranging from a fixed rate of 3.75% to 3.78%, due in September 2039 through December 2049, collateralized by Sheridan, Fernhill, Tigard, Medford, Shelby, Hamlet and Carteret	36,785,000	-
	78,752,000	**52,819,000**
Less debt discount	**(780,000)**	-
Total loans payable	**$ 77,972,000**	**$ 52,819,000**

We have total debt obligations of approximately $78.8 million that will mature between 2016 and 2049. All of the loans payable have certain financial and non-financial covenants, including ratios and financial statement considerations. As of December 31, 2014, we were in compliance with all of our debt covenants.

The principal payments due on the loans payable (excluding debt discount) for each of the five following years ending December 31 are as follows:

Year	Principal Amount
2015	$ 1,317,000
2016	8,276,000
2017	29,053,000
2018	6,305,000
2019 and thereafter	33,801,000
	$ 78,752,000

In connection with our loans payable, we incurred debt discounts and financing costs. The unamortized balance of the deferred financing costs totals $1.5 million and $1.0 million, as of December 31, 2014 and 2013, respectively. The capitalized financing costs and debt discounts are being amortized over the life of their respective financing agreements using the straight-line basis which approximates the effective interest rate method. For the years ended December 31, 2014 and 2013, $414,000 and $169,000, respectively, of deferred financing costs and debt discount were amortized and included in interest expense in our consolidated statements of operations. In connection with the Lancaster Pollard refinancing of the GE Capital and The PrivateBank loans (see below under Lancaster Pollard), $228,000 of unamortized financing costs were fully amortized during the year ended December 31, 2014.

General Electric Capital Corporation

Healthcare Properties ("GE Healthcare Loan")

On September 13, 2012, we entered into a loan agreement with General Electric Capital Corporation ("GE") for a loan in the aggregate amount of approximately $16.5 million collateralized by security interests in the Farmington Square and Friendship Haven facilities ("GE Healthcare Loan"). Additionally, we used part of the loan proceeds to repay the entire principal balance of the original loan of $5.8 million for the Fernhill and Sheridan facilities. Consequently, the GE Healthcare Loan was also collateralized, in part, by the Fernhill and Sheridan properties. On December 21, 2012, we amended the GE Healthcare Loan for an additional loan in the amount of $6.15 million collateralized by the Pacific property. The loan bears interest at LIBOR (London Interbank Offer Rate), with a floor of 50 basis points, plus a spread of 4.50%, and matures on September 12, 2017, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the loan agreement will become due. The GE Healthcare Loan was interest-only for the first twelve months (known as the "lockout period") and amortizes over a 25 year period thereafter. The loan may be voluntarily prepaid during the lockout period provided the borrower pays a penalty equal to the sum of the LIBOR Breakage Amount, as defined in the GE Healthcare Loan Agreement, and two percent of the outstanding balance of the loan. The GE Healthcare Loan may be prepaid with no penalty after the expiration of the lockout period, which has expired.

In September 2014, we refinanced Farmington Square, Fernhill, Sheridan, and Pacific properties with Housing and Urban Development ("HUD") insured loans from the Lancaster Pollard Mortgage Company, LLC ("Lancaster Pollard"). (See below for further information – HUD 1 Loan). We used $21.6 million of the proceeds from these new HUD insured loans to pay down the principal of the GE Healthcare Loan for these same properties. Subsequent to these new HUD insured loans, the GE Healthcare Loan collateral consisted of Friendship Haven and the Aledo facility, which was cross collateralized with the GE Healthcare Loan when the principal balance was paid down. The GE Healthcare Loan, which bears interest for the first 12 months at 90-day LIBOR plus 4.5%, with a LIBOR floor of 0.5%, matures on September 11, 2017, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the GE Healthcare Loan will become due. The GE Healthcare Loan is interest only for the first 12 months of the loan, and then the principal amortized over 25 years using a 6.00% fixed interest rate thereafter.

As of December 31, 2014 and 2013, we had net borrowings of $6.4 million and $28.3 million under the GE Healthcare Loan agreement, respectively. During the years ended December 31, 2014 and 2013, we incurred approximately $1.2 million and $1.4 million, respectively, of interest expense related to this GE Healthcare Loan agreement.

Aledo Property ("Aledo Loan")

On July 2, 2013, we entered into a loan agreement with GE for a loan (the "Aledo Loan") in the aggregate principal amount of $5.9 million collateralized by a first lien security interest in the Brookstone of Aledo facility ("Aledo"). The Aledo Loan, which bears interest for the first 12 months at 90-day LIBOR plus 4.50%, with a LIBOR floor of 0.50%, matures on July 1, 2018, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the Aledo Loan will become due. The Aledo Loan is interest only for the first 12 months of the loan, and then the principal amortizes over a 25 year period using a 6.00% fixed interest rate thereafter. The Aledo Loan may not be prepaid for the first 12 months of the loan. After the 12 months lockout period, the loan may be prepaid without penalty. If certain conditions are met, primarily adding an additional asset to the loan to be cross collateralized with the Aledo property, we may borrow an additional $0.9 million on the Aledo Loan.

The Aledo Loan is collateralized by the Aledo facility and Friendship Haven, which was cross collateralized with the Aledo Loan in September 2014 in conjunction with HUD 1 (see below). As of December 31, 2014 and 2013, we had net borrowings of $5.8 million and $5.9 million, respectively, under the loan agreement. During the years ended December 31, 2014 and 2013, we incurred approximately $0.3 million and $0.1 million of interest expense related to the Aledo Loan, respectively.

Gateway and Applewood ("Oregon Properties")

On December 31, 2014, we entered into a loan agreement with GE for a collateralized loan in the aggregate principal amount of $13.4 million collateralized by security interests in the Oregon Properties and the Sundial Assisted Living facility in Redding, California. Principal amounts of the collateralized loan are allocated as follows: $8.4 million to Gateway, $2.8 million to Redding, and $2.2 million to Applewood. The loan proceeds from Redding, which was previously an unencumbered asset, were used to fund the purchase of the Oregon Properties. The collateralized loan, which bears interest at the Three Month LIBOR, with a floor of 50 basis points, plus a spread of 4.00%, has a 25 year amortization schedule and matures on December 30, 2017. The loan may be prepaid with no penalty after 12 months.

The PrivateBank and Trust Company

Winston-Salem Property ("Danby Loan")

On January 31, 2013, we entered into a loan agreement for $7.3 million which is collateralized by the Danby House facility, bears interest at one-month LIBOR plus 4.00% with a LIBOR floor of 1.00%. The Danby Loan matures on January 30, 2016, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the Danby Loan will become due. The Danby Loan is amortized over 25 years with principal amounts being paid into a sinking fund. As of December 31, 2014 and 2013, we had net borrowings of $7.3 million under the loan. We are currently in the process of refinancing this debt with HUD insured loans.

North Carolina Portfolio ("North Carolina Loan")

On October 4, 2013, we entered into a loan agreement for $11.4 million which was collateralized by the Carteret House, Hamlet House, and Shelby House properties (the "North Carolina Loan"). The North Carolina Loan bears interest at one-month LIBOR plus 4.25% with a LIBOR floor of 1.00%. The North Carolina Loan would have matured on October 3, 2016, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the North Carolina Loan would become due. The North Carolina Loan was amortized over 25 years with principal amounts being paid into a sinking fund. In November 2014, we refinanced the North Carolina Loan with HUD insured debt. (See below for further information – HUD 2).

Colorado Properties ("Colorado Loan")

In conjunction with the acquisition of the Lamar Estates and Monte Vista Estates properties on September 22, 2014, we entered into a loan agreement with The PrivateBank and Trust Company for a loan in the aggregate principal amount of $6.0 million collateralized by a first lien security interest in the Lamar and Monte Vista properties. The Colorado Loan bears interest at one-month LIBOR plus 4.50% with a LIBOR floor of .25%. The Colorado Loan matures on September 21, 2017, at which time all outstanding principal, accrued and unpaid interest and any other amounts due under the Colorado Loan will become due. The Colorado Loan is amortized over 25 years with principal amounts being paid into a sinking fund. As of December 31, 2014, we had net borrowings of $6.0 million under the loan agreement.

Myrtle Point ("Myrtle Point Loan")

In conjunction with the acquisition of the Myrtle Point property, we entered into a loan agreement collateralized by the property and cross-collateralized with two of our other properties, Lamar Estates and Monte Vista Estates. On October 31, 2014, we amended an existing loan agreement with The PrivateBank and Trust Company to increase the principal amount of the loan by $3.1 million collateralized by an interest in three properties. This loan, which bears interest at the One Month LIBOR (London Interbank Rate), with a floor of 25 basis points, plus a spread of 4.50%, has a 25 year amortization schedule and matures on October 30, 2017. This loan may be prepaid with no penalty if Myrtle Point is refinanced through a HUD insured loan. As of December 31, 2014, we had net borrowings of $3.1 million under the loan agreement.

During the years ended December 31, 2014 and 2013, we incurred approximately $1.0 million and $0.5 million of interest expense, respectively, related to The PrivateBank loans.

Lancaster Pollard Mortgage Company, LLC

HUD 1 Loans

In September 2014, we refinanced separately the Farmington Square, Fernhill, Sheridan, and Pacific properties with loans ("HUD 1") from Lancaster Pollard. HUD 1 is insured by HUD and collateralized by each of the respective properties. The loans bear interest at a fixed rate of 3.78%, plus 0.65% for mortgage insurance premiums, for the life of the loans. The Fernhill, Sheridan, and Pacific loans mature on September 30, 2039 and amortize over 25 years. The Farmington Square loan matures on September 30, 2049 and amortizes over 35 years. As of December 31, 2014, we had net borrowings of $24.2 million under the HUD 1 loan agreements.

HUD requires that our lender hold certain reserves for property tax, insurance, and capital expenditures. These reserves are included in restricted cash on the Company's Consolidated Balance Sheets.

HUD 2 Loans

In November 2014, we refinanced separately the Carteret House, Hamlet House, and Shelby House properties with loans ("HUD 2") from Lancaster Pollard. HUD 2 is insured by HUD and collateralized by each of the respective properties. The loans bear interest at a fixed rate of 3.75%, plus 0.65% for mortgage insurance premiums, for the life of the loan. The loans mature on December 1, 2049 and amortize over 35 years. As of December 31, 2014, we had net borrowings of $12.6 million under the HUD 2 loan agreements.

HUD requires that our lender hold certain reserves for property tax, insurance, and capital expenditures. These reserves are included in restricted cash on the Company's Consolidated Balance Sheets.
During the year ended December 31, 2014, we incurred approximately $0.3 million of interest expense related to HUD loans.

2013 Terminated Loans Payable

Wells Fargo Bank, National Association

In the first quarter of 2013, we sold the Carter property for cash proceeds of $1.7 million and used $0.6 million to pay down the loan with Wells Fargo Bank, National Association ("Wells Fargo"). In the third quarter of 2013, we sold two of the four Shoemaker Industrial buildings, Goldenrod Commerce Center, Hanging Moss Commerce Center, Monroe South Commerce Center and Monroe North Commerce Center for $24.0 million in cash and used $5.6 million of the proceeds to pay off the Wells Fargo loan in its entirety. During the year ended December 31, 2013, we incurred $0.1 million of interest expense related to this loan.

Transamerica Life Insurance Company

The Transamerica Life Insurance Company ("Transamerica") loan agreement was collateralized by the Monroe North Commerce Center Property. On September 6, 2013, we sold this property, along with three other industrial properties, and used $6.7 million of the net proceeds to pay-off the Transamerica loan of $6.3 million and paid a prepayment penalty fee of $0.4 million. During the year ended December 31, 2013, we incurred $0.3 million of interest expense related to this loan.

General Electric Capital Corporation – Western Property

On September 7, 2012, we entered into a loan agreement (the "Western Loan") with General Electric Capital Corporation for a loan in the aggregate amount of approximately $8.9 million, collateralized by the 20100 Western Avenue property and on January 23, 2013, we sold the 20100 Western Avenue property for cash proceeds of $17.6 million and paid off the entire balance of the Western Loan. The Western Loan, which bore interest at LIBOR plus 4.30%, with a LIBOR floor of 0.25%, was due to mature on September 30, 2014. During the year ended December 31, 2013, we incurred $0.1 million of interest expense related to this loan.

11. Commitments and Contingencies

We monitor our properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, we are not currently aware of any environmental liability with respect to the properties that would have a material effect on our consolidated financial condition, results of operations and cash flows. Further, we are not aware of any environmental liability or any unasserted claim or assessment with respect to an environmental liability that we believe would require additional disclosure or the recording of a loss contingency.

Our commitments and contingencies include the usual obligations of real estate owners and operators in the normal course of business. In the opinion of management, these matters are not expected to have a material impact on our consolidated financial condition, results of operations and cash flows. We are subject to contingent losses related to the notes receivable and note receivable from related party. For further details see Notes 5 and 6. We are also subject to contingent losses resulting from litigation against the Company.

On April 1, 2014, CRA and Cornerstone Ventures, Inc. filed a complaint in the Superior Court of California for the County of Orange-Central Justice Center, Case No. 30-2014-00714004-CU-BT-CJC, naming the Company, its directors and two of its officers as defendants, seeking declaratory and injunctive relief and compensatory and punitive damages. On April 17, 2014, Judge Nakamura denied in its entirety plaintiffs' ex parte application for a temporary restraining order to show cause why a preliminary injunction against the defendants should not issue. On May 19, 2014, the Company filed a counter claim against plaintiffs and certain individuals affiliated with CRA and affiliated entities. The Company continues to believe that all of plaintiffs' claims are without merit and will continue to vigorously defend itself. Plaintiffs and defendants are conducting discovery.

On April 4, 2014, we entered into a lease agreement effective May 1, 2014 for corporate office space located in Lake Forest, California. The term of the lease is for three years. Base rent is $71,270 for the first year of the lease, $76,186 for the second year of the lease, and $81,100 for the third year of the lease.

In connection with our becoming the licensed operator of Friendship Haven through a wholly-owned taxable REIT subsidiary, we have entered into a two year management agreement with an affiliate of Stonegate. The management agreement calls for us to pay to Stonegate a termination fee if we terminate the agreement within the first twelve months of the term (March 26, 2014 to March 26, 2015). The termination fee is equal to three times the highest monthly management fee paid to Stonegate prior to the termination. As of December 31, 2014, the termination fee would be approximately $110,000.

The Company has entered into indemnification agreements with certain officers of the Company against all judgments, penalties, fines and amounts paid in settlement and all expenses actually and reasonably incurred by him or her in connection with any proceeding.

Purchase Option

As of December 31, 2014, we own one property with a book value of approximately $7.8 million that is subject to a purchase option that became exercisable on September 14, 2014. The option provides the option holder with the right to purchase the property at increasing exercise price intervals based on elapsed time, starting at $10.8 million. The option expires August 13, 2022. As of December 31, 2014, the option holder has not provided notice or exercised their option.

Purchase Agreement

In November 2013, a limited liability company in which we hold a minority interest entered into a build-to-suit purchase agreement whereby the entity agreed to purchase a 70 unit assisted living facility in Athens, Georgia for approximately $12.4 million upon substantial completion of the facility. In the event the entity does not purchase the building as provided for in the purchase agreement, the entity would be required to lease the facility from the seller for a ten year term at an annual rent amount equal to 8% of the cost of the facility. Summit Healthcare REIT is obligated to guarantee the payments associated with that lease. In the event that the lease is executed, the lease payment will equal approximately $1.0 million per year.

12. Discontinued Operations

Divestitures

In accordance with ASC 360, *Property, Plant & Equipment*, we report results of operations from real estate assets that meet the definition of a component of an entity that have been sold, or meet the criteria to be classified as held for sale, as discontinued operations.

Real Estate Held for Sale and Disposed

The Sherburne Commons property, a VIE that we began consolidating on June 30, 2011 (see Note 7), has been actively marketed since 2011. As of December 31, 2014 and 2013, the property has been classified as assets of variable interest entity held for sale and liabilities of variable interest entity held for sale and the results of operations for the variable interest entity held for sale have been presented in discontinued operations on the accompanying consolidated statements of operations for all periods presented. In January 2015, this property was sold (see Note 14 Subsequent Events).

On January 30, 2013, we sold our Carter Commerce Center property to Carter Commerce Center, LLC, for a sale price of $1.7 million and used $0.6 million of the proceeds to pay down the Wells Fargo loan collateralized by the property. On January 23, 2013, we sold Western Avenue to MMB Management, LLC, an unrelated third party, for a sale price of $17.6 million and used $8.9 million of the proceeds to pay off the GE loan related to the property. On June 27, 2013, we sold one of the two Marathon Center property buildings to Marathon Acquisitions, LLC, an unrelated third party, for $0.9 million in cash. On June 28, 2013, we sold the second of the two Marathon Center property buildings to Sulmor LLC, an unrelated third party, for $1.2 million in cash. On July 26, 2013, we sold our Santa Fe property to an unrelated third party for $1.7 million in cash. On August 5, 2013, we sold one of the four Shoemaker Industrial Buildings to an unrelated third party, for $0.6 million in cash. We used $0.4 million of the proceeds to pay down the Wells Fargo loan collateralized by the property. On August 14, 2013, we sold the second of the four Shoemaker Industrial Buildings to an unrelated third party, for $0.5 million in cash and used $0.4 million of the proceeds to pay down the Wells Fargo loan collateralized by the property. On September 6, 2013, we sold the Goldenrod Commerce Center, Hanging Moss Commerce Center, Monroe South Commerce Center and Monroe North Commerce Center properties to an unrelated third party for $24.0 million in cash. We used $11.5 million of the sales proceeds to pay off the Wells Fargo Bank and Transamerica Life Insurance Company loans collateralized by the properties (see Note 10) and paid a prepayment penalty of $0.4 million related to the Transamerica loan. On October 28, 2013, we sold the third of four Shoemaker Industrial buildings to an unrelated third party, for $0.6 million in cash. On November 26, 2013, we sold the last Shoemaker Industrial building to an unrelated third party, for $0.5 million in cash.

No real estate investments were disposed in 2014.

The following is a summary of the components of (loss) income from discontinued operations for the years ended December 31, 2014 and 2013:

	2014	2013
Rental revenues, tenant reimbursements and other income	$ 2,514,000	$ 4,373,000
Operating expenses, real estate taxes, and interest expense	(2,740,000)	(4,957,000)
Depreciation and amortization	-	(506,000)
Impairment of real estate	-	(3,368,000)
Gain on sales of real estate, net	-	5,967,000
(Loss) income from discontinued operations	$ (226,000)	$ 1,509,000

For the years ended December 31, 2014 and 2013, we recorded impairment charges of $0 million and $3.4 million, respectively, related to real estate held for sale and these impairment charges are classified in discontinued operations in our consolidated statements of operations.

The following table presents balance sheet information for the properties classified as held for sale as of December 31:

	2014	2013
Assets of variable interest entity held for sale:		
Cash and cash equivalents	$ 36,000	$ 124,000
Investments in real estate, net	3,905,000	3,905,000
Accounts receivable, inventory and other assets	198,000	270,000
Total assets	$ 4,139,000	$ 4,299,000
Liabilities of variable interest entity held for sale:		
Note payable	$ 1,332,000	$ 1,332,000
Loan payable	117,000	219,000
Accounts payable and accrued liabilities	466,000	600,000
Intangible lease liabilities, net	145,000	145,000
Interest payable	640,000	473,000
Liabilities of variable interest entity held for sale	$ 2,700,000	$ 2,769,000

13. Segment Reporting

ASC 280, *Segment Reporting*, establishes standards for reporting financial and descriptive information about an enterprise's reportable segments. As of December 31, 2014, we operate in one reportable segment: healthcare. This segment consists of senior-housing facilities leased to healthcare operating companies under long-term triple net leases, which require the tenants to pay all property-related expenses.

During 2013, with the acquisitions of healthcare real estate in mid-2012 and 2013, we began to operate in two reportable segments: industrial and healthcare. As part of our transition strategy, we sold the remaining industrial properties in 2013. Therefore, for the year ended December 31, 2013, all the industrial properties have been sold and reclassified as held for sale (see Note 12) and the results of its operations are all reported in discontinued operations.

14. Subsequent Events

Sale of VIE

On January 7, 2015, through our operating partnership, we sold Sherburne Commons, a 60 unit senior housing facility in Nantucket, Massachusetts, to The Residences at Sherburne Commons, Inc. ("Sherburne Buyer"), an unaffiliated Massachusetts non-profit corporation, in exchange for $5.0 million, as evidenced by a purchase money note from Sherburne Buyer to us as the lender. We were previously the holder of a leasehold mortgage from Nantucket Acquisition, LLC and successfully foreclosed on the mortgage on October 6, 2014. See Notes 6 and 7. In conjunction with the sale of the property, we assigned our foreclosure bid to the Buyer.

The purchase money note is secured by the Sherburne Commons property, bears an annual interest rate of 3.5% and matures on December 31, 2017. At Sherburne Buyer's election, interest may accrue and not be payable through December 31, 2015 with all accrued but unpaid interest being payable in full on January 1, 2016. Outstanding and unpaid principal and interest due shall be paid from the net proceeds payable to Sherburne Buyer from the sale of the residential cottages in Sherburne Commons. We may also participate in additional interest of up to $1 million from 50% of the net proceeds of cottage sales through December 31, 2018.

Acquisition of Front Royal, Virginia property

On January 23, 2015, through a wholly-owned subsidiary, we acquired an 84 bed assisted living facility in Front Royal, Virginia ("Loving Arms") from two unaffiliated third parties for an aggregate of $14.3 million, which was funded through cash on hand plus the proceeds from the loan described below. Loving Arms is leased to an affiliate of Meridian Senior Living, LLC under a 15 year triple net lease.

We acquired our interest in Loving Arms subject to a first priority mortgage loan collateralized by the Loving Arms property and cross-collateralized with three of our other properties, Lamar Estates, Monte Vista Estates, and Myrtle Point. On January 23, 2015, we amended an existing loan agreement with The PrivateBank and Trust Company to increase the principal amount available under that existing loan by $11.4 million for a total principal availability of $20.5 million collateralized by a first priority security interest in four properties. All availability under this loan is outstanding. The loan, which bears interest at the One Month LIBOR (London Interbank Rate), with a floor of 25 basis points, plus a spread of 4.50%, has a 25 year amortization schedule and matures on September 21, 2017. The loan may be prepaid with no penalty if the four properties are refinanced through HUD.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUMMIT HEALTHCARE REIT, INC.

Date: March 20, 2015

By: /s/ Kent Eikanas
Kent Eikanas
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 20, 2015.

Name	Title
/s/ Kent Eikanas Kent Eikanas	President (Principal Executive Officer)
/s/ Elizabeth A. Pagliarini Elizabeth A. Pagliarini	Chief Financial Officer (Principal Financial Officer)
/s/ Paul Danchik Paul Danchik	Director
/s/ Daniel L. Johnson Daniel L. Johnson	Director
/s/ J. Steven Roush J. Steven Roush	Director

EXHIBIT INDEX

Ex.	Description
3.1	Amendment and Restatement of Articles of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on March 24, 2006).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.3 to Post-Effective Amendment No. 1 to the Registration Statement on Form S-11 (No. 333-121238) filed on December 23, 2005 ("Post-Effective Amendment No. 1")).
3.3	Articles of Amendment of Cornerstone Core Properties REIT, Inc. dated October 16, 2013 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 22, 2013).
3.4	Second Articles of Amendment and Restatement of Articles of Incorporation of Cornerstone Core Properties Reit, Inc. dated June 30, 2010.
4.1	Subscription Agreement (incorporated by reference to Appendix A to the prospectus included on Post-Effective Amendment No. 2 to the Registration Statement on Form S-11 (No. 333-155640) filed on April 16, 2010 ("Post-Effective Amendment No. 2")).
4.2	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-11 (No. 333-121238) filed on December 14, 2004).
4.3	Amended and Restated Distribution Reinvestment Plan (incorporated by reference to Appendix B to the prospectus dated April 16, 2010 included on Post-Effective Amendment No. 2).
10.1	Amended and Restated Advisory Agreement, dated September 20, 2005 (incorporated by reference to Exhibit 10.1 to Post-Effective Amendment No. 1).
10.2	Amendment No. 1 to the Amended and Restated Advisory Agreement dated as of August 31, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012).
10.3	Amendment No. 2 to the Amended and Restated Advisory Agreement dated as of November 11, 2012 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012).
10.4	Agreement of Limited Partnership of Cornerstone Operating Partnership, L.P. (incorporated by reference to Exhibit 10.2 to Pre-Effective Amendment No. 4 to the Registration Statement on Form S-11 (No. 333-121238) filed on August 30, 2005).
10.5	Form of Employee and Director Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Pre-Effective Amendment No. 2 to the Registration Statement on Form S-11 (No. 333-121238) filed on May 25, 2005).
10.6	Promissory Note in the amount of $6,640,000.00 made as of December 14, 2009 by NANTUCKET ACQUISITION LLC, to and in favor of CORNERSTONE OPERATING PARTNERSHIP, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 17, 2009).

10.7	Promissory Note (with Shared Appreciation) in the amount of $1,360,000.00 made as of December 14, 2009 by NANTUCKET ACQUISITION LLC, to and in favor of CORNERSTONE OPERATING PARTNERSHIP, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 17, 2009).
10.8	Leasehold Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing made as of December 14, 2009, by NANTUCKET ACQUISITION LLC, as Borrower to CORNERSTONE OPERATING PARTNERSHIP, L.P., as Lender (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 17, 2009).
10.9	Operating Agreement for Nantucket Acquisition LLC dated as of December 14, 2009 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 17, 2009).
10.10	Indemnification Agreement dated December 29, 2011 by and between the Company and Paul Danchik (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012).
10.11	Indemnification Agreement dated December 29, 2011 by and between the Company and Daniel Johnson (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on March 30, 2012).
10.12	Lease Agreement between CHP Medford 1, LLC and RSL Medford, LLC dated September 14, 2012 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.13	Loan Agreement between General Electric Capital Corporation and CHP Portland, LLC, CHP Medford 1, LLC, and CHP Friendswood SNF, LLC dated September 13, 2012 (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.14	Cornerstone Healthcare Partners LLC Operating Agreement dated June 11, 2012 (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2012).
10.15	Assignment of Option Right Agreement effective December 24, 2012 between Pacific Gardens Estates, LLC and CHP Tigard, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 28, 2012).
10.16	Term Loan and Security Agreement between The PrivateBank and Trust Company and HP Winston-Salem, LLC dated January 31, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 5, 2013).
10.17	Purchase and Sale Agreement effective January 28, 2013 and assigned to HP Aledo, LLC on July 2, 2013 between Cornerstone Healthcare Real Estate Fund, Inc. and Aledo Senior Housing, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 3, 2013).
10.18	Loan Agreement by and among General Electric Capital Corporation, as administrative agent and lender, other lenders thereto, and HP Aledo, LLC, dated July 2, 2013 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 3, 2013).
10.19	Purchase and Sale Agreement dated July 30, 2013 by and between the Company and Hamlet Health Investors, LLC and Newport Health Investors, LLC (incorporated by reference to Exhibit 10.75 to the Company's Annual Report on Form 10-K filed on March 31, 2014).

10.20	Purchase and Sale Agreement dated July 30, 2013 by and between the Company and WPC Salem, LLC (incorporated by reference to Exhibit 10.76 to the Company's Annual Report on Form 10-K filed on March 31, 2014).
10.21	Purchase and Sale Agreement dated June 6, 2013 by and between the Company and Rio Hondo Capital Partners, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 29, 2013).
10.22	Term Loan and Security Agreement between The PrivateBank and Trust Company and HP Carteret, LLC, HP Hamlet, LLC, and HP Shelby, LLC dated October 4, 2013 (incorporated by reference to Exhibit 10.78 to the Company's Annual Report on Form 10-K filed on March 31, 2014).
10.23	Office Building Lease between Olen Commercial Realty Corp. and the Company dated April 4, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 17, 2014).
10. 24	Indemnification Agreement dated July 31, 2014 by and between the Company and Kent Eikanas (incorporated by reference to the form of such agreement on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 1, 2014).
10.25	Indemnification Agreement dated July 31, 2014 by and between the Company and Dominic Petrucci and Kairos Partners, Inc. (incorporated by reference to the form of such agreement on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 1, 2014).
10.26	Indemnification Agreement dated September 2, 2014 by and between the Company and Elizabeth Pagliarini (incorporated by reference to the form of such agreement on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 3, 2014).
10.27	Indemnification Agreement dated September 2, 2014 by and between the Company and Peter Elwell (incorporated by reference to the form of such agreement on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 3, 2014).
10.28	Healthcare Facility Note (incorporated by reference to the form of such note on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 23, 2014).
10.29	Lease Agreement between CHP Portland, LLC, CHP Tigard, LLC and Sheridan Care Center LLC, and SNF Management, LLC dated September 1, 2014.
10.30	Term Loan and Security Agreement, dated September 22, 2014, by and among Summit Lamar, LLC, Summit Monte Vista, LLC and The PrivateBank and Trust Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 6, 2014 and Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on November 13, 2014), as amended by that First Amendment to Term Loan and Security Agreement, dated October 31, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 6, 2014).
10.31	Healthcare Facility Note (incorporated by reference to the form of such note on Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 2, 2014).
10.32	Healthcare Regulatory Agreement (incorporated by reference to the form of such agreement on Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 2, 2014).
10.33	Purchase and Sale Agreement, dated September 17, 2014, by and among the Company, Cook-Knighting Realty, LLC and Cook-Knighting, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 15, 2014).

10.34	Purchase and Sale Agreement, dated September 24, 2014, by and between Whitbrit, LLC and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 23, 2014), as amended by that First Amendment to Purchase and Sale Agreement, dated December 15, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 23, 2014).
14.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the Company's Annual Current Report on Form 8-K filed on June 23, 2014).
21.1	List of Subsidiaries (filed herewith).
31.1	Certification of Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 3.4

CORNERSTONE CORE PROPERTIES REIT, INC.

SECOND ARTICLES OF AMENDMENT AND RESTATEMENT OF
ARTICLES OF INCORPORATION

FIRST: Cornerstone Core Properties REIT, Inc., a Maryland corporation, desires to amend and restate its charter as currently in effect and as hereinafter amended.

SECOND: The following provisions are all the provisions of the charter currently in effect and as hereinafter amended:

ARTICLE 1
THE COMPANY; DEFINITIONS

Section 1 REIT, Inc. Name. The name of the corporation (the "Company") is: Cornerstone Core Properties

Section 1.2 Resident Agent. The name and address of the resident agent for service of process of the Company in the State of Maryland is The Corporation Trust Incorporated, 300 East Lombard Street, Baltimore, Maryland 21202. The Registered Agent is a Maryland corporation.

Section 1.3 Nature of Company. The Company is a Maryland corporation within the meaning of the Maryland General Corporation Law.

Section 1.4 Principal Office of Company. The address of the Company's principal office in the State of Maryland is c/o The Corporation Trust Incorporated, 300 East Lombard Street, Baltimore, Maryland 21202.

Section 1.5 Purpose. The purposes for which the Company is formed are to engage in any lawful act or activity (including, without limitation or obligation, qualifying as a real estate investment trust under Sections 856 through 860, or any successor sections, of the Internal Revenue Code of 1986, as amended (the "Code")), for which corporations may be organized under the MGCL and the general laws of the State of Maryland as now or hereafter in force**.**

Section 1.6 Definitions. As used in the Charter, the following terms shall have the following meanings unless the context otherwise requires (certain other terms used in Article 9 hereof):

Acquire is defined in Section 9.1

Acquisition Expenses means expenses related to the Company’s sourcing, 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, costs of financial analysis, appraisals and surveys, nonrefundable option payments of Property not acquired, accounting fees and expenses, computer use-related expenses, architectural and engineering reports, environmental reports, title insurance and escrow fees, and personnel and other direct expenses related to the selection and acquisition of Properties.

Acquisition Fee means any and all fees and commissions, exclusive of Acquisition Expenses, paid by any Person to any Person (including any fees or commissions paid by or to any Affiliate of the Company or the Advisor) in connection with the making or investing in mortgage loans or the purchase development or construction of a Property, including, with limitation, real estate commissions, acquisition fees, finder’s fees, selection fees, Development Fees and Constructions Fees (except as provided in the following sentence), nonrecurring management fees, consulting fees, loan fees, points, or any other fees or commissions of a similar nature. Excluded shall be any commissions or fees incurred in connection with the leasing of any Property, and Development Fees or Construction Fees paid to any Person or entity not affiliate with the Advisor in connection with the actual development and construction of any Property.

Advisor means the Person responsible for directing or performing the day-to-day business affairs of the Company, including a Person to which an Advisor subcontracts substantially, all such functions. The Advisor is Cornerstone Realty Advisors, LLC or any Person which succeeds it in such capacity.

Advisory Agreement means the agreement between the Company and the Advisor pursuant to which the Advisor will direct or perform the day-to-day business affairs of the Company, as it may be amended or restated from time to time.

Affiliate or Affiliated means, as to any individual, corporation, partnership, trust. limited liability company or other legal entity (other than the Company), (i) any Person or entity directly or indirectly through one or more intermediaries controlling, controlled by, or under common control with another Person or entity; (ii) any Person or entity, directly or indirectly owning, controlling, or holding with power to vote ten percent (10%) or more of the outstanding voting Securities of another Person or entity; (iii) any officer, director, general partner or trustee of such Person or entity; (iv) any Person ten percent (10%) or more of whose outstanding voting Securities are directly or indirectly owned, controlled or held, with power to vote, by such other Person; and (v) if such other Person or entity is an officer**,** director, general partner, or trustee of a Person or entity, the Person or entity for which such Person or entity acts in any such capacity.

Appraised Value means value according to an appraisal made by an Independent Appraiser.

Asset Management Fee means the fee paid to the Advisor for directing or performing the day-to-day business affairs of the Company in the amount established pursuant to Section 9(b) of the Advisory Agreement.

Assets means any and all GAAP assets including but not limited to all real estate investments (real, personal or otherwise), tangible or intangible, owned or held by, or for the account of, the Company, whether directly or indirectly through another entity or entities, including interests in any Person or in Joint Ventures which directly or indirectly own real estate.

Average Invested Assets means, for a specified period, the average of the aggregate GAAP basis book carrying values of the assets of the Company invested, directly or indirectly, in equity interests in and loans secured by real estate before reserves for depreciation or bad debts or other similar non-cash reserves, computed by taking the average of such values at the end of each month during such period.

Beneficial Ownership is defined in Section 9. 1

Beneficiary is defined in Section 9.1

Business Day shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close**.**

Board of Directors or Board means the individuals holding such office, as of any particular time, under the Articles of Incorporation of the Company, whether they be the Directors named therein or additional or successor Directors**.**

Bylaws means the Bylaws of the Company, as the same may be amended from time to time.

Cash from Financings means the net cash proceeds realized by the Company from the financing of Property or from the refinancing of any Company indebtedness.

Cash from Sales means the net cash proceeds realized by the Company from the sale, exchange or other disposition of any of its Assets after deduction of all expenses incurred in connection therewith**.** Cash from Sales shall not include Cash from Financings.

Cash from Sales and Financings means Cash from Sales plus Cash from Financings

Change of Control means any event (including, without limitation, issue, transfer or other disposition of shares of capital stock of the Company or equity interests in the Operating Partnership, merger, share exchange or consolidation) after which any "person" (as that term is used in Section 13(d) and 14 (d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-j of the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company or the Operating Partnership representing greater than 50% or more of the combined voting power of the Company's or the Operating Pai1nership's then-outstanding securities, respectively; provided, that, a Change of Control shall not be deemed to occur as a result of any widely distributed public offering of the Common Stock

Charter means the charter of the Company, including the Articles of Incorporation and all Articles of Amendment, Articles Supplementary and other modifications thereto as filed with the State Department of Assessments and Taxation of the State of Maryland (the "SDAT").

Code means the Internal Revenue Code of 1 986, as amended from time to time, or any successor statute thereto. Reference to any provision of the Code shall mean such provision as in effect from time to time, as the same may be amended, and any successor provision thereto, as interpreted by any applicable regulations as in effect from time to time.

Common Stock means shares of the Company's common stock, $.001 par value per share, the terms and conditions of which are set forth in Section 8.2 hereof.

Common Stockholders. The holders of record of Common Stock. Common Stock Ownership Limit is defined in Section 9.1.

Company means Cornerstone Core Properties REIT, Inc., a corporation organized under the laws of the State of Maryland.

Company Value means the Appraised Value of the Company's assets less all of its liabilities as of the Termination Date, provided that if such Company Value is being determined in connection with a Change of Control that establishes the Company's value, then the Company Value shall be the value established thereby.

Competitive Real Estate Commission. A real estate or brokerage commission paid for the purchase or sale of a Property that is reasonable, customary and competitive in light of the size, type and location of the Property.

Constructive Ownership Equity is defined in Section 9.1.

Construction Fee means a fee or other remuneration for acting as general contractor and/or construction manager to construct, supervise or coordinate leasehold or other improvements or projects, or to provide major repairs or rehabilitation for a Property.

Contract Purchase Price means the amount actually paid or allocated in respect of the purchase, development, construction or improvement of a property exclusive of Acquisition Fees and Acquisition Expenses.

Dealer Manager means Pacific Cornerstone Capital, Inc., an Affiliate of the Advisor, or such other Person or entity selected by the Board of Directors to act as the dealer manager for the offering of the Stock. Pacific Cornerstone Capital, Inc. is a member of the National Association of Securities Dealers, Inc.

Development Fee means a fee for the packaging of a Property, including negotiating and approving plans, and undertaking to assist in obtaining zoning and necessary variances and financing for the specific Property, either initially or at a later date.

Director means an individual who is a member of the Board of Directors.

Disposition Fee means the Disposition Fee as defined in Section 9(d) of the Advisory Agreement.

Dividends means any dividends or other distributions of money or other property paid by the Company to the holders of Common Stock or Preferred Stock, including dividends that may constitute a return of capital for federal income tax purposes.

Excess Expense Guidelines is defined in Section l 0 (c)(iii) of the Advisory Agreement.

FFO means funds from operations which is net income, calculated in accordance with GAAP, excluding gains (or losses) from dispositions of real estate held for investment purposes and real estate-related depreciation and amortization, plus the Company's pro rata share of funds from operations of consolidated and unconsolidated joint ventures.

GAAP means generally accepted accounting principles consistently applied as used in the United States.

Gross Proceeds means the aggregate purchase price of all Stock sold for the account of the Company, including Stock sold pursuant to the Reinvestment Plan, without deduction for Sales Commissions, volume discounts, fees paid to the Dealer Manager or other Organization and Offering Expenses. Gross Proceeds does not include Stock issued in exchange for OP Units.

Independent Appraiser means a person or entity, who is not an Affiliate of the Advisor or the Directors, who is engaged to a substantial extent in the business of rendering opinions regarding the value of assets of the type held by the Company, and who is a qualified appraiser of real estate as determined by the Board. Membership in a nationally recognized appraisal society such as the American Institute of Real Estate Appraisers or the Society of Real Estate Appraisers shall be conclusive evidence of such qualification.

Independent Director means a Director who is not, and within the last two (2) years has not been, directly or indirectly associated with the Sponsor or the Advisor by virtue of (i) ownership of an interest in the Sponsor, Advisor or their Affiliates, (ii) employment by the Sponsor, Advisor or their Affiliates, (iii) service as an officer or director of the Sponsor, Advisor or their Affiliates, (iv) performance of services, other than as a Director, for the Company, (v) service as a director or trustee of more than three (3) real estate investment trusts organized by the Sponsor or advised by the Advisor, or (vi) maintenance of a material business or professional relationship with the Sponsor, Advisor or any of their Affiliates. An indirect relationship shall include circumstances in which a Director’s spouse, parents, children, siblings, mothers-or fathers-in-law, sons-or daughters-in-law are or have been associated with the Sponsor, Advisor, any of their Affiliates or the Company. A business or professional relationship is considered material if the gross revenue derived by the Director from the Sponsor, Advisor and Affiliates exceeds five percent (5%) of either the Director's annual gross revenue during either of the last two (2) years or the Director's net worth on a fair market value basis.

Initial Public Offering means the offering and sale of Common Stock of the Company pursuant to the Company's first effective registration statement covering such Common Stock filed under the Securities Act of 1933, as amended.

Invested Capital means the amount calculated by multiplying the total number of shares of Common Stock purchased by Stockholders by (i) the Offering Price for the Stock or (ii) for Stock not purchased in an Offering, the issue price for the Stock; in each case reduced by any Dividends or distributions, other than stock dividends, which represent a return of capital and any amounts paid by the Company to repurchase shares of Stock pursuant to a plan for repurchase of the Company's Stock.

Joint Venture or Joint Ventures means those joint venture or general partnership arrangements in which the Company or the Operating Partnership is a co-venturer or general partner which are established to acquire Properties,

Leasing Agent means an entity that has been retained to perform and carry out leasing activities for one or more of the Properties.

Listed means the Securities are approved for trading on a national securities exchange or for quotation on the NASDAQ National Market System. The term “Listing” shall have the correlative meaning.

Listing Date means the date that the Common Stock is first Listed.

Market Value means the aggregate market value of all of the outstanding Common Stock, measured by taking the average closing price or average of bid and asked price, as the case may be, during the consecutive 30-day period commencing twelve (12) months following Listing and ending eighteen (18) months following Listing during which the average closing price or average of bid and asked price of the Stock is the highest.

Market Price is defined in Section 9.1.

MGCL. The Maryland General Corporation Law, as amended from time to time.

Mortgage means mortgages, deeds of trust or other security interests on or applicable to real property.

NASAA means the North American Securities Administrators Association, Inc.

NASAA Net Income means for any period, the total revenues applicable to such period, less the total expenses applicable to such period excluding additions to reserves for depreciation, bad debts or other similar non cash reserves; provided, however, NASAA Net Income for purposes of calculating total allowable Operating Expenses shall exclude the gain or loss from the sale of the Company's Assets.

NASAA REIT Guidelines means the Statement of Policy Regarding Real Estate Investment Trusts published by the North American Securities Administrators Association.

Net Asset Value means the total Assets including intangible assets relating to SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets (but not including other GAAP intangibles) at cost before deducting depreciation or other non-cash reserves less total liabilities, calculated at least quarterly on a basis consistently applied.

Net Income means net income as calculated in accordance with GAAP.

Net Sale Proceeds means in the case of a transaction described in clause (A) of the definition of Sale, the net proceeds of any such transaction less the amount of all real estate commissions and closing costs paid by the Operating Partnership. In the case of a transaction described in clause (B) of such definition, Net Sale Proceeds means the net proceeds of any such transaction less the amount of any legal and other selling expenses incurred by the Operating Partnership in connection with such transaction. In the case of a transaction described in clause (C) of such definition, Net Sale Proceeds means the net proceeds of any such transaction actually distributed to the Operating Partnership from the Joint Venture less any incurred by the Operating Partnership in connection with such transaction. In the case of a transaction or series of transactions described in clause (D) of the definition of Sale, Net Sale Proceeds means the net proceeds of any such transaction less the amount of all commissions and closing costs paid by the Operating Partnership. In the case of a transaction described in clause (E) of such definition**,** Net Sale Proceeds means the net proceeds of any such transaction less the amount of all selling costs and other expenses incurred by the Operating Partnership in connection with such transaction. Net Sale Proceeds shall also include, in the case of any lease of a Property consisting of a building only, any amounts from tenants, borrowers or lessees that the Company, as general partner of the Operating Partnership determines in its discretion, to be economically equivalent to the proceeds of a Sale. Net Sale Proceeds shall not include any amounts used to repay outstanding indebtedness secured by the asset disposed of in the sale.

Offering means an offering of Stock that is registered with the U.S. Securities and Exchange Commission, excluding Stock offered under any employee benefit plan.

Offering Price means, with respect to each share of Stock, the highest price at which such Stock was offered by the Company in the Offering pursuant to which such Stock was issued, without regard to any price reductions for certain types of purchasers or volume discounts.

Operating Expenses means all direct and indirect costs and expenses incurred by the company as determined under generally accepted accounting principles which in any way are related to the operation of the Company or to Company business, included advisory fees, but excluding (i) the expenses of raising capital such as Organization and Offering Expenses, legal, audit, accounting, underwriting brokerage, listing registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and Listing of the Stock, (ii) interest payments, (iii) taxes, (iv) non-cash expenditures such as depreciation, amortization and bad debt reserves, (v) Acquisition Fees and Acquisition Expenses, (vi) real estate commission on Sale of property, and other expenses in connection with the acquisition and ownership of real estate interest, mortgage loans or other property (such as the costs of foreclosure, insurance premiums, legal services maintenance, repair and improvement of property maintenance, repair and improvement of property) and (vii) any incentive fees which may be paid in compliance with the NASAA REIT Guidelines, The definition of "Operating Expenses" set forth above is intended to encompass only those expenses which are required to be treated as Operating Expenses under the NASAA REIT Guidelines. As a result, and notwithstanding the definition set forth above, any expenses of the Company which is not an Operating Expenses under the NASAA REIT Guidelines shall not be treated as an Operating Expense for purchases hereof.

Operating Partnership means Cornerstone Operating Partnership, L/P. which is the partnership through which the company may own Properties

Operating Partnership Agreement means the Limited Partnership Agreement of the Operating Partnership, as amended from time to time.

OP Unit means a unit of limited partnership interest in the Operating Partnership.

Organizational and Offering Expenses means any and all costs and expenses incurred by the Company, the Advisor or any Affiliate of either in connection with and in preparing the Company for registration of and subsequently offering and distributing its Stock to the public, which may include but are not limited to total underwriting and brokerage discounts and commissions (including fees of the underwriters' attorneys), legal accounting and escrow fees, expenses for printing engraving, amending, supplementing and mailing, distribution costs, compensation to employees while engaged in registering, marketing and wholesaling the Stock, telegraph and telephone costs, all advertising and marketing expenses (including the costs related to investor and broker-dealer sales meetings), charges of transfer agents, registrars, trustees, escrow holders, depositories, experts, and fees, expenses and taxes related to the filing, registration and qualification of the Sale of the Securities under Federal and State laws, including accountants' and attorneys' fees and other accountable offering expenses. Organization and Offering Expenses may include, but are not limited to: (i) amounts to reimburse the Advisors for all marketing related costs and expenses such as compensation to and direct expenses of the Advisor's employees or employees of the Advisor's Affiliates in connection with registering and marketing the Stock; (ii) compensation to and direct expenses of employees of the Dealer Manager while preparing for the offering marketing of the tock and in connection with their wholesaling activities but not Sales Commissions; (iii) travel and entertainment expenses related to the offering and marketing of the Stock; (iv) facilities and technology costs and other costs and expenses associate with the offering and to facilitate the marketing of the Stock including Web site design and management; (v) costs and expenses of conducting training and educational conferences and seminars' (vi) costs and expenses of attending broker-dealer sponsored retail seminars or conferences; and (vii) payment or reimbursement of bona fide due diligence expenses.

Ownership Limit is defined in Section 9.1.

Person shall mean any natural person, partnership, corporation, associate, trust, limited liability company or other Entity.

Preferred Stock means shares of the Company's preferred stock $.001 par value per share, which may be issued in one or more classes or series in accordance with Section 8.3 hereof.

Property or Properties means the real properties or real estate investments which are acquired by the Company either directly or through the Operating Partnership, Joint Ventures, partnerships or other entities.

Property Manager means any entity that has been retained to perform and carry out at one or more of the Properties property management services.

Prospectus means any document, notice, or other communication satisfying the standards set forth in Section 10 of the Securities Act of 1933, as amended, and contained in a currently effective registration statement filed by the Company with, and declared effective by, the Securities and Exchange Commission, or if no registration statement is currently effective, then the Prospectus contained in the most recently effective registration statement.

Purported Beneficial Holder is defined in Section 9.1.

Purported Beneficial Transferee is defined in Section 9. 1

Purported Record Holder is defined in Section 9.1.

Purported Record Transferee is defined in Section 9.1.

REIT means a corporation, trust or association which is engaged in investing in equity interests in real estate (including fee ownership and leasehold interests and interests in partnerships and Joint Ventures holding real estate) or in loans secured by mortgages on real estate or both and that qualifies as a real estate investment trust under the REIT Provisions of the Code.

REIT Provisions of the Code means Sections 856 through 860 of the Code and any successor or other provisions of the Code relating to real estate investment trusts (including provisions as to the attribution of ownership of beneficial interests therein) and the regulations promulgated thereunder.

REIT Stock Amount has the meaning set forth in the Operating Partnership Agreement. Reinvestment Plan is defined in Section 8.8.

Restriction Termination Date is defined in Section 9.1.

Roll-Up Entity means a partnership, real estate investment trust, corporation, trust or similar entity that would be created or would survive after the successful completion of a proposed Roll-Up Transaction.

Roll-Up Transaction means a transaction involving the acquisition merger, conversion, or consolidation, directly or indirectly, of the Company and the issuance of securities of a Roll-Up Entity. Such term does not include: (i) a transaction involving securities of the Company that have been listed on a national securities exchange or included for quotation on the Nasdaq/NMS for at least 12 months; or (ii) a transaction involving the conversion to corporate, trust, or association form of only the Company if, as a consequence of the transaction, there will be no significant adverse change in Stockholder voting rights, the term of existence of the Company, compensation to the Advisor or the investment objectives of the Company.

Sale or Sales means any transaction or series of transactions whereby: (A) the Operating Partnership sells, grants, transfers, conveys or relinquishes its ownership of any Property or portion thereof, including the lease of any Property consisting of the building only, and including any event with respect to any Property which gives rise to a significant amount of insurance proceeds or condemnation awards; (B) the Operating Partnership sells, grants, transfers, conveys or relinquishes its ownership of all or substantially all of the interest of the Operating Partnership in any Joint Venture in which it is a co-venturer or partner; (C) any Joint Venture in which the Operating Partnership is a co-venturer or partner sells, grants, transfers, conveys or relinquishes its ownership of any Property or portion thereof, including any event with respect to any Property which gives rise to insurance claims or condemnation awards; (D) the Operating Partnership sells, grants, conveys, or relinquishes its interest in any asset, or portion thereof, including any event with respect to any asset which gives rise to a significant amount of insurance proceeds or similar awards; or (E) the Operating Partnership sells or otherwise disposes of or distributes all of its assets in liquidation of the Operating Partnership.

Sales Commissions means any and all commissions payable to underwriters, dealer managers or other broker-dealers in connection with the sale of Stock, including, without limitation, commissions payable to the Dealer Manager.

Securities means any class or series of units or shares of the Company or the General Partner, including common shares or preferred units or shares and any other evidences of equity or beneficial or other interests, voting trust certificates, bonds, debentures, notes or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "Securities" or any certificates of interest, shares or participations in, temporary or interim certificates for, receipts for, guarantees of, or warrants, options or rights to subscribe to, purchase or acquire, any of the foregoing.

Securities Act means the Securities Act of 1933, as amended.

Soliciting Dealers means those broker-dealers that are members of the National Association of Securities Dealers, Inc., or that are exempt from broker-dealer registration, and that in either case, enter into participating broker or other selling agreements with the Deal Manager to sell shares of Stock.

Special 10% Stock Dividend means the 10% stock dividend authorized by the Board of Directors to be paid to the Stockholders of record on the date that the Company raises the first $125,000,000 in the Initial Public Offering.

Sponsor means any Person directly or indirectly instrumental in organizing, wholly or in part, the Company or any Person who will control, manage or participate in the management of the Company, and any Affiliate of such Person. Not included is any Person whose only relationship with the Company is as that of an independent Leasing Agent or Property Manager of the Company's assets and whose only compensation is as such. Sponsor does not include wholly independent third parties such as attorneys, accountants and underwriters whose only compensation is for professional services. A Person may also be deemed a Sponsor of the Company (as determined by a majority of the Directors, including a majority of the Independent Directors) by:

(a) taking the initiative, directly or indirectly, in founding or organizing the business or enterprise of the Company, either alone or in conjunction with one or more other Persons;

(b) receiving a material participation in the Company in connection with the founding or organizing of the business of the Company, in consideration of services or property, or both services and property;

(c) having a substantial number of relationships and contacts with the Company;

(d) possessing significant rights to control the Company's properties;

(e) receiving fees for providing services to the Company which are paid on a basis that is not customary in the industry; or

(t) providing goods or services to the Company on a basis which was not negotiated at arm’s length with the Company.

Stock means shares of stock of the Company of any class or series, including Common Stock, Preferred Stock or Stock-in-Trust.

Stock-in-Trust is defined in Section 9.1. Stockholders means the holders of record of Stock.

Stockholders’ 10% Return means**,** as of any date, an aggregate amount equal to a 10% cumulative, non- compounded, annual return on Invested Capital; provided, however, that for purposes of calculating the Stockholders’ 10% Return, any stock dividend shall not be included as a Dividend; and provided further that for purposes of determining the Stockholders' 10% Return, the return for each portion of the Invested Capital shall commence for purposes of the calculation upon the issuance of the shares issued in connection with such capital.

Stockholders 8% Return means, as of any date, an aggregate amount equal to a 8% cumulative, non-compounded, annual return on Invested Capital; provided, however that for purposes of calculating the Stockholders' 8% Return, any stock dividend shall not be included as a Dividend, and provided further that for purposes of determining the Stockholders' 8% Return, the return for each portion of the Invested Capital shall commence for purposes of the calculation upon the issuance of the shares issued in connection with such capital

Stockholders 6% Return means, as of any date, an aggregate amount equal to a 6% cumulative, non-compounded, annual return on Invested Capital; provided, however, that for purposes of calculating the Stockholders' 6% Return, any stock dividend shall not be included as a Dividend; and provided further that for purposes of determining the Stockholders' 6% Return, the return for each portion of the Invested Capital shall commence for purposes of the calculation upon the issuance of the shares issued in connection with such capital.

Subordinated Incentive Fee Due Upon Listing means**:**

(a) if (i) the sum of the Market Value plus the total Dividends paid to Stockholders through the Listing Date exceeds (ii) the sum of the aggregate Invested Capital plus the total Dividends required to be paid to the Stockholders in order to pay the Stockholders' 10% Return through the Listing Date, a fee equal to 15% of such excess amount**;**

(b) if the requirements of paragraph (a) above are not met, and (i) the sum of the Market Value plus the total Dividends paid to Stockholders through the Listing Date exceeds (ii) the sum of the aggregate Invested Capital plus the total Dividends required to be paid to the Stockholders in order to pay the Stockholders' 8% Return through the Listing Date, a fee equal to 10% of such excess amount; and

(c) if the requirements of paragraphs (a) and (b) above are not met, and (i) the sum of Market Value plus the total Dividends paid to Stockholders through the Listing Date exceeds (ii) the sum of the aggregate Invested Capital plus the total Dividends required to be paid to the Stockholders in order to pay the Stockholders' 6% Return through the Listing Date, a fee equal to 5% of such excess amount.

In the event that the Subordinated Incentive Fee Due Upon Listing is paid to the Advisor, thereafter, the Advisor will not be entitled to receive any payments of Subordinated Performance Fee Upon Termination or Subordinated Share of Net Sale Proceeds.

Subordinated Performance Fee Due Upon Termination means:

(a) if (i) the sum of Company Value plus the total Dividends paid to Stockholders through the Termination Date exceeds (ii) the sum of the aggregate Invested Capital plus the total Dividends required to be paid to the Stockholders in order to pay the Stockholders" 10% Return through the Termination Date, a fee equal to 15% of such excess amount;

(b) if the requirements of paragraph (a) above are not met, and (i) the sum of the Company Value plus the total Dividends paid to Stockholders through the Termination Date exceeds (ii) the sum of the aggregate Invested Capital plus the total Dividends required to be paid to the Stockholders in order to pay the Stockholders' 8% Return through the Termination Date, a fee equal to 10% of such excess amount; and

(c) if the requirements of paragraphs (a) and (b) above are not met, and (i) the sum of Company Value plus the total Dividends paid to Stockholders through the Termination Date exceeds (ii) the sum of the aggregate Invested Capital plus the total Dividends required to be paid to the Stockholders in order to pay the Stockholders' 6% Return through the Termination Date, a fee equal to 5% of such excess amount.

Subordinated Share of Net Sale Proceeds means a fee equal to the percentage set forth below of the balance of Net Sale Proceeds, if any, remaining after Stockholders have received cumulative Dividends and distributions equal to 100% of the Invested Capital, plus an amount equal to a cumulative, non-compounded per annum return on the Invested Capital, calculated on an aggregate weighted average daily basis. The Subordinated Share of Net Sale Proceeds will be (i) 5% of remaining Net Sale Proceeds if Stockholders have received cumulative Dividends and distributions equal to l00% of the Invested Capital plus a 6% cumulative, non-compounded per annum return on the Invested Capital, (ii) 10% of remaining Net Sale Proceeds if Stockholders have received cumulative Dividends and distributions equal to 100% of the Invested Capital plus an 8% cumulative, non compounded per annum return on the Invested Capital, or (iii) 15% of remaining Net Sale Proceeds if Stockholders have received a cumulative Dividends and distributions equal to 100% of the Invested Capital plus a 10% cumulative, non-compounded per annum return on the Invested Capital.

Successor means any successor in interest of the Company.

Termination Date means the date of termination of the Advisory Agreement.

Trading Day is defined in Section 9.1. Transfer is defined in Section 9.I.

Unimproved Real Property. The real property of the Company that has the following three characteristics:

(a) such property was not acquired for the purpose of producing rental or other operating income

(b) there is no development or construction in progress on such land; and

(c) no development or construction on such land is planned in good faith to commence on such land within one year.

ARTICLE 2 BOARD OF DIRECTORS

Section 2.1 Number. The number of Directors shall be five (5), each of whom shall be elected by the Stockholders entitled to vote, except as otherwise provided herein. The number of Directors may be increased or decreased from time to time by resolution of the Directors then in office, provided, however, that the total number of Directors shall be not fewer than three (3) and not more than fifteen (15), subject to increase or decrease by the affirmative vote of 80% of the members of the entire Board of Directors. A majority of the Board of Directors will be Independent Directors, except for a period of up to 60 days after the death, removal or resignation of an Independent Director pending the election of such Independent Director's successor. The remaining Directors will be individuals nominated by the Advisor, provided that such director nominees are either directors of the Advisor or have been elected by the board of directors of the Advisor as executive officers of the Advisor. Any vacancies will be filled by the affirmative vote of a majority of the remaining Directors, though less than a quorum. The Independent Directors, by majority vote, shall nominate replacements for vacancies in the Independent Director positions. No reduction in the number of Directors shall cause the removal of any Director from office prior to the expiration of his term. For the purposes of voting for Directors, each share of Stock entitled to vote for the election of Directors may be voted for as many individuals as there are directors to be elected and for whose election the share is entitled to be voted, or as may otherwise be required by the MGCL or other applicable law as in effect from time to time. The names of the directors who shall act until the first meeting or until their successors are duly elected and qualify are: Terry G. Roussel, Paul Danchik, Jody J. Fouch, Daniel L. Johnson and Lee Powell Stedman.

Section 2.2 Experience. A Director shall have had at least three (3) years of relevant experience demonstrating the knowledge and experience required to successfully acquire and manage the type of assets being acquired by the Company. At least one of the Independent Directors shall have three (3) years of relevant real estate experience**.**

Section 2.3 Committees. Subject to the MGCL and to the extent allowed by the REIT Provisions of the Code, the Directors may establish such committees as they deem appropriate, in their discretion, provided that the majority of the members of each committee are Independent directors.

Section 2.4 Term. Each Director shall hold office for one (1) year, until the next annual meeting of Stockholders and until his successor shall have been duly elected and shall have qualified. Directors may be elected to an unlimited number of successive terms.

Section 2.5 Fiduciary Obligations. The Directors serve in a fiduciary capacity to the Company and have a fiduciary duty to the Stockholders of the Company, including a specific fiduciary duty to supervise the relationship of the Company with the Advisor.

Section 2.6 Ratification of Charter. At the first meeting of the Board of Directors following the date of filing of the Charter, the Charter shall be reviewed and ratified by majority vote of the Directors (including a majority of the Independent Directors).

Section 2.7 Resignation, Removal or Death. Any Director may resign by written notice to the Board, of Directors effective upon execution and delivery to the Company of such written notice or upon any future date specified in the notice. A Director may be removed from office with or without cause only at a meeting of the Stockholders called for that purpose, by the affirmative vote of the holders of not less than a majority of the shares of the Stock then outstanding and entitled to vote, subject to the rights of any of the shares of Preferred Stock to vote for such Directors. The notice of such meeting shall indicate that the purpose, or one of the purposes, of such meeting is to determine if a Director should be removed.

ARTICLE 3 POWERS OF DIRECTORS

Section 3. 1 General. Subject to the express limitations herein or in the Bylaws and to the general standard of care required of directors under the MGCL and other applicable Law, (i) the business and affairs of the Company shall be managed under the direction of the Board of Directors. The Directors shall monitor the administrative procedures, investment operations and performance of the Company and the Advisor to assume that the written policies on investments and borrowing set forth in Articles 3, 5 and 6 hereof are carried out. The Directors may take any actions that, in their sole judgment and discretion, are necessary or desirable to conduct the business of the Company. These Articles of Incorporation shall be construed with a presumption in favor of the grant of power and authority to the Directors. Any construction of these Articles of Incorporation or determination made in good faith by the Directors concerning their powers and authority hereunder shall be conclusive. The enumeration and definition of particular powers of the Directors included in this Article 3 shall in no way be limited or restricted by reference to or inference from the terms of this or any other provision of these Articles of Incorporation or construed or deemed by inference or otherwise in any manner to exclude or limit the powers conferred upon the Directors under the general laws of the State of Maryland as now or hereafter in force.

Section 3.2 Determinations by the Board. The determination as to any of the following matters, made in good faith by or pursuant to the direction of the Board of Directors consistent with the Charter shall be final and conclusive and shall be binding upon the Company and every holder of shares of its Stock: the amount of the Net Income of the Company for any period and the amount of assets at any time legally available for the payment of dividends, redemption of its Stock or the payment of other distributions on its Stock; the amount of paid-in surplus, Net Asset Value, other surplus, annual or other cash flow, FFO, net profit, Net Asset Value in excess of capital, undivided profits or excess of profits over losses on sales of assets; the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged); any interpretation of the terms, preferences, conversion or other rights, voting powers or rights, restrictions, limitations as to dividends or distributions, qualifications or terms or conditions of redemption of any class or series of Stock; the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Company or any shares of Stock; the number of shares of stock of any class of the Company; any matter relating to the acquisition, holding and disposition of any assets by Company; or any other matter relating to the business and affairs of the Company or required or permitted by applicable law, the Charter or Bylaws or otherwise to be determined by the Board of Directors.

Section 3.3 Specific Powers and Authority. Subject only to the express limitations herein, and in addition to all other powers and authority conferred by these Articles of Incorporation or by law, the Directors, without any vote, action or consent by the Stockholders, shall have and may exercise, at any time or times, in the name of the Company or on its behalf the following powers and authorities:

(a) Investments. Subject to Section 3.3(b) and Articles 5 and 6 hereof, to invest in, purchase or otherwise acquire and to hold real, personal or mixed, tangible or intangible, property of any kind wherever located, or rights or interests therein or in connection therewith, all without regard to whether such property, interests or rights are authorized by law for the investment of funds held by trustees or other fiduciaries, or whether obligations the Company acquires have a term greater or lesser than the term of office of the Directors or the possible termination of the Company, for such consideration as the Directors may deem proper (including cash, property of any kind or Securities of the Company); provided, however, that the Directors shall take such actions as they deem necessary and desirable to comply with any requirements of the MGCL relating to the types of assets held by the Company.

(b) REIT Qualification. The Company shall properly make a timely election to be a REIT and the Board of Directors shall use its commercially reasonable efforts to cause the Company and its Stockholders to qualify for U.S. federal income tax treatment in accordance with the REIT Provisions of the Code with respect to each taxable year of the Company. In furtherance of the foregoing, the Board of Directors shall use its commercially reasonable efforts to take such actions as are necessary and may take such actions as it deems desirable (in its sole discretion) to preserve the status of the Company as a REIT; provided, however, that in the event that the Board of Directors determines, by vote of at least two-thirds (2/3) of the Directors, that it no longer is in the best interests of the Company to qualify as a REIT, the Board of Directors may revoke or otherwise terminate the Company's REIT election pursuant to Section 856(g) of the Code.

(c) Sale. Disposition and Use of Property. Subject to Articles 5 and 6 and Sections 3.3(b) and 12.3 hereof, the Board of Directors shall have the authority to sell, rent, lease, hire, exchange, release, partition, assign, mortgage, grant security interests in, encumber, negotiate, dedicate, grant easements in and options with respect to, convey, transfer (including transfers to entities wholly or partially owned by the Company) or otherwise dispose of any or all of the Property by deeds (including deeds in lieu of foreclosure with or without consideration), trust deeds, assignments, bills of sale, transfers, leases, mortgages, financing statements, security agreements and other instruments for any of such purposes executed and delivered for and on behalf of the Company by one or more of the duly authorized Directors or by a duly authorized officer, employee, agent or nominee of the Company, on such terms they deem appropriate; to give consents and make contracts relating to the Property and its use or other property or matters; to develop, improve, manage, use, alter or otherwise deal with the Property; and to rent, lease or hire from others property of any kind; provided, however, that the Company may not use or apply land for any purposes not permitted by applicable law.

(d) Borrowing and Financing**.** To borrow or, in any other manner, raise money for the purposes and on the terms they determine, which terms may (i) include evidencing the same by issuance of Securities of the Company and (ii) have such provisions as the Directors determine; to reacquire such Securities of the Company; to enter into other contracts or obligations on behalf of the Company; to guarantee, indemnify or act as surety with respect to payment or performance of obligations of any Person; to mortgage, pledge, assign, grant security interests in or otherwise encumber the Property to secure any such Securities of the Company, contracts or obligations (including guarantees, indemnifications and suretyships) and to renew, modify, release, compromise, extend, consolidate or cancel, in whole or in part, any obligation to or of the Company or participate in any reorganization of obligors to the Company. The aggregate borrowing of the Company shall be reviewed by the Board of Directors at least quarterly.

(e) Lending. Subject to all applicable limitations in these Articles of Incorporation, to lend money or other Property on such terms, for such purposes and to such Persons as they may determine.

(f) Issuance of Securities. Subject to the provisions of Article 8 hereof, to create and authorize and direct the issuance (on either a pro rata or a non-pro rata basis) by the company, in shares, units or amounts of one or more types, series or classes, of Securities of the Company, which may have such voting rights, dividend or interest rates, preferences, subordinations, conversion or redemption prices or rights, maturity dates, distribution, exchange, or liquidation rights or other rights as the Directors may determine, without vote of or other action by the Stockholders, to such Persons for such consideration , at such time or times and in such manner and on such terms as of Directors determine, to list any of the Securities of the Company on any Securities exchange; and to purchase or otherwise acquire, hold, cancel, reissue, sell and transfer any Securities of the Company.

(g) Expenses and Taxes. To pay any charges, expenses or liabilities necessary or desirable, in the sole discretion of the Directors, for carrying out the purposes of these Articles of Incorporation and conducting the business of the Company, including compensation or fees to Directors, officers, employees and agents of the Company, and to Persons contracting with the Company, and any taxes, levies, charges and assessments of any kind imposed upon or chargeable against the Company, the Properties or the Directors in connection therewith other than income or similar taxes imposed upon compensation and fees paid to Directors; and to prepare and file any tax returns, reports or other documents and take any other appropriate action relating to the payment of any such charges, expenses or liabilities.

(h) Collection and Enforcement. To collect, sue for and receive money or other property due to the Company; to consent to extensions of time for payment, or to the renewal, of any Securities or obligations to engage or in intervene in, prosecute, defend compound, enforce, compromise, release, abandon or adjust any actions, suits, proceedings, disputes, claims, demands, security interests or things relating to the Company, the Property or the Company's affairs; and to exercise any rights and enter into any agreements and take any other action necessary or desirable in connection with the foregoing.

(i) Deposits. To deposit funds or Securities constituting part of the assets of the Company in banks, trust companies, savings and loan associates, financial institutions and other depositories, whether or not such deposits will draw interest, subject to withdrawal on such terms and in such manner as the Directors determine.

G) Allocation; Accounts. Subject to and in accordance with the Code and generally accepted accounting principles, to determine whether moneys, profits or other assets of the Company shall be charged or credited to, or allocated between, income and capital, including whether or not to amortize any premium or discount and to determine in what manner any expenses or disbursements are to be borne as between income and capital (regardless of how such items would normally or otherwise be charged to or allocated between income and capital without such determination); to treat any dividend or other distribution on any investment as, or apportion it between, income and capital; in their discretion to provide reserves for depreciation, amortization, obsolescence or other purposes in respect of any Property in such amounts and by such methods as they determine what constitutes net earnings, profits or surplus; to determine the method or form in which the accounts and records of the Company shall be maintained; and to allocate to the Stockholders' equity account less than all of the consideration paid for Securities and to allocate the balance to paid in capital or capital surplus.

(k) Valuation of Assets. To determine the value of all or any part of the Assets and of any services, Securities, property or other consideration to be furnished to or acquired by the Company, and from time to time to revalue all or any part of the Assets, all in accordance with such market quotations, appraisals or other information as are reasonable, in their sole judgment, and where required, in accordance with the Code and GAAP.

(!) Ownership and Voting Powers. To exercise all of the rights, powers, options and privileges pertaining to the ownership of any Mortgages, Securities, Properties and other Assets to the same extent than an individual owner might, including without limitation to vote or give any consent, request or notice or waive any notice, either in person or by proxy or power of attorney, which proxies and powers of attorney may be for any general or special meetings or action, and may include the exercise of discretionary powers.

(m) Officers. To elect, appoint or employ such officers for the Company and such committees of the Board of Directors with such powers and duties as the Directors may determine, the Company's Bylaws provide or the MGCL requires, subject to restrictions advisable with respect to the qualification of the Company as a REIT, to engage, employ or contract with and pay compensation to any Person (including subject to Section 5.7 hereof, any Director and any Person who is an Affiliate of any Director) as agent, representative, Advisor, member of an advisory board, employee or independent contractor (including advisors, consultants, transfer agents, registrars, underwriters, accountants, attorney-at-law, real estate agents, property and other managers, appraisers, brokers, architects, engineers, construction managers, general contractors or otherwise) in one or more capacities, to perform such services on such terms as the Directors may determine; to delegate to or more Directors, officers or other Persons engaged or employed as aforesaid or to committees of Directors or to the Advisor, the performance of acts or other things (including granting of consents), the making of decisions and the execution of such deeds, contracts, leases or other instruments, with in the names of the company, the Directors or as their attorneys or otherwise, as the Directors may determine, and to establish such committees ad they deem appropriate.

(n) Associations. Subject to Section 5.7 hereof, to cause the Company to enter into joint ventures, general or limited partnership, participation or agency arrangements or any other lawful combinations, relationships or associates of any kind.

(o) Reorganizations, Etc. Subject to Sections 3.3(b), 12.2 and 12.3 hereof, to cause to be organized or assist in organizing any Person under the laws of any jurisdiction to acquire all or any part of the Property, carry on any business in which the Company shall have an interest or otherwise exercise the powers the Directors deem necessary, useful or desirable to carry on the business of the Company or to carry out the provisions of these Articles of Incorporation, to merge or consolidate the Company with any Person; to sell, rent, lease, hire convey, negotiate, assign exchange or transfer all or any part of the Property to or with any Person in exchange for Securities of such Person or otherwise, and to lend money to, subscribe for and purchase the Securities of, and enter into any contracts with, any Person in which the Company holds, or is about to acquire, Securities or any other interests.

(p) Insurance. To purchase and pay for insurance policies insuring the Stockholders, the Company and the Property against any and all risks, and insuring the Directors, the Advisor and Affiliates of the Company individually (each an "Insured") against all claims and liabilities of every nature arising by reason of holding or having held any such status, office or position or by reason of any action alleged to have been taken or omitted by the Insured in such capacity, whether or not the Company would have the power to indemnify against such claim or liability, provided that such insurance be limited to the indemnification permitted by Section 11.3 hereof in regard to any liability or loss resulting from negligence, gross negligence, misconduct, willful misconduct or an alleged violation of federal or state securities laws. Nothing contained herein shall preclude the Company from purchasing and paying for such types of insurance, including extended coverage liability and casualty and workers' compensation, as would be customary for any Person owning comparable assets and engaged in a similar business, or from naming the Insured as an additional insured party thereunder, provided that such addition does not add to the premiums payable by the Company. The Board of Directors' power to purchase and pay for such insurance policies shall be limited to policies that comply with all applicable state laws and the NASAA REIT Guidelines.

(q) Dividends. To authorize and cause the Company to declare and pay Dividends or other distributions to Stockholders, subject to the provisions of Section 8.2 hereof.

(r) Discontinue Operations: Bankruptcy. To discontinue the operations of the Company (subject to Section 12.2 hereof); to petition or apply for relief under any provision of federal or state bankruptcy, insolvency or reorganization laws or similar laws for the relief of debtors; to permit any Property to be foreclosed upon without raising any legal or equitable defenses that may be available to the Company or the Directors or otherwise defending or responding to such foreclosure; to confess judgment against the Company (as hereinafter defined); or to take such other action with respect to indebtedness or other obligations of the Directors, the Property or the Company as the Directors, in such capacity, and in their discretion may determine.

(s) Revocation of Status. To revoke the status of the Company as a real estate investment trust under the REIT Provisions of the Code; provided, however, that the Board of Directors shall take no action to revoke the Company’s status as a real estate investment trust under the REIT Provisions of the Code until such time that the Board of Directors adopts a resolution recommending that the Company revoke its status as a real estate investment trust under the REIT Provisions of the Code. Prior to such time as the Board of Directors adopts a resolution recommending that the company revoke its status as a real estate investment trust under the REIT Provisions of the Code, the Board of Directors shall not undertake any action that will jeopardize the company’s qualification as a REIT.
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(t) Fiscal Year. Subject to the Code, to adopt, and from time to time change, a fiscal year for the Company, provided that the fiscal year of the Company shall be the calendar year for all taxable periods prior to any termination or revocation of qualification of the Company as a REIT.

(u) Seal. To adopt and use a seal, but the use of a seal shall not be required for the execution of instruments or obligations of the Company.

(v) Bylaws. To adopt, implement and from time to time alter, amend or repeal the Bylaws of the Company relating to the business and organization of the Company, provided that such Bylaws and amendments are not inconsistent with provisions of the Charter.

(w) Listing Stock. To cause the Listing of the Common Stock or Preferred Stock at any time after completion of the Initial Public Offering.

(x) Further Powers. To do all other acts and things and execute and deliver all instruments incident to the foregoing powers, and to exercise all powers which they deem necessary, useful or desirable to carry on the business of the Company or to carry out the provisions of these Articles of Incorporation, even if such powers are not specifically provided hereby.

ARTICLE 4
ADVISOR

Section 4.1 Appointment and Initial Investment of Advisor. The Directors are responsible for setting the general policies of the Company and for the general supervision of its business conducted by officers, agents, employees, advisors or independent contractors of the Company. However, the Directors are not required personally to conduct the business of the Company, and they may (but need not) appoint, employ or contract (to the extent permitted by Section 856(d)(l) of the Code) with any Person (including a Person Affiliated with any Director) as an Advisor and may grant or delegate such authority to the Advisor as the Directors may, in their sole discretion, deem necessary or desirable. The term of retention of any Advisor shall not exceed one (1) year, although there is no limit to the number of times that a particular Advisor may be retained. The Advisor and its Affiliates shall purchase OP Units for $200,000. The Advisor may not sell this initial investment while the Advisor remains a Sponsor but may transfer the initial investment to other Affiliates of the Advisor. Affiliates of the Advisor may not sell this initial investment while the Advisor remains a Sponsor but may transfer the initial investment to the Advisor or other Affiliates of the Advisor.

Section 4.2 Supervision of Advisor. The Directors shall evaluate the performance of the Advisor before entering into or renewing an advisory contract and the criteria used in such evaluation shall be reflected in the minutes of meetings of the Board. The Directors may exercise broad discretion in allowing the Advisors to administer and regulate the operations of the Company, to act as agent for the Company, to execute documents on behalf of the Company and to make executive decisions which conform to general policies and principles established by the Directors. The Directors shall monitor the Advisor to assure that the administrative procedures, operations and programs of the Company are in the best interests of the Company and its Stockholders and are fulfilled.

The Independent Directors are responsible for reviewing the fees and expenses of the Company at least annually or with sufficient frequency to determine that the expenses incurred are reasonable in light of the investment performance of the Company, its Net Asset Value, its Net Income and the fees and expenses of other comparable unaffiliated REITs. Each such determination shall be reflected in the minutes of the meetings of the Board of Directors**.**

The Independent Directors also will be responsible for reviewing the performance of the Advisor and determining that compensation to be paid to the Advisor is reasonable in relation to the nature and quality of services performed and the investment performance of the Company, and that the provisions of the Advisory Agreement are being carried out. Specifically, the Independent Directors will consider factors such as:

(a) the amount of the fee paid to the Advisor in relation to the size, composition and performance of the Company's portfolio;

(b) the success of the Advisor in generating opportunities that meet the investment objectives of the Company;

(c) rates charged to other REITs and to investors other than REITs by advisors performing the same or similar services;

(d) additional revenues realized by the Advisor and its Affiliates through their relationship with the Company, including loan administration underwriting or broker commissions, servicing, engineering**,** inspection and other fees, whether paid by the Company or by others with whom the Company does business;

(e) the quality and extent of service and advice furnished by the Advisor;

(f) the performance of the investment portfolio of the Company, including income, conservation or appreciation of capital; and

(g) frequency of problem investments and competence in dealing with distress situations;

(h) the quality of the portfolio of the Company relative to the investments generated by the Advisor for its own account.

The Independent Directors may also consider all other factors which they deem relevant and the findings of the Independent Directors on each of the factors considered shall be recorded in the minutes of the Board of Directors.

The Board of Directors shall determine whether any successor Advisor possesses sufficient qualifications to perform the advisory function for the Company and whether the compensation provided for in its contract with the Company is justified.

Section 4.3 Fiduciary Obligations. The Advisor has a fiduciary responsibility to the Company and to the Stockholders.

Section 4.4 Affiliations and Licenses**.** The Directors, by resolution or in the Bylaws, may provide guidelines or requirements concerning the professional affiliations and licenses of the Advisor as they relate to the Company and its business.

Section 4.5 Payment of Fees and Reimbursement of Expenses. The Company shall pay the Advisor the fees and reimburse the Advisor for Operating Expenses as provided in the Advisory Agreement but subject to the limitations contained herein and in the Advisory Agreement

Section 4.6 New Advisor Fee Structures. In the event that the Common Stock becomes listed on a national securities exchange or traded on the Nasdaq/NMS market, the Company and the Advisor will negotiate in good faith a fee structure appropriate a listed company, subject to approval by a majority of the Independent Directors. In negotiating a new fee structure, the Independent Directors shall consider all of the factors they deem relevant These are expected to include, but will not necessarily be limited to that factors set forth in Section 4.2 hereof. The Board of Directors, including a majority of the Independent Directors, may not approve a new fee structure that, in its judgment, is more favorable to the Advisor than the current fee structure.

Section 4.7 Termination. Either a majority of the Independent Directors or the Advisor may terminate the advisory contract on 60 days written notice without cause or penalty, and, in such event, the Advisor will cooperate with the Company and the Directors in making an orderly transition of the advisory function.

Section 4.8 Advisor Purchase. The Advisor and its Affiliates will purchase $200,000 of OP Units. The Advisor and its Affiliates may not sell the Stock issued to the Advisor or its Affiliates with respect to this investment until the Termination Date but the Advisor may transfer such Stock to Affiliates of the Advisor and the Affiliates of the Advisor may transfer such Stock to the Advisor or other Affiliates of the Advisor.

Section 4.9 Reimbursement for Organizational and Offering Expenses. The Company shall pay directly or reimburse the Advisor and its Affiliates an amount of up to 3.5% of the Gross Proceeds, other than Gross Proceeds from Stock purchased under the Reinvestment Plan, for Organizational and Offering Expenses (other than Sales Commissions and the dealer manager fee) incurred by the Advisor or its Affiliates. Provided the Company has first raised $1,000,000 in the Initial Public Offering, the Company shall reimburse the Advisor and its Affiliates periodically during the offering period as Gross Proceeds from Stock are received by the Company.

Section 4.10 Dealer Manager Fee and Commissions and Due Diligence Expense Allowance. The Company shall pay the Dealer Manager a fee in the amount of up to 3% of the Gross Proceeds, other than Gross Proceeds from Stock purchased under the Reinvestment Plan for acting as dealer manager. The Company shall pay commissions in an amount of up to 7% of the Gross Proceeds to the Dealer Manager or other broker-dealers who sell Securities other than Gross Proceeds from Stock purchased under the Reinvestment Plan. The Company shall also provide the Dealer Manager with an allowance for bona fide due diligence expenses of up to 0.5% of the Gross Proceeds, other than Gross Proceeds from Stock purchased under the Reinvestment Plan. Provided the Company has first raised $1,000,000 in the Initial Public Offering, the Company shall pay the Dealer Manager the dealer manager fee, sales commissions and non-accountable due diligence expense allowance periodically during the offering period as Gross Proceeds from the sale of Securities are received by the Company.

Section 4.11 Advisor Acquisition Fees. The Company shall pay the Advisor, as compensation for services rendered in connection with the investigation, selection and acquisition (by purchase, investment or exchange) of Properties, Advisor Acquisition Fees in an amount equal to 2% of Gross Proceeds, other than Gross Proceeds from Stock purchased under the Reinvestment Plan, payable by the Company upon the Company's receipt of Gross Proceeds; provided that upon termination of this Agreement, the Advisor will be obligated to reimburse the Company for any Advisor Acquisition Fee that has not been allocated to the purchase price of Company Properties as provided for in Section 5.2. The Acquisition Fees we pay our Advisor may be increased with the approval of a majority of our independent directors.

Section 4. 12 Reimbursement for Acquisition Expenses**.** Subject to the limitations contained in Section 5.2 hereof, the Company shall reimburse the Advisor and its Affiliates for Acquisition Expenses incurred by the Advisor or its Affiliates.

Section 4.13 Asset Management Fee. Commencing on the date hereof, the Company shall pay the Advisor for the asset management services included in the services described in Section 4 a monthly fee (the "Asset Management Fee") in an amount equal to one-twelfth of 1.0% of the Average Invested Assets, calculated on a monthly basis as of the last day of each month. The Asset Management Fee shall be reduced if the Independent Directors determine that compensation to be paid to the Advisor is not reasonable in relation to the nature and quality of services performed and the investment performance of the Company and that the provisions of the Advisory Agreement are being carried out in accordance with Section 4.2.

Section 4.14 Reimbursement for Operating Expenses**.** Subject to the limitations contained in Section 5.3 hereof, the Company shall reimburse the Advisor for Operating Expenses incurred by the Advisor on behalf of the Company.

Section 4.15 Property Management and Leasing Fees If the Company retains the Advisor or its Affiliates to manage or lease any of our Properties, the Company will pay the Advisor or its Affiliates a market based fee which is what other management or leasing companies generally charge for the management or leasing of similar properties, and which may include reimbursement for the costs and expenses the Advisor or its Affiliates incur in managing or leasing the Properties.

Section 4.16 Disposition Fees. Provided the Advisor or an Affiliate provides a substantial amount of the services (as determined by a majority of the Directors, including a majority of the Independent Directors) in connection with the Sale of one or more Properties, the Advisor or such Affiliate shall receive at closing a Disposition Fee as follows: (i) if a brokerage commission is paid to a Person other than an Affiliate of the Sponsor, an amount up to one-half of the total brokerage commissions paid but in no event an amount that exceeds 3% of the sales price of such property or properties or (ii) if no brokerage commission is paid to a Person other than an Affiliate of the Sponsor, an amount up to 3% of the sales price of such property or properties. In either case, however, the amount paid when added to all other commissions paid to unaffiliated parties in connection with such sale shall not exceed the lesser of the Competitive Real Estate Commission or an amount equal to 6% of the sales price of such property or properties.

Section 4.17 Subordinated Share of Net Sale Proceeds. The Subordinated Share of Net Sale Proceeds shall be payable to the Advisor at the time or times that the Company determines that the Subordinated Share of Net Sale Proceeds has been earned by the Advisor. In the case of multiple advisors, advisors and Affiliates shall be allowed incentive fees in accordance with the foregoing limitation, provided such fees are distributed by a proportional method reasonably designed to reflect the value added to the Company's Assets by each respective advisor or Affiliate.

Section 4.18 Subordinated Incentive Fee Due Upon Listing. Upon Listing, the Advisor shall be entitled to the Subordinated Incentive Fee Due Upon Listing. The Subordinated Incentive Fee Due Upon Listing shall be payable to the Advisor during the thirty (30) day period following eighteen (18) months after Listing. The Company shall have the option to pay such fee in the form of cash, Stock, a promissory note or any combination of the foregoing as determined by the Board of Directors. In the event the Subordinated Incentive Fee Due Upon Listing is paid to the Advisor following Listing, the Advisor will not be entitled to receive any payments of Subordinated Performance Fee Upon Termination or Subordinated Share of Net Sale Proceeds following receipt of the Subordinated Incentive Fee Due Upon Listing.

Section 4.19 Fees Upon Termination of Advisory Agreement. Upon termination of the Advisory Agreement, the Company shall pay to the Advisor all unpaid reimbursable expenses and all earned but unpaid fees payable to the Advisor prior to termination of the Advisory Agreement, and the Subordinated Performance Fee Due Upon Termination, provided that no Subordinated Performance Fee Due Upon Termination will be paid if the Company has paid or is obligated to pay the Subordinated Incentive Fee Due Upon Listing.

ARTICLE 5
PROVISIONS FOR DEFINING, LIMITING AND REGULATING CERTAIN POWERS OF THE COMPANY AND ITS DIRECTORS AND STOCKHOLDERS

Section 5.1 Limitation on Organization and Offering Expenses. The Company shall pay only reasonable Organization and Offering Expenses and in no event shall such expenses incurred by the Company, including the Sales Commissions, the dealer manager fee and the allowance for bona fide due diligence expenses payable to the Dealer Manager, exceed 13.5% of Gross Proceeds of any applicable offering.

Section 5.2 Limitation on Acquisition Fees and Acquisition Expenses. The total of all Acquisition Fees and Acquisition Expenses paid by the Company in connection with the purchase of a Property by the Company shall be reasonable, and shall in no event exceed an amount equal to 6% of the Contract Purchase Price, or in the case of a mortgage loan, 6% of the funds advanced; provided, however, that a majority of the Directors (including the majority of the Independent Directors) not otherwise interested in the transaction may approve fees and expenses in excess of these limits if they determine the transaction to be commercially competitive, fair and reasonable to the Company.

Section 5.3 Limitation on Operating Expenses. The Board of Directors shall have the responsibility of limiting Operating Expenses to amounts that do not exceed the greater of 2% of Average Invested Assets or 25% of NASAA Net Income (the "Excess Expense Guidelines") for the four consecutive fiscal quarters then ended unless a majority of the Directors (including a majority of the Independent Directors) has made a finding that, based on unusual and non-recurring factors that they deem sufficient, a higher level of expenses (an "Excess Amount") is justified. Any such finding and the reasons in support thereof shall be reflected in the minutes of the meetings. Within 60 days after the end of any fiscal quarter of the Company for which there is an Excess Amount for the 12 months then ended, there shall be sent to the Stockholders a written disclosure of such fact, together with an explanation of the factors considered in determining that such Excess Amount was justified. In the event that a majority of the Directors (including a majority of the Independent Directors) does not determine that excess expenses are justified, the Advisor shall reimburse the Company within a reasonable time after the end of the 12-month period the amount by which the aggregate annual expenses paid or incurred by the Company exceeded the Excess Expense Guidelines.

Section 5.4 Limitation on Real Estate Commissions. If the Advisor or a director or Sponsor or any Affiliate thereof provides a substantial amount of the services in the effort to sell the property of the Company, that Person may receive an amount up to 3% of the sales price of such property or properties; provided, however, that the amount paid when added to all other real commissions paid to unaffiliated parties in connection with such sale shall not exceed the lesser of the Competitive Real Estate Commission or an amount equal to 6% of the sales price of such property or properties.

Section 5.5 Limitation on Real Estate Commissions.

(a) Sales and Leases to the Company. The Company shall not purchase Property from the Sponsor, Advisor, Directors or any Affiliate thereof, unless a majority of Directors (including a majority of Independent Directors) not otherwise interested in such transaction approve the transaction as being fair and reasonable to the Company and at a price to the Company no greater than the cost of the asset to such Sponsor, Advisor, Director or any Affiliate thereof, or if the price to the Company is in excess of such cost, that substantial justification for such excess exists and such excess is reasonable and consistent with current market conditions. In no event shall the cost of such asset to the Company exceed its Appraised Value at the time of acquisition of the Property by the Company.

(b) Sales and Leases to Sponsor, Advisor, Director or any Affiliate. A Sponsor, Advisor, Director or any Affiliate thereof shall not acquire assets from the Company unless approved by a majority of Directors (including a majority of Independent Directors), not otherwise interested in such transaction, as being fair and reasonable to the Company. The Company may lease assets to a Sponsor, Advisor, Director or any Affiliate thereof only if approved by a majority of the Directors (including a majority of Independent Directors), not otherwise interested in such transaction, as being fair and reasonable to the Company.

(c) Loans. No loans may be made by the Company to the Sponsor, Advisor, Director or any Affiliate thereof except that loans may be made to wholly owned subsidiaries of the Company. Notwithstanding the foregoing, subject to the Excess Expense Guidelines, the Company may advance funds to the Advisor for expenses the Advisor anticipates will be incurred by the Advisor within the current month and any such advances shall be deducted from the amounts reimbursed by the Company to the Advisor. The Company may not borrow money from the Sponsor, Advisor, Director or any Affiliate thereof, unless a majority of Directors (including a majority of Independent Directors) not otherwise interested in such transactions, approve the transaction as being fair, competitive and commercially reasonable and no less favorable to the Company than loans between unaffiliated parties under the same circumstances.

(d) Other Transactions. All other transactions between the Company and the Sponsor, Advisor, Director or any Affiliate thereof, shall require approval by a majority of the Directors (including a majority of Independent Directors) not otherwise interested in such transactions as being fair and reasonable to the Company and on terms and conditions not less favorable to the Company than those available from unaffiliated third parties.

(e) Additional Limitations. Transactions between the Company and its Affiliates are further subject to any express restrictions in the Charter and further subject to any disclosure and ratification requirements of the MGCL and other applicable law.

Section 5.6 Limitation of Issuance of Securities. The Company shall not issue (A) equity securities redeemable solely at the option of the holder (except that Stockholders may offer their Common Stock to the Company pursuant to that certain redemption plan adopted or to be adopted by the Board of Directors on terms outlined in the section relating to Common Stock entitled "Stock Repurchase Program" in the Company's Prospectus relating to the Initial Public Offering); (B) debt securities unless the historical debt service coverage (in the most recently completed fiscal years) as adjusted for known changes is sufficient to properly service that higher level of debt; (C) Stock on a deferred payment basis or under arrangements; or (D) assessable equity securities. Options may not be issued to the Advisor, Director, Sponsor or any Affiliate thereof except on the same terms as the securities underlying such Options are sold to the general public. Options may be issued to persons other than the Advisor, Directors, Sponsor or any Affiliate thereof but not at exercise prices less than the fair market value of the underlying securities on the date of grant and not for consideration that in the judgment of the Independent Directors has a market value less than the value of such Option on the date of grant. Options issuable to the Advisor, Directors, Sponsor or any Affiliate thereof shall not exceed 10% of the outstanding shares of Stock on the date of grant. The voting rights per share of Stock of the Company (other than the publicly held Stock of the Company) sold in a private offering shall not exceed the voting rights which bear the same relationship to the voting rights of the publicly held Stock as the consideration paid to the company for each privately offered share of Stock of the Company bears to the book value of each outstanding publicly held share of Stock.

Section 5.7 Limitation on Borrowing. The aggregate borrowing of the Company, secured and unsecured, shall be reasonable in relation to the Net Asset Value of the Company and shall be reviewed by the Board of Directors at least quarterly. Prior to the Listing of the Common Stock, (i) the aggregate amount of Company borrowings in relation to the Net Asset Value shall, in the absence of a satisfactory showing that a higher level of borrowing is appropriate, not exceed 300% of the Net Asset Value and (ii) any excess in borrowing over such 300% of the Net Asset Value shall be approved by a majority of the Independent Directors and disclosed to Stockholders in the Company's next quarterly report to Stockholders, along with justification for such excess.

The Company may incur indebtedness including to enable it to pay Dividends including those necessary to satisfy the requirement that the Company distribute at least the percentage of its REIT taxable income required for annual distribution of dividends by the Code or otherwise as necessary or advisable to assure that the Company maintains its qualification as a REIT for federal income tax purposes.

ARTICLE 6
INVESTMENT OBJECTIVES AND INVESTMENT LIMITATIONS

Section 6.1 Investment Objectives. The Company will endeavor to:

(i) preserve Stockholder capital by owning and operating real estate on all-cash basis with no permanent debt financing;

(ii) purchase Properties with the potential for capital appreciation to Stockholders;

(iii) purchase income-producing Properties which will allow the Company to pay cash Dividends to Stockholders at least quarterly, if not more frequently; and

(iv) provide liquidity to Stockholders within the shortest reasonable time necessary to accomplish the above objectives.

Within five years from the closing of the Initial Public Offering, the Board must take one or more of the following actions:

(i) modify the Company's stock redemption program to allow the Company to use proceeds from the sale of Properties to redeem Stock;

(ii) list the Stock for trading on a national securities exchange or the Nasdaq/NMS;

(iii) seek Stockholder approval to begin an orderly liquidation of the Company's assets and distribute the available proceeds of such Sales to Stockholders; or

(iv) seek Stockholder approval of another liquidity event such as a Sale of our assets or a merger with another entity.

The sheltering from tax of income from other sources is not an objective of the Company. Subject to the restrictions set forth herein, the Directors will use their commercially reasonable efforts to conduct the affairs of the Company in such a manner as to continue to qualify the Company for the tax treatment provided in the REIT Provisions of the Code; provided, however, no Director, officer, employee or agent of the Company shall be liable for any act or omission resulting in the loss of tax benefits under the Code, except to the extent provided in Section 11.2 hereof.

Section 6.2 Review of Objectives. The Independent Directors shall review the investment policies of the Company with sufficient frequency and at least annually to determine that the policies being followed by the Company at any time are in the best interests of its Stockholders. Each such determination and the basis therefore shall be set forth in the minutes of the meetings of the Board of Directors. The Board of Directors may amend the Charter to change the Company's iinvestment policies or investment restrictions in a manner which adversely affect the rights, preferences and privileges of Stockholders only with the approval of a majority of the Independent Directors**.**

Section 6.3 Certain Permitted Investments

(a) The Company may invest in Properties.

(b) The Company may invest in Joint Ventures with unrelated parties. The Company may also invest in Joint Ventures with the Sponsor, Advisor, one or more Directors or any Affiliate, but only if a majority of Directors (including a majority of Independent Directors) not otherwise interested in the transaction, approve such investment as being fair and reasonable to the Company and on substantially the same terms and conditions as those received by the other joint venturers.

(c) Subject to any limitations set forth in Section 6.4, the Company may invest in equity securities if a majority of Directors (including a majority of Independent Directors) not otherwise interested in the transaction approve such investment as being fair, competitive and commercially reasonable.

Section 6.4 Investment Limitations. In addition to other investment restrictions imposed by the Directors from time to time, and consistent with the Company's objective of qualifying as a REIT, the following shall apply to the Company's investments prior to, but not after, the Listing of the Common Stock:

(a) The Company shall not invest in Unimproved Real Property or mortgage loans on Unimproved Real Property.

(b) The Company shall not invest in commodities or commodity future contracts. This limitation is not intended to apply to futures contracts, when used solely for hedging purposes in connection with the Company's ordinary business of investing in real estate assets and mortgages, provided that income and gain with respect to such future contracts is treated as qualifying income under Section 856(c)(2) of the Code.

(c) The Company may make or invest in mortgage loans provided an appraisal is obtained concerning the underlying property except for those loans insured or guaranteed by a government or government agency. In cases in which majority of Independent Directors so determine and in all cases in which the transaction is with the Advisor, Directors, or any Affiliates, such appraisal of the underlying property must be obtained from an Independent Appraiser. Such appraisal shall be maintained in the Company's records for at least five (5) years and shall be available for inspection and duplication by any Stockholder. In addition to the appraisal, a mortgagee's or owner's title insurance policy or commitment as to the priority of the mortgage or condition of the title must be obtained.

(d) The Company shall not make or invest in mortgage loans on any one (1) property if the aggregate amount of all mortgage loans outstanding on the Property, including the loans of the Company, would exceed an amount equal to eighty-five percent (85%) of the Appraised Value of the Property as determined by an Independent Appraiser unless substantial justification exists because of the presence of other underwriting criteria. For purposes of this subsection, the “aggregate amount of all Mortgage Loans outstanding on the Property, including the loans of the Company” shall include all interest (excluding contingent participation in income and/or appreciate in value of the mortgaged Property), the current payment of which may be deferred pursuant to the terms of such loans, to the extent that deferred interest on each loan exceeds five percent (5%) per annum of the principal balance of the loan.

(e) The Company shall not make or invest in construction loans.

(f) The Company shall not invest in indebtedness secured by a mortgage on real property which is subordinate to the lien of other indebtedness.

(g) The Company shall not make or invest in any mortgage loans that are subordinate to any mortgage, other indebtedness or equity interest of the Advisor, the Directors, the Sponsor or an Affiliate of the Company.

(h) The Company shall not underwrite the securities of other issuers. In addition, the Company shall not invest in securities of other issuers, except for investments in Joint Ventures as described herein, unless a majority of the Directors (including a majority of Independent Directors) not otherwise interested in such transaction approve the transaction as being fair, competitive and commercially reasonable.

(i) The Company will not make any investment that the Company believes will be inconsistent with its objectives of qualifying and remaining qualified as a REIT.

(j) The Company shall not invest in real estate contracts of sale, otherwise known as land sale contracts.

(k) The Company shall not invest in joint ventures with the Sponsor, Advisor, Director or any Affiliate thereof, unless a majority of Directors (including a majority of Independent Directors) not otherwise interested in such transactions, approve the transaction as being fair and reasonable to the Company and on substantially the same terms and conditions as those received by the other joint ventures.

(I) The Company shall not invest in equity securities unless a majority of Directors (including a majority of Independent Directors) not otherwise interested in such transaction approve the transaction as being fair, competitive and commercially reasonable.

(m) The Company shall not ordinarily pay consideration for a Property acquired by the Company which is not based on the fair market value of the Property as determined by a majority of the Directors. In cases in which a majority of the Independent Directors so determine, and in all cases in which assets are acquired from the Advisor, Directors, Sponsor or their Affiliates, such fair market value shall be as determined by an Independent Appraiser selected by the Independent Directors.

ARTICLE 7
CONFLICTS OF INTEREST RESOLUTION PROCEDURES

Section 7.1 Independent Directors Committee. During any time that the Company is advised by the Advisor, there shall be a committee (the "Independent Directors Committee") of the Board of Directors comprised of all of the Independent Directors. The Independent Directors Committee shall have the maximum power delegable to a committee under the MGCL and is authorized to select and retain its own legal and financial advisors. The Independent Directors Committee may act on any matter permitted by the MGCL if its minutes reflect that it first determined that the matter at issue was such that the exercise of independent judgment by the directors who are not Independent Directors could reasonably be compromised, provided that this condition shall not apply if the charter otherwise requires that the action shall be taken by the Independent Directors Committee. If this condition is met but the matter cannot be delegated to a committee under the MGCL, both the Board of Directors and the Independent Directors Committee must approve the matter. Any board action regarding Organization and Offering Expenses or the selection of an Independent Appraiser or the matters covered in any of Sections 2. 1 , 2.6, 3. 1, 4.2, 4.6, 4.7, 4. 12, 4. 16, 5.2, 5.3, 5.5, 5.6, 5.7, 6.2, 6.3, 6.4, 8.3, 10.1, 10.6 and 12.3 shall require the approval of the Independent Directors Committee.

Section 7.2 Voting by Independent Directors Committee. For an action to be taken by the Independent Directors Committee, the matter must be approved by (i) a majority of the Independent Directors and (ii) a majority of the Independent Directors not otherwise interested in the transaction.

Section 7.3 Meetings of Independent Directors Committee. A meeting of the Independent Directors Committee shall be held immediately following and at the same place as any meeting of the board of directors. Any notice of a meeting of the Board of Directors shall be deemed to be a notice of a meeting of the Independent Directors Committee.

Section 7.4 Conflict Resolution Procedures. Before the Advisor presents an investment opportunity that would in its judgment be suitable for the Company to another Advisor-sponsored entities, the Advisor shall determine in its sole discretion that the investment opportunity is more suitable for such other program than for the Company based on factors such as the following: as the investment objections and criteria of each program, the cash requirements and anticipated cash flow of each entity, the size of the investment opportunity, the effect of the acquisition both on diversification of each entity's investments, the income tax consequences of the purchase on each entity, the policies of each program relating to leverage, the amount of funds available to each program, and the length of time such funds have been available for investment. In the event that an investment opportunity becomes available that is, in the sole discretion of the Advisor, equally suitable for both the Company and another Advisor sponsored program, then the Advisor may offer the other program the investment opportunity if it has had the longest period of time elapse since it was offered an investment opportunity. The Advisor will use its reasonable efforts to fairly allocate investment opportunities in accordance with such allocation method and will promptly disclose any material deviation from such policy or the establishment of a new policy, which shall be allowed provided (1) the Board is provided with notice of such policy at least 60 days prior to such policy becoming effective and (2) such policy provides for the reasonable allocation of investment opportunities among such programs. The Advisor shall provide the Independent Directors Committee with any information reasonably requested so that the Independent Directors Committee can insure that the allocation of investment opportunities is applied fairly. Nothing herein shall be deemed to prevent the Advisor or an Affiliate from pursuing an investment opportunity directly rather than offering it to the Company or another Advisor-sponsored program so long as the Advisor is fulfilling its obligation to present a continuing and suitable investment program to the Company which is consistent with the investment policies and objectives of the Company. If a subsequent development, such as a delay in the closing of a property or a delay in the construction of a property, causes any such investment, in the opinion of the Board of Directors and the Advisor, to be more appropriate for an entity other than the entity which committed to make the investment, however, the Advisor has the right to agree that the other entity affiliated with the Advisors or its Affiliates may make the investment.

Section 7.5 Compliance with Code Requirements. The provisions of this Article 7 shall be applied consistently with the requirements of Section 856(d)(l) of the Code.

ARTICLE 8
STOCK

Section 8.1 Authorized Stock. The total number of shares of Stock which the Company is authorized to issue is three hundred million (300,000,000), consisting of two hundred ninety million (290,000,000) shares of common stock, $0.001 par value per share (as defined in Section 8.2 hereof), and ten million (10,000,000) shares of preferred stock, $0.001 par value per share (as defined in Section 8.3 hereof). All shares of Stock shall be fully paid and nonassessable when issued. Stock may be issued for such consideration as the Directors determine, or if issued as a result of a share dividend or share split, without any consideration. If shares of one class of Stock are classified or reclassified into shares of another class of Stock pursuant to Sections 8.2(b) or 8.3, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of Stock of all classes that the Company has authority to issue shall not be more than the total number of shares of Stock set forth in the first sentence of this Section 8.1 . The Board of Directors, with the approval of a majority of the entire Board and without any action by the Stockholders, may amend the Charter from time to time to increase or decrease the aggregate number of shares of Stock or the number of Shares on Stock on any class or series that the Company has the authority to issue.

Section 8.2 Common Stock.

(a) Common Stock Subject to Terms of Preferred Stock. The Common Stock shall be subject to the express terms of any series of Preferred Stock.

(b) Description. Shares of Common Stock shall have a par value of $0.001 per share and, subject to the provisions of Article IX and except as may otherwise be specified in the terms of any class or series of Common Stock, shall entitle the holders to one (l) vote per share on all matters upon which Stockholders are entitled to vote pursuant to Section 8.2 hereof, and shares of a particular class of issued shares of Common Stock shall have equal dividend, distribution, liquidation and other rights, and shall have no preference, cumulative, preemptive, conversion or exchange rights. The Directors may classify or reclassify any unissued shares of Common Stock from time to time in one or more classes or series of Stock by designating a class or series to distinguish the class or series of classified or reclassified shares from all other classes and series of Stock, specifying the number of shares to be included in such class or series , setting or changing, subject to the provision of Article IX and the express terms of any class or series of Stock outstanding at the time, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption of any such shares of Common Stock and, in such event the Company shall file for record with the SDAT articles supplementary in substance and form as prescribed by Title 2 of the MGCL. Any of the terms of any class or series of Stock set or changed may be made dependent upon facts or events ascertainable outside the Charter (including determinations by the Board of Directors or other facts or events within the control of the Company) and may vary among holders thereof, provided that the manner in which such facts, events or variations shall operate upon the terms of such class or series of stock is clearly and expressly set forth in the articles supplementary or other charter document.

(c) Distribution Rights. The holders of shares of Common Stock shall be entitled to receive such Dividends as may be authorized by the Board of Directors of the Company out of funds legally available therefore.

(d) Dividend or Distribution Rights. The Directors from time to time may authorize and the Company shall pay to holders of shares of Common Stock such Dividends or distributions in cash or other property as the Directors in their discretion shall determine. The Directors shall endeavor to authorize and the Company shall pay such Dividends and distributions as shall be necessary for the Company to qualify as a real estate investment trust under the REIT Provisions of the Code; provided, however, Stockholders shall have no right to any dividend or Distribution unless and until authorized by the Directors. The exercise of the powers and rights of the Directors pursuant to this section shall be subject to the provisions of any senior class or series of Stock at the time outstanding. The receipt by any Person in whose name any shares of Stock are registered on the records of the Company or by his duly authorized agent shall be a sufficient discharge for all Dividends or distributions payable or deliverable in respect of such Stock and from all liability to see to the application thereof. Distributions in kind shall not be permitted, except for (i) distributions of equity securities of the Company pursuant to the Special 10% Stock Dividend; (ii) distributions of readily marketable securities, including readily marketable equity securities of the Company and (iii) distributions of beneficial interests in a liquidating trust established for the dissolution of the Company and the liquidation of its assets in accordance with the terms of these Articles of Incorporation.

(e) Rights Upon Liquidation. In the event of any voluntary or involuntary liquidation, dissolution or winding up, or any distribution of the assets of the Company, the aggregate assets available for distribution to holders of the shares of Common Stock shall be determined in accordance with applicable law. Each holder of Common Stock of a particular class shall be entitled to receive, ratably with (i) each other holder of Common Stock of such class and (ii) each holder of Stock-in-Trust, that portion of such aggregate assets available for distribution to such class as the number of the outstanding shares of Common Stock held by such holder bears to the total number of outstanding shares of Common Stock of such class and Stock-in-Trust of such class then outstanding.

(f) Voting Rights. Except as may be provided otherwise in these Articles of Incorporation, and subject to the express terms of any series of Preferred Stock, the holders of the Common Stock shall have the exclusive right to vote on all matters (as to which a common Stockholder shall be entitled to vote pursuant to applicable law) at all meetings of the Stockholders of the Company.

Section 8.3 Preferred Stock. The Directors may classify any unissued shares of Preferred Stock and reclassify any previously classified but unissued shares of Preferred Stock of any series from time to time in one or more classes or series of Stock. Notwithstanding the foregoing authority, (i) the authorization of any class or series of Preferred Stock shall be approved by a majority of the Independent Directors and (ii) shares of Preferred Stock of any class or series may not be issued to the Advisor, any Director or any of their Affiliates unless and until the rights and preferences of such class or series of Preferred Stock have been approved by holders of Common Stock. Prior to the issuance of each such class or series, the Board of Directors, by resolution, shall (i) designate that class or series to distinguish it from all other classes and series of Stock, (ii) specify the number of shares to be included in the class or series, (iii) set or change, subject to the provisions of Article IX and to the express terms of any class or series of Stock outstanding at the time, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series and (iv) cause the Company to file articles supplementary with the SDAT. Any of the terms of any class or series of stock set or changed may be made dependent upon facts or events ascertainable outside the Charter (including determinations by the Board of Directors or other facts or events within the control of the Company) and may vary among holders thereof, provided that the manner in which such facts, events or variations shall operate upon the terms of such class or series of stock is clearly and expressly set forth in the articles supplementary or other charter document. The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

(a) The designation of the series, which may be by distinguishing number, letter or title.

(b) The dividend rate on the shares of the series, if any, whether any dividends shall be cumulative and, if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of the series.

(c) The redemption rights, including conditions and the price or prices, if any, for shares of the series.

(d) The terms and amounts of any sinking fund for the purchase or redemption of shares of the series**.**

(e) The rights of the shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company, and the relative rights of priority, if any, of payment of shares of the series.

(f) Whether the shares of the series shall be convertible into shares of any other class or series, or any other security, of the Company or any other corporation or other entity, and, if so, the specification of such other class or series or such other security, the conversion price or prices or rate or rates, any adjustments thereof, the date or dates on which such shares shall be convertible and all other terms and conditions upon which such conversion may be made.

(g) Restrictions on the issuance of shares of the same series or of any other class or series.

(h) The voting rights of the holders of shares of the series subject to the limitations contained in this Section 8.3; provided, however, that the voting rights of the holders of shares of any series of Preferred Stock shall not exceed the voting rights that bear the same relationship to the voting rights of tl1e holders of Common Stock as the consideration paid to the Company for each share of Preferred Stock bears to the book value of each outstanding share of Common Stock.

(i) Any other relative rights, preferences and limitations on that series, subject to the express provisions of any other Series of Preferred Stock then outstanding. Notwithstanding any other provision of these Articles of Incorporation, the Board of Directors may increase or decrease (but not below the number of shares of such series then outstanding) the number of shares, or alter the designation or classify or reclassify any unissued shares of a particular Series of preferred Stock by fixing or altering, in one or more respects, from time to time before issuing the shares, the terms, rights restrictions and qualifications of the shares of any such series of Preferred Stock.

Section 8.4 Preemptive and Appraisal Rights. Except as may be provided by the Board of Directors in setting the terms of classified or reclassified shares of stock pursuant to Section 8.2 or 8.3 or as may otherwise be provided by contract, holders of Stock shall not have any preemptive or other right to purchase or subscribe for any class of securities of the Company which the Company may at any time issue or sell. Holders of Stock shall not be entitled to exercise any rights of an objecting stockholder provided for under Title 3, Subtitle 2 of the MGCL or any successor statute unless the Board of Directors, upon the affirmative vote of a majority of the Board of Directors, shall determine that such rights apply, with respect to all or any classes or series of Stock, to one or more transactions occurring after the date of such determination in connection with which holders of such shares would otherwise be entitled to exercise such rights.

Section 8.5 No Issuance of Share Certificates. Until Listing, the Company shall not issue share certificates except to Stockholders who make a written request to the Company. A Stockholder's investment shall be recorded on the books of the Company. To transfer his or her Stock a Stockholder shall submit an executed form to the Company, which form shall be provided by the Company upon request. Such transfer will also be recorded on the books of the Company. Upon issuance or transfer of Stock, the Company will provide the Stockholder with information concerning his or her rights with regard to such Stock, in a form substantially similar to Section 9.12, and as required by the Bylaws and the MGCL or other applicable law.

Section 8.6 Suitability of Stockholders.

(a) Investor Suitability Standards. Subject to suitability standards established by individual states, to become a Stockholder in the Company, if such prospective Stockholder is an individual (including an individual beneficiary of a purchasing Individual Retirement Account), or if the prospective Stockholder is a fiduciary (such as a trustee of a trust or corporate pension or profit sharing plan, or other tax-exempt organization, or a custodian under a Uniform Gifts to Minors Act), such individual or fiduciary, as the case may be, must represent to the Company, among other requirements as the Company may require from time to time;

(1) that such individual (or, in the case of a fiduciary, that the fiduciary account or the donor who directly or indirectly supplies the funds to purchase the Shares) has a minimum annual gross income of $70,000 and a net worth (excluding home, furnishings and automobiles) of not less than $70,000; or

(2) that such individual (or, in the case of a fiduciary, that the fiduciary account or the donor who directly or indirectly supplies the funds to purchase the Stock) has a net worth (excluding home, furnishings and automobiles) of not less than $250,000.

(b) Determination of Suitability of Sale. The Sponsor and each Person selling Stock on behalf of the Sponsor or the Company shall make every reasonable effort to determine that the purchase of Stock is a suitable and appropriate investment for each Stockholder. In making this determination, the Sponsor or each Person selling Stock on behalf of the Sponsor or the Company shall ascertain that the prospective Stockholder: (i) meets the minimum income and net worth standards established for the Company; (ii) can reasonably benefit from the Company based on the prospective Stockholder's overall investment objectives and portfolio structure; (iii) is able to bear the economic risk of the investment based on the prospective Stockholder's overall financial situation; and (iv) has apparent understanding of the fundamental risks of the investment; the risk that the Stockholder may lose the entire investment; the lack of liquidity of Stock; the restrictions on transferability of Stock; the background and qualifications of the Sponsor or the Advisor; and the tax consequences of the investment. The Sponsor or each Person selling Stock on behalf of the Sponsor or the Company shall make this determination on the basis of information it has obtained from a prospective Stockholder. Relevant information for this purpose will include at least the age, investment objectives, investment experiences, income, net worth, financial situation and other investments of the prospective Stockholder as well as any other pertinent factors.

The Sponsor or each Person selling Stock on behalf of the Sponsor or the Company shall maintain records of the information used to determine that an investment in Stock is suitable and appropriate for a Stockholder. The Sponsor or each Person selling Stock on behalf of the Sponsor or the Company shall maintain these records for at least six years**.**

(c) Minimum Investment**.** Subject to certain individual state requirements, no sale of Stock by the Company to initial investors will be permitted of less than $2,000 except that no sale of Stock by the Company to initial investors which are retirement plans including Keoghs and IRAs will be permitted of less than $1,000.

Section 8.7 Repurchase of Shares. The Board of Directors may establish, from time to time, a program or programs by which the Company voluntarily repurchases Stock from its Stockholders, provided, however, that such repurchase does not impair the capital or operations of the Company and does not violate any provision of this Article 8 or applicable law. The Sponsor, Advisor, Directors or any Affiliates thereof may not receive any fees on the repurchase of Shares by the Company.

Section 8.8 Dividend Reinvestment Plans. The Board of Directors may establish, from time to time, a dividend reinvestment plan or plans (a "Reinvestment Plan"). Pursuant to such Reinvestment Plan, (i) all material information regarding the Dividends to the Stockholders and the effect of reinvesting such Dividends, including the United States federal income tax consequences of the reinvestment, shall be provided to the Stockholders at least annually, and (ii) each Stockholder participating in such Reinvestment Plan shall have a reasonable opportunity to withdraw from the Reinvestment Plan at least annually after receipt of the information required in clause (i) above.

Section 8.9 Charter and Bylaws. The rights of all Stockholders and the terms of all Stock are subject to the provisions of the Charter and the Bylaws.

ARTICLE 9
RESTRICTIONS ON OWNERSHIP AND TRANSFER OF STOCK

Section 9.1 Definitions. For purposes this Article 9, the following terms shall have the following meanings:

Acquire means the acquisition of Beneficial or Constructive Ownership of stock by any means, including, without limitation, the exercise of any rights under any option) warrant, convertible security, pledge or other security interest

Beneficial Ownership means ownership of Stock by a Person who would be treated as an owner of such Stock either directly or constructively through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) if the Code. The terms “Beneficial Owner,” “Beneficially Owns,” Beneficially Own” and “Beneficially Owned” shall have correlative meanings.

Beneficiary means the beneficiary of the Trust as determined pursuant to Section 9.13(e)(1) hereof.

Common Stock Ownership Limit means, with respect to any class of Common Stock, 9.8% of the outstanding Common Stock, subject to adjustment pursuant to Section 9.10 (but not more than 9.8% of the outstanding Common Stock, as so adjusted) ai1d to any other limitations contained in this Article 9. The Common Stock Ownership Limit may be based on either the number of shares of Common Stock or the value of such stock, whichever is more restrictive**.**

Constructive Ownership Equity means ownership of Stock by a Person who could be treated as an owner of such Stock, either actually or constructively, directly or indirectly, through the application of Section 318 of the Code, as modified by Section 856(d)(5) thereof. The terms "Constructive Owner," "Constructively Owns," "Constructively Own" and "Constructively Owned" shall have correlative meanings.

Market Price means, on any date, the average of the Closing Price for the five consecutive Trading Days ending on such date. The "Closing Price" on any date shall mean the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the NYSE or, if the Stock is not listed or admitted to trading on the NYSE, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Stock is listed or admitted to trading or, if the Stock is not listed or admitted to trading on any national securities exchange, the last quoted price, or if not so quoted, the average of the high bid and low asked prices in the Nasdaq/NMS market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer in use, the principal other automated quotations system that may then be in use or, if the Stock is not quoted by any such organization, as determined in good faith by the Board of Directors,

Ownership Limit means the Common Stock Ownership Limit or the Preferred Stock Ownership Limit, or both, as the context may require.

Preferred Stock Ownership Limit means, with respect to the Preferred Stock, 9.8% of the outstanding Stock of a particular series of Preferred Stock of the Company, subject to adjustment pursuant to Section 9. 10 (but not more than 9.8% of any outstanding series of Preferred Stock, as so adjusted) and to any other limitations contained in this Article 9. The Preferred Stock Ownership Limit may be based on either the number of shares of Common Stock or the value of such stock, whichever is more restrictive**.**

Purported Beneficial Holder means, with respect to any purported Transfer or Acquisition or other event or transaction which results in Stock-in-Trust, the Person for whom the applicable Purported Record Holder held the shares of Stock that were, pursuant to this Article 9, automatically transferred to the Trust upon the occurrence of such event or transaction. The Purported Beneficial Holder and the Purported Record Holder may be the same Person.

Purported Beneficial Transferee means, with respect to any purported Transfer or Acquisition or other event or transaction which results in Stock-in-Trust, the purported beneficial transferee for whom the Purported Record Transferee would have acquired Stock if such Transfer or Acquisition which results in Stock-in-Trust had been valid under Section 9,2, The Purported Beneficial Transferee and the Purported Record Transferee may be the same Person.

Purported Record Holder means, with respect to any purported Transfer or Acquisition or other event or transaction which results in Stock-in-Trust, the record holder of the shares of Stock that were, pursuant to Section 9. 3, automatically deemed to be Stock-in-Trust upon the occurrence of such an event or transaction. The Purported Record Holder and the Purported Beneficial Holder may be the same Person.

Purported Record Transferee means, with respect to any purported Transfer or Acquisition or other event or transaction which results in Stock-in-Trust, the record holder of the Stock if such Transfer or Acquisition which results in Stock-in-Trust had been valid under Section 9,2. The Purported Record Transferee and the Purported Beneficial Transferee may be the same person.

Restriction Termination Date means the first day after the date of the closing of the Initial Public Offering on which the Board of Directors of the Company, pursuant to Section 3,3 hereof, determines that it is no longer in the best interests of the Company to attempt or continue to qualify as a REIT,

Stock-in-Trust means those shares of Stock that are automatically transferred to the Trust as a result of a purported Transfer, Acquisition, change in the capital structure of the Company, other purported change in the Beneficial or Constructive Ownership of Stock or other event or transaction as described in Section 9. 3.

Trading Day means a day on which the principal national securities exchange on which the affected class or series of Stock is listed or admitted to trading is open for the transaction of business or, if the affected class or series of Stock is not so listed or admitted to trading, shall mean any day other than a Saturday, Sunday or other day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close**.**

Transfer means any sale, transfer, gift, hypothecation, assignment, devise or other disposition of a direct or indirect interest in Stock or the right to vote or receive dividends on Stock, including without limitation (i) the granting of any option (including any option to acquire an option or any series of such options) or entering into any agreement for the sale, transfer or other disposition of Stock or the right to vote or receive dividends on Stock or (ii) the sale, transfer, assignment or other disposition of any securities or rights convertible into or exchangeable for Stock, whether voluntary or involuntary, of record, constructively or beneficially, and whether by operation of law or otherwise. The terms “Transfer” “Transferred” and “Transferable shall have correlative meanings.

Trust means the trust created pursuant to Section 9. 13(a) hereof.

Trustee means the trustee of the Trust, as appointed by the Company or any successor trustee thereof, which Trustee shall not be an Affiliate of the Company or of the Purported Record Holder, the Purported Beneficial Holder, the Purported Record Transferee, or the Purported Beneficial Transferee,

Section 9.2 Ownership and Transfer Limitations**.**

(a) Notwithstanding any other provision of the Charter, except as provided in Section 9.9 and subject to Section 9. 15, from the first closing date of the Initial Public Offering and prior to the Restriction Termination Date no Person shall Beneficially or Constructively Own Stock in excess of the Common or Preferred Stock Ownership Limits.

(b) Notwithstanding any other provision of these Articles of Incorporation, except as provided in Section 9.9(a) and subject to Section 9. 15, from the first closing date of the Initial Public Offering and prior to the Restriction Termination Date, any Transfer, Acquisition, change in the capital structure of the company, other purported change in Beneficial or Constructive Ownership of Stock or other event or transaction that, if effective, would result in any Person Beneficially or Constructively Owning Stock in excess of the Common or Preferred Stock Ownership Limits shall be void ab initio as to the Transfer, Acquisition, change in the capital structure of the Company, other purported change structure of the Company, other purported change in Beneficial or Constructive Ownership or other event or transaction with respect to that number of shares of Stock which would otherwise be Beneficially or Constructively Owned by such Person in excess of the Common or Preferred Stock Ownership Limits, and none of the Purported Beneficial Transferee, the Purported Record Transferee, the Purported Beneficial Holder or the Purported Record Holder shall acquire any rights in that number of such shares.

(c) Notwithstanding any other provision of these Articles of Incorporation, subject to Section 9. 15, from the first closing date of the Initial Public Offering and prior to the Restriction Termination Date, any Transfer, Acquisition, change in the capital structure of the Company, or other purported change in Beneficial or Constructive Ownership (including actual ownership) of Stock or other event or transaction that, if effective, would result in the Stock being actually owned by fewer than 100 Persons (determined without reference to any rules of attribution) shall be void ab initio as to the Transfer, Acquisition, change in the capital structure of the Company, other purported change in Beneficial or Constructive Ownership (including actual ownership) or other event or transaction with respect to that number of shares of Stock which otherwise would be (determined without reference to any rules of attribution) by the transferee, and the intended transferee or subsequent owner (including a Beneficial Owner or Constructive Owner) shall acquire no rights in such shares. of Stock.

(d) Notwithstanding any other provision of these Articles of Incorporation, subject to Section 9.15 from the first closing date of the Initial Public Offering and prior to the Restriction Termination Date, any Transfer, Acquisition, change in the capital structure of the Company, other purported change in Beneficial or Constructive Ownership of Stock or other event or transaction that, if effective, would cause the company to fail to qualify as a REIT by reason of being "closely held" within the meaning of Section 856(h) of the Code shall be void ab initio as to the Transfer, Acquisition, change in the capital structure of the Company, other purported change in Beneficial or Constructive Ownership or other event or transaction with respect to that number of shares of Stock which would cause the Company to be "closely held" within the meaning of Section 856(h) of the Code, and none of the Purported Beneficial Transferee, the Purported Record Transferee, the Purported Beneficial Holder or the Purported Record Holder shall acquire any rights in such shares of Stock

(e) Notwithstanding any other provision of these Articles of Incorporation, subject to Section 9.15, from the first closing date of the Initial Public Offering and prior to the Restriction Termination Date, any Transfer, Acquisition, change in capital structure of the Company or other purported change in Beneficial or Constructive Ownership of Stock or other event or transaction that, if effective, would cause the Company to Constructively Own 9.8% or more of the ownership interests in a tenant of the real property of the Company, the Operating Partnership or any direct or indirect subsidiary (including, without limitation, partnerships, joint ventures and limited liability companies) of the Company or the Operating Partnership (a "Subsidiary"), within the meaning of Section 856(d)(2)(B) of the Code or otherwise, directly or indirectly, would cause the Company to fail to qualify as a REIT, shall be void AB INITIO as to the Transfer, Acquisition, change in capital structure of the Company other purported change in Beneficial or Constructive Ownership or other event or transaction with respect to that number of shares of Stock which would cause the Company to Constructively Own 9/8% or more of the ownership interest in a tenant of the Company's, the Operating Partnership's or a Subsidiary's real property within the meaning of Section 856 (d)(2)(B) of the Code or otherwise directly or indirectly would cause the Company to fail to qualify as a REIT and none of the Purported Beneficial Transferee, the Purported Record Transferee, the Purported Beneficial Holder or the Purported Record Holder shall acquire any rights such share of Stock.

(f) Notwithstanding any other provision of these Articles of Incorporation, subject to Section 9.16, from the first closing date of the Initial Public Offering and prior to the Restriction Termination Date any Transfer, Acquisition, change in the capital structure of the Company, other purported change in Beneficial or Constructive Ownership of Stock or other event or transaction that, if effective, would cause the Company to fail to qualify as a REIT by reason of the fact that such Transfer, Acquisition, change in the capital structure of the Company, other purported change in Beneficial or Constructive Ownership of Stock or other event or transaction violates any applicable jurisdiction's securities laws or regulations shall be void ab initio as to the Transfer, Acquisition, change in the capital structure of the Company, other purported change in Beneficial or Constructive Ownership or other event or transaction with respect to such Stock and none of the Purported Beneficial Transferee, the Purported Record Transferee, the Purported Beneficial Holder or the Purported Record Holder shall acquire any rights in that number of shares of Stock.

Section 9.3 Transfer of Shares to Trust.

(a) If, notwithstanding the other provisions contained in this Article 9, at any time from the first closing date of the Initial Public Offering and prior to the Restriction Termination Date, there is a purported Transfer or Acquisition or a change in the capital structure of the Company, other purported change in the Beneficial or Constructive Ownership of Stock or other event or transaction such that any Person would either Beneficially or Constructively Own Stock in excess of the Common or Preferred Stock Ownership Limit, then, except as otherwise provided in Section 9.9, such shares of Stock (rounded up to the next whole number of shares) in excess of the Common or Preferred Stock Ownership Limit automatically shall be transferred to the Trust. Such transfer to the Trust shall be effective as of the close of business on the business day next preceding the date of the purported Transfer or Acquisition or change in capital structure, other purported change in Beneficial or Constructive Ownership of Stock, or other event or transaction.

(b) If, notwithstanding the other provisions contained in this Article 9, at any time from the first closing date of the Initial Public Offering and prior to the Restriction Termination Date, there is a purported Transfer or Acquisition or a change in the capital structure of the Company, other purported change in the Beneficial or Constructive Ownership of Stock or other event or transaction which, if effective, would result in a violation of any of the restrictions described in paragraphs (c), (d), (e) and (t) of Section 9.2, or otherwise, directly or indirectly would cause the Company to fail to qualify as a REIT, then the shares of Stock (rounded up to the next whole number of shares) purportedly being Transferred or Acquired or which are otherwise affected by the change in capital structure or other purported change in Beneficial or Constructive Ownership or other event or transaction and which, in any case, would result in a violation of any of the restrictions described in paragraphs (c), (d), (e) and (f) of Section 9.2 or otherwise would cause the Company to fail to qualify as a REIT automatically shall be transferred to the Trust. Such transfer to the Trust shall be effective as of the close of business on the business day prior to the date of the purpo1ied Transfer or Acquisition or change in capital structure, other purported change in Beneficial or Constructive Ownership or other event or transaction.

Section 9.4 Remedies for Breach. If the Board of Directors or its designee shall at any time determine in good faith that a purported Transfer, Acquisition, change in the capital structure of the Company or other purported change in Beneficial or Constructive Ownership or other event or transaction has taken place in violation of Section 9.2 or in violation of any securities law or regulations of any applicable jurisdiction, or that a Person intends to Acquire or has attempted to Acquire Beneficial or Constructive Ownership of any Stock in violation of this Article 9 (whether or not such violation is intended), the Board of Directors or its designee shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer, Acquisition, change in the capital structure of the Company, other attempt to Acquire Beneficial or Constructive Ownership of any Stock or other event or transaction, including, but not limited to, causing the Company to redeem shares, refusing to give effect thereto on the books of the Company or instituting injunctive proceedings with respect thereto; provided, however, that any Transfer, Acquisition, change in the capital structure of the Company, attempted Transfer or other attempt to Acquire Beneficial or Constructive Ownership of any Stock or other event or transaction in violation of paragraphs (b), (c), (d) and (e) of Section 9.2 (as applicable) shall be void ab initio and where applicable automatically shall result in the transfer to the Trust described in Section 9.3, irrespective of any action (or inaction) by the Board of Directors or its designee.

Section 9. 5 Notice of Restricted Transfer. Any Person who acquires or attempts to Acquire Beneficial or Constructive Ownership of Stock in violation of Section 9.2 and any Person who Beneficially or Constructively Owns Stock-in-Trust as a transferee of Stock resulting in a transfer of Stock to the Trust, pursuant to Section 9.3, or otherwise shall immediately give written notice to the Company, or, in the event of a proposed or attempted Transfer, Acquisition, or purported change in Beneficial or Constructive Ownership, shall give at least fifteen (15) days prior written notice to the Company, of such event and shall promptly provide to the Company such other information as the Company, in its sole discretion, may request in order to determine the effect, if any, of such Transfer, proposed or attempted Transfer, Acquisition, proposed or attempted Acquisition or purported change in Beneficial or Constructive Ownership on the Company's status as a REIT.

Section 9.6 Owners Required to Provide Information. From the date of the Initial Public Offering and prior to the Restriction Termination Date:

(a) Every Beneficial or Constructive Owner of more than five percent (5%), or such lower percentages as determined pursuant to regulations under the Code or as may be requested by the Board of Directors, in its sole discretion, of the outstanding shares of any class or series of Stock of the Company shall annually, no later than January 30 of each calendar year, give written notice to the Company stating (i) the name and address of such Beneficial or Constructive Owner, (ii) the number of shares of each class or series of Stock Beneficially or Constructively Owned; and (iii) a description of how such shares are held. Each such Beneficial or Constructive Owner promptly shall provide to the Company such additional information as the Company, in its sole discretion, may request in order to determine the effect, if any, of such Beneficial or Constructive Ownership on the Company’s status as a REIT and to ensure compliance with the Common or Preferred Stock Ownership Limit and other restrictions set forth herein.

(b) Each Person who is a Beneficial or Constructive Owner of Stock and each Person (including the Stockholder of record) who is holding Stock for a Beneficial or Constructive Owner promptly shall provide to the Company such information as the Company, in its sole discretion, may request in order to determine the Company’s status as a REIT to comply with the requirements of any taxing authority or other governmental agency, or to determine any such compliance or to ensure compliance with the Common or Preferred Stock Ownership Limits and other restrictions set forth herein.

Section 9.7 Remedies Not Limited. Subject to Section 9.15, nothing contained in this Article 9 shall limit the scope or application of the provisions of Sections 9.1 through 9.12, the ability of the Company to implement or enforce compliance with the terms hereof or the authority of the Board of Directors to take any such other action or actions as it may deem necessary or advisable to protect the Company and the interests of its Stockholders by preservation of the Company's status as a REIT and to ensure compliance with the Ownership Limit for any class or series of Stock and other restrictions set forth herein, including, without limitation, refusal to give effect to a transaction on the books of the Company.

Section 9.8 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Article 9, including any definition contained in Sections 1.6 and 9.1, the Board of Directors shall have the power and authority, in its sole discretion, to determine the application of the provisions of this Article 9 with respect to any situation based on the facts known to it. In the event Section 9.2, 9.3 or 9.4 requires an action by the Board of Directors and the Charter fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Sections 9.1, 9.2, 9.3 or 9.4. Absent a decision to the contrary by the Board of Directors (which the Board may make in its sole and absolute discretion), if a Person would have (but for the remedies set forth in Section 9.2) acquired Beneficial or Constructive Ownership of Stock in violation of Section 9.2, such remedies (as applicable) shall apply first to the shares of Stock which, but for such remedies, would have been Beneficially Owned or Constructively Owned (but not actually owned) by such Person, pro rata among the Persons who actually own such shares of Stock based upon the relative number of the shares of Stock held by each such Person.

Section 9.9 Waivers by Board. Upon notice of an Acquisition or Transfer or a proposed Acquisition or Transfer which results or would result in the intended transferee having Beneficial Ownership of shares in excess of the Ownership Limit, the Board of Directors may, upon receipt of evidence deemed to be satisfactory by the Board of Directors, in its sole discretion, that such Acquisition or Transfer does not or will not violate the "closely held" provisions of Section 856(h) of the Code or otherwise cause the Company to fail to qualify as a REIT, waive the Ownership Limit with respect to such transferee upon such conditions as the Board of Directors may direct.

Section 9.10 Increase and Decrease in Common or Preferred Stock Ownership Limit. Subject to the limitations contained in Section 9.11 , the Board of Directors may from time to time increase the Common or Preferred Stock Ownership Limits for any Person and decrease the Common or Preferred Stock Ownership Limits for all other Persons; provided, however, that the decreased Common or Preferred Stock Ownership Limit will not be effective for any Person whose percentage ownership in Stock is in excess of such decreased Common or Preferred Stock Ownership Limit until such time as such Person's percentage of Stock equals or falls below the decreased Common or Preferred Stock Ownership Limit, but any further acquisition of Stock in excess of such percentage ownership of Stock will be in violation of the Common or Preferred Stock Ownership Limit and, provided further, that the new Common or Preferred Stock Ownership Limit would not allow five or fewer Persons to Beneficially Own more than 49.9% in value of the outstanding Stock.

Section 9.11 Limitations on Modifications.

(a) The Ownership Limit for a class or series of Stock may not be increased and no additional ownership limitations may be created if, after giving effect to such increase or creation, the Company would be "closely held" within the meaning of Section 856(h) of the Code.

(b) Prior to any modification of the Ownership Limit with respect to any Person, the Board of Directors may require such opinions of counsel, affidavits, undertakings or agreements as it may deem necessary, advisable or prudent, in its sole discretion, in order to determine or ensure the Company’s status as a REIT.

(c) Neither the Preferred Stock Ownership Limit nor the Common Stock Ownership Limit may be increased to a percentage that is greater than 9.8%.

Section 9.12 Notice to Stockholders Upon Issuance or Transfer. Upon issuance or transfer of Stock, the Company shall provide the recipient with a notice containing information about the shares purchased or otherwise transferred, in lieu of issuance of a share certificate, in a form substantially similar to the following:

“The securities issued or transferred are subject to restrictions on transfer and ownership for the purpose of maintenance of the Company's status as a real estate investment trust (a "REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). Except as otherwise provided pursuant to the Articles of Incorporation of the Company, no Person may (i) Beneficially or Constructively Own any class of Common Stock of the Company in excess of 9.8% (or such greater percent as may be determined by the Board of Directors of the Company) in number of shares or value, whichever is more restrictive, of such outstanding Common Stock; (ii) Beneficially or Constructively Own shares of any series of Preferred Stock of the Company in excess of 9.8% (or such greater percent as may be determined by the Board of Directors of the Company**)** in number of shares or value, whichever is more restrictive, of the outstanding shares of such series of Preferred Stock; (iii) Beneficially or Constructively Own Common Stock or Preferred Stock (of any class or series) which would result in the Company being "closely held" under Section 856(h) of the Code; (iv) Beneficially or Constructively Own Common Stock or Preferred Stock that would cause the Company to Constructively Own 9.8% or more of the ownership interests in a tenant of the Company's, the Operating Partnership's or a Subsidiary's real property, within the meaning of Section 856(d)(2)(B) of the Code or which otherwise would cause the Company to fail to qualify as a REIT; or (v) Beneficially or Constructively own Common Stock or Preferred Stock that would cause the Company to fail to qualify as a REIT by reason of a violation of an applicable jurisdiction's securities laws or regulations. No Person may Transfer shares of Stock if such Transfer would result in the Stock being owned by fewer than 100 Persons. Any Person who has Beneficial or Constructive Ownership, or who Acquires or attempts to Acquire Beneficial or Constructive Ownership of Common Stock and/or Preferred Stock in excess of the above limitations and any Person who Beneficially or Constructively Owns Stock-in-Trust as a transferee of Common or Preferred Stock resulting in a transfer of Stock to the Trust (as described below) immediately must notify the Company in writing or, in the event of a proposed or atte1npted Transfer or Acquisition or purported change in Beneficial or Constructive Ownership must give written notice to the Co1npany at least15 days prior to the proposed or attempted transfer, transaction or other event. Any Transfer or Acquisition of Common Stock and/or Preferred Stock or other event which results in a violation of the ownership or transfer limitations set forth in the Company's Articles of Incorporation shall be void ab initio and none of the Purported Beneficial or Record Transferees or the purported Beneficial or Record Holders shall have or acquire any rights in such Common Stock and/or Preferred Stock. If the transfer and ownership limitations referred to herein are violated, the Common Stock or Preferred **Stock** represented hereby automatically will be transferred to the Trust and deemed to be Stock-in Trust to the extent of violation of such limitations, and such Stock-in-Trust will be held in trust by a trustee appointed by the Company, all as provided by the Articles of Incorporation of the Company. In addition, the Company may redeem shares upon the terms and conditions specified by the Board of Directors in its sole discretion if the Board of Directors determines that ownership or a Transfer or Acquisition or other event may violate the restrictions described above. All defined terms used in this legend have the meanings identified in the Company’s Articles of Incorporation, as the same may be amended from time to time, a copy of which, including the restrictions on transfer, will be sent without charge to each Stockholder who so requests."

Section 9.13 Stock-In-Trust.

(a) Ownership in Trust. Upon any purported Transfer or Acquisition or a change in the capital structure of the Company, other purported change in Beneficial or Constructive Ownership or event or transaction that results in Stock-in-Trust pursuant to Section 9.3, such Stock-in-Trust shall be deemed to have been transferred to a trust ("Trust") for the exclusive benefit of the Beneficiary. Stock-in-Trust so held in trust shall be issued and outstanding stock of the Company. The Purported Record Transferee or Purported Record Holder shall have no rights in such Stock-in-Trust except as provided in Section 9.13(c) and Section 9.13(e).

(b) Distribution Rights. Stock-in-Trust shall be entitled to the same rights and privileges as all other shares of the same class or series. The Trustee will receive all distributions and Dividends on the Stock-in-Trust and will hold such Dividends and distributions in trust for the benefit of the Beneficiary. Any Dividend or distribution with a record date on or after the date that Stock becomes Stock-in-Trust which were paid on such Stock to the Purported Record Transferee or to the Purported Record Holder shall be repaid to the Trust, and any such Dividend or distribution declared on such Stock but unpaid shall be paid to the Trustee to hold in trust for the benefit of the Beneficiary. The Company shall take all measures that it determines are reasonably necessary to recover the amount of any such dividend or Distribution paid to the Purported Record Transferee or Purported Record Holder, including, if necessary, withholding any portion of future Dividends or distributions payable on Stock Beneficially Owned or Constructively Owned by such Persons and, as soon as reasonably practicable following the Company's receipt or withholding thereof, paying over to the Trust for the benefit of the Beneficiary the Dividends so received or withheld, as the case may be.

(c) Rights Upon Liquidation. In the event of any voluntary or involuntary liquidation, dissolution or winding up, or any other distribution of the assets, of the Company, each holder of Stock in-Trust resulting from the transfer to the Trust of any specified class or series shall be entitled to receive, ratably with each other holder of Stock-in-Trust resulting from the transfer to the Trust of such class or series and each holder of Stock of such class or series, that portion of the remaining assets of the Company, as are due to holders of Preferred Stock of such series or available for distribution to the holders of such class of Common Stock, as applicable.

The Trustee shall distribute to the Purported Record Transferee or Purported Record Holder the amounts received upon such liquidation, dissolution, winding up or distribution, provided that the Purported Record Transferee or Purported Record Holder shall not be entitled to receive amounts pursuant to this Section 9.13(c) in excess of the price per share in the transaction that created such Stock-in-Trust (or, in the case of a gift or devise, the Market Price per share on the date of such transfer). Any remaining amounts shall be distributed to the Beneficiary.

(d) Voting Rights. The Trustee shall be entitled to vote the Stock-in-Trust on any matters on which holders of Stock of the same class or series are entitled to vote (except as required otherwise by the MGCL). Any vote taken with respect to shares of Stock prior to the discovery by the Company that such shares of Stock have become Stock-in-Trust shall, subject to applicable law, be rescinded and be void ab initio and be recast by the Trustee, in its sole and absolute discretion, provided that if the Company has already taken irreversible corporate action based on such vote, then the Trustee shall not have the authority to rescind and recast such vote. The Purported Record Transferee or Purported Record Holder shall be deemed to have given, as of the date of the transfer of such Stock to the Trust pursuant to Section 9.3, an irrevocable proxy to the Trustee to vote the Stock-In-Trust in the manner in which the Trustee in its sole and absolute discretion, desires.

(e) Restrictions on Transfer; Designation of Beneficiary; Sales of Stock-in-Trust.

(1) Except as described in this Section 9.13(e) and in Section 9.13(c), Stock-In-Trust shall not be transferable. The Beneficiary shall be one or more charitable organizations that is described in Section 50 l (c)(3), l 70(b)(l)(A) or 170(c)(2) of the Code named by the Company within five (5) days after the Trust is established. However, for purposes of sales by the Trustee as set forth herein, the Trustee shall designate a permitted transferee of the Stock represented by such Stock-in-Trust provided that the transferee (i) purchases such Stock for valuable consideration and (ii) acquires such Stock without such acquisition resulting in another automatic transfer of Stock into the Trust. If the Company does not purchase the Stock-in-Trust, the Trustee shall (i) sell that number of shares of Stock represented by such Stock-in-Trust to the permitted transferee, (ii) cause to be recorded on the books of the Company that the permitted transferee is title holder of record of such number of shares of Stock and (iii) cause the Stock-in-Trust to be canceled.

(2) In the event of a sale by the Trustee of the Stock represented by such Stock-in-Trust, the Purported Record Transferee or Purported Record Holder shall receive from the Trustee a per share price equal to the lesser of (i) the price per share in the transaction that created such Stock-in-Trust (or, in the case of a gift or devise, the Market Price per share on the date of such transfer) and (ii) the price per share received by the Trustee, provided that such price per share shall be net of any commissions and other expenses of the sale. The Trustee may reduce the amount payable to the Purported Record Transferee or Purported Record Holder by the amount of Dividends and distributions which have been paid to the Purported Record Transferee or Purported Record Holder and are owed by the Purported Record Transferee or Purported Record Holder to the Trustee pursuant to Section 9.13 (b). The proceeds shall be sent to such Person within five business days after the closing of such sale transaction.

(3) All Stock-in-Trust will be deemed to have been offered for sale to the Company, or its designee, and the Company will have the right to accept such offer for a period of twenty (20) days after the later of (i) the date of the purported Transfer or Acquisition or a change in the capital structure of the Company, other purported change in Beneficial or Constructive Ownership or event or transaction which resulted in such Stock-in-Trust and (ii) the date the Company determines in good faith that a purported Transfer or Acquisition or **a** change in the capital structure of the Company, other purported change in Beneficial or Constructive Ownership or event or transaction resulting in such Stock-in-Trust occurred, if the Company does not receive a notice pursuant to Section 9.5. If the Company accepts the offer to purchase such Stock-in-Trust, the purchase price per share shall be equal to the lesser of (i) the price per share in the transaction that created such Stock-in-Trust (or, in the case of a gift or devise, the Market Price at the time of such gift or devise) and (ii) the Market Price on the date the Company or its designee, accepts such offer

(4) Any amounts received by the Trustee in excess of the amounts paid to the Purported Record Transferee or Purported Record Holder shall be distributed to the Beneficiary.

Section 9.14 Remedies Not Limited. Subject to Section 9.15, nothing contained in this Article 9 shall limit the scope or application of the provisions of Section 9.13, the ability of the Company to implement or enforce compliance with the terms hereof or the authority of the Board of Directors to take any such other action or actions as it may deem necessary or advisable to protect the Company and the interests of its Stockholders by preservation of the of the Company's status as a REIT and to ensure compliance with the applicable Ownership Limits and the other restrictions set forth herein, including, without limitation, refusal *to* give effect to a transaction on the books of the Company.

Section 9.15 Settlements. Nothing in this Article 9 shall preclude the settlement of any transaction with respect to the Stock entered into through the facilities of the New York Stock Exchange or other national securities exchange on which the Stock are listed. The fact that the settlement of any transaction occurs shall not negate the effect of any other provisions of this Article 9 and any transferee in such a transaction shall be subject to all of the provision and limitations set forth in such Sections.

Section 9.16 Severabilitv. If any provision of this Article 9 or any application of any such provision is determined to be void, invalid or unenforceable by any court having jurisdiction over the issue, the validity and enforceability of the remaining provisions of this A1ticle 8 shall not be affected and other applications of such provision shall be affected only to the extent necessary to comply with the determination of such court.

Section 9.17 Waiver. The Company shall have authority at any time to waive the requirements that Stock be transferred to the Trust in accordance with the provisions of this Article 9 if the Company determines, based on an opinion of nationally recognized tax counsel, that such transfer of Stock to a trust, would jeopardize the status of the Company as a REIT (as that term is defined in Section 1.6).

ARTICLE 10
STOCKHOLDERS

Section 10.1 Meetings of Stockholders. There shall be an annual meeting of the Stockholders, to be held at such time and place as shall be determined by or in the manner prescribed in the Bylaws, at which the Directors shall be elected and any other proper business may be conducted. The annual meeting will be held on a date which is a reasonable period of time following the distribution of the Company's annual report to Stockholders but not less than thirty (30) days after delivery of such report. Stockholders who are entitled to cast a majority of all votes and who are present in person or by proxy at an annual meeting at which a quorum is present, may, without the necessity for concurrence by the Directors, vote to elect the Directors. A quorum shall be 50% of the then outstanding Shares. Special meetings of Stockholders may be called in the manner provided in the Bylaws, including by the chief executive officer, by a majority of the Independent Directors or by a majority of the Directors, and shall be called by an officer of the Company upon written request of Stockholders holding in the aggregate not less than ten percent (10%) of the outstanding Stock entitled to vote on any issue proposed to be considered at any such special meeting. Upon receipt of a written request, either in person or by mail, stating the purpose(s) of the meeting, the sponsor shall provide all Stockholders within ten (10) days after receipt of said request, written notice, either in person or by mail, of a meeting and the purpose of such meeting to be held on a date not less than fifteen (15) nor more than sixty (60) days after the distribution of such notice, at a time and place specified in the request, or if none is specified, at a time and place convenient to the Stockholders. If there are no Directors, the officers of the Company shall promptly call a special meeting of the Stockholders entitled to vote for the election of successor Directors. Any meeting may be adjourned and reconvened as the Directors \determine or as provided by the Bylaws.

Section 10.2 Voting Rights of Stockholders. Subject to the provisions of any class or series of Stock then outstanding and the mandatory provisions of any applicable laws or regulations, the Stockholders shall be entitled to vote only on the following matters: (a) election or removal of Directors, without the necessity for concurrence by the Directors, as provided in Sections 10.1, 2.4 and 2.7 hereof; (b) amendment of the Charter, without the necessity for concurrence by the Directors, as provided in Section 12.1 hereof; (c) dissolution of the Company, without the necessity for concurrence by the Directors; (d) reorganization of the Company as provided in Section 12.2 hereof; (e) merger, consolidation or sale or other disposition of all or substantially all of the Property, as provided in Section 12.3 hereof; and (f) such other matters with respect to which the Board of Directors has adopted a resolution declaring that a proposed action is advisable and directing that the matter be submitted to the Stockholders for approval or ratification. Except with respect to the foregoing matters, no action taken by the Stockholders at any meeting shall in any way bind the Board.

Section 10.3 Voting Limitations on Stock Held by the Advisor, Directors and Affiliates. With respect to Stock owned by the Advisor, the Directors, or any of their Affiliates, neither the Advisor, nor the Directors, nor any of their Affiliates may vote or consent on matters submitted to the Stockholders regarding the removal of the Advisor, Directors or any of their Affiliates or any transaction between the Company and any of them. In determining the requisite percentage in interest of Stock necessary to approve a matter on which the Advisor, Directors and any of their Affiliates may not vote or consent, any Stock owned by any of them shall not be included.

Section 10.4 Right of Inspection. Any Stockholder and any designated representative thereof shall be permitted access, without charge, to all records of the Company at all reasonable times. Any Stockholder and any designated representative thereof may inspect and copy any of such records upon the payment of reasonable copying charges. Inspection of the Company books and records by the office or agency administering the securities laws of a jurisdiction shall be provided upon reasonable notice and during normal business hours.

Section 10.5 Access to Stockholder List. An alphabetical list of the names, addresses and telephone numbers of the Stockholders of the Company, along with the number of Shares held by each of them (the "Stockholder List"), shall be maintained as part of the books and records of the Company and shall be available for inspection by any Stockholder or the Stockholder's designated agent at the home office of the Company upon the request of the Stockholder. The Stockholder List shall be updated at least quarterly to reflect changes in the information contained therein. A copy of such list shall be mailed to any Stockholder so requesting within ten (10) days of the request. The copy of the Stockholder List shall be printed in alphabetical order, on white paper, and in a readily readable type size (in no event smaller than 10-point type). The Company may impose a reasonable charge for expenses incurred in reproduction pursuant to the Stockholder request. A Stockholder may request a copy of the Stockholder List in connection with matters relating to Stockholders' voting rights, and the exercise of Stockholder rights under federal proxy laws.

If the Advisor or Directors neglect or refuse to exhibit, produce or mail a copy of the Stockholder List as requested, the Advisor and/or the Directors shall be liable to any Stockholder requesting the list for the costs, including attorneys' fees, incurred by that Stockholder for compelling the production of the Stockholder List, and for actual damages suffered by any Stockholder by reason of such refusal or neglect. It shall be a defense that the actual purpose and reason for the requests for inspection or for a copy of the Stockholder List is to secure such list of Stockholders or other information for the purpose of selling such list or copies thereof, or of using the same for a commercial purpose other than in the interest of the applicant as a Stockholder relative to the affairs of the Company. The Company may require the Stockholder requesting the Stockholder List to represent that the list is not requested for a commercial purpose unrelated to the Stockholder's interest in the Company. The remedies provided hereunder to Stockholders requesting copies of the Stockholder List are in addition, to and shall not in any way limit, other remedies available to Stockholders under federal law, or the laws of any state.

Section 10.6 Reports. The Directors, including the Independent Directors, shall take reasonable steps to insure that the Company shall cause to be prepared and mailed or delivered to each Stockholder as of a record date after the end of the fiscal year and each holder of other publicly held securities of the Company within one hundred twenty (120) days after the end of the fiscal year to which it relates an annual report for each fiscal year ending after the initial public offering of its securities which shall include: (i) financial statements prepared in accordance with generally accepted accounting principles which are audited and reported on by independent certified public accountants; (ii) the ratio of the costs of raising capital during the period to the capital raised; (iii) the aggregate amount of advisory fees and the aggregate amount of other fees paid to the Advisor and any Affiliate of the Advisor by the Company and including fees or charges paid to the Advisor and any Affiliate of the Advisor by third parties doing business with the Company; (iv) the Operating Expenses of the Company, stated as a percentage of Average Invested Assets and as a percentage of its NASAA Net Income and FFO; (v) a report from the Independent Directors that the policies being followed by the Company are in the best interests of its Stockholders and the basis for such determination; (vi) separately stated, full disclosure of all material terms, factors, and circumstances surrounding any and all transactions involving the Company, Directors, Advisors, Sponsors and any Affiliate thereof occurring in the year for which the annual report is made, and the Independent Directors shall be specifically charged with a duty to examine and comment in the report on the fairness of such transactions; and Dividends to the Stockholders for the period, identifying the source of such Dividends, and if information is not available at the time of the distribution, a written explanation of the relevant circumstances will accompany the Dividends (with the statement as to the source of Dividends to be sent to Stockholders not later than sixty (60) days after the end of the fiscal year in which the distribution was made).

ARTICLE 11
LIABILITY OF STOCKHOLDERS, DIRECTORS, ADVISORS AND AFFILIATES

Section 11.1 Limitation of Stockholder Liability. No Stockholder shall be liable for any debt, claim, demand, judgment or obligation of any kind of, against or with respect to the Company by reason of his being a Stockholder, nor shall any Stockholder be subject to any personal liability whatsoever, in tort, contract or otherwise, to any Person in connection with the Company's assets or the affairs of the Company by reason of his being a Stockholder.

Section 11.2. Limitation of Director and Officer Liability. Provided that the applicable conditions set forth under Maryland law are met, no director or officer of the Company shall be liable to the Company or its Stockholders for money damages; provided, however, that notwithstanding anything to the contrary contained in this Section 11.2, the Company shall not provide for indemnification of or hold harmless the directors, the Advisor or any Affiliates of the Advisor for any liability or loss suffered by any of them, unless all of the following conditions are met:

(a) The directors or the Advisor or its Affiliates have determined, in good faith, that the course of conduct that caused the loss or liability was in the best interests of the Company;

(b) The directors or the Advisor or its Affiliates were acting on behalf of or performing services for the Company

(c) Such l ability or loss was not the result of:

(i) negligence or misconduct by the directors (excluding the Independent Directors) or the Advisor or its Affiliates; or

(i) gross negligence or willful misconduct by the Independent Directors;

(d) Such indemnification or agreement to hold harmless is recoverable only out of the Company's Net Asset Value and not from its Stockholders; and

(e) with respect to losses, liabilities or expenses arising from or out of an alleged violation of federal or state securities laws, one or more of the following conditions are met:

(i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee;

(ii) such claims have been dismissed with prejudice on the merits by a of competent jurisdiction as to the particular indemnitee; or

(iii) a court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and of the published position of any state securities regulatory authority in which securities of the Company were offered or sold as to indemnification for violations of securities laws.

Neither the amendment nor repeal of this Section 11.2, nor the adoption or amendment of any other provision of the charter or bylaws inconsistent with this Section 11.2, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act that occurred prior to such amendment, repeal or adoption.

Section 1 1 .3. Indemnification. Provided that the applicable conditions set forth under Maryland law are met, the Company shall indemnify and pay or reimburse reasonable expenses in advance of the final disposition of a proceeding to (i) any individual who is a present or former director or officer of the Company; (ii) any individual who, while a director of the Company and at the request of the Company, serves or has served as a director, officer, partner or trustee of another corporation, partnership, joint venture, trust) employee benefit plan or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his service in such capacity; or (iii) the Advisor or any of its Affiliates acting as an agent of the Company and their respective officers, directors, managers and employees; provided, however, that notwithstanding anything to the contrary contained in this Section 1 1.3, the Company shall not provide for indemnification of or hold harmless the directors, the Advisor or any Affiliates of the Advisor for any liability or loss suffered by any of them, unless all of the following conditions are met:

(a) The directors or the Advisor or its Affiliates have determined, in good faith, that the course of conduct that caused the loss or liability was in the best interests of the Company;

(b) The directors or the Advisor or its Affiliates were acting on behalf of or performing services for the Company;

(c) Such liability or loss was not the result of:

(1) negligence or misconduct by the directors (excluding the Independent Directors) or the Advisor or its Affiliates; or

(2) gross negligence or willful misconduct by the Independent Directors;

(d) Such indemnification or agreement to hold harmless is recoverable only out of the Company's Net Asset Value and not from its Stockholders; and

(e) with respect to losses, liabilities or expenses arising from or out of an alleged violation of federal or state securities laws, one or more of the following conditions are met:

(1) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular indemnitee

(2) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee; or

(3) a court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the Securities and Exchange Commission and of the published position of any state securities regulatory authority in which securities of the Company were offered or sold as to indemnification for violations of securities laws.

The Company shall have the power with the approval of the Board of Directors to provide such indemnification and advancement of expenses to any employee or agent of the Company. No amendment of the Charter or repeal of any of its provisions shall limit or eliminate the right of indemnification or advancement of expenses provided hereunder with respect to acts or omissions occurring prior to such amendment or repeal. .

Section 11.4 Limitation on Payment of Expenses. The Company shall pay or reimburse reasonable legal expenses and other costs incurred by the directors or the Advisors or its Affiliates in advance of the final disposition of a proceeding only if (in addition to the procedures required by the MGCL) all of the following are satisfied (a) the proceedings relates to acts or omissions with respect to the performance of duties or services on behalf of the Company, (b) the legal proceeding was initiated by a third party who is not a Stockholder or, if by a Stockholder acting in his or her capacity as such, a court of competent jurisdiction approves such advancement and (c) the directors or the Advisor or its Affiliates undertake to repay the amount paid or reimbursed by the Company together with the applicable legal rate of interest thereon, if it is ultimately determined that the particular indemnitee is not entitled to indemnification

ARTICLE 12
AMENDMENT; REORGANIZATION; MERGER, ROLL-UP TRANSACTIONS

Section 12.1 Amendment. The Company reserves the right from time to time to make any amendment to the Charter, now or hereafter authorized by law, including any amendment altering the terms or contract rights, as expressly set forth in the Charter, of any outstanding shares of Stock. All rights and powers conferred by the Charter on Stockholders, Directors and officers are granted subject to this reservation. Except for those amendments permitted to be made without stockholder approval by specific provision in the Charter, any amendment to the Charter shall be valid only if approved by the affirmative vote of a majority of all votes entitled to be cast on the matter, including without limitation, (i) any amendment which would change any rights with respect to any outstanding class of securities, by reducing the amount payable thereon upon liquidation, or by diminishing or eliminating any voting rights pertaining thereto; (ii) any amendment of Section 12.2 hereof and this Section 12.1 (or any other provision of these Articles of Incorporation the amendment of or addition to which would have the effect of amending such sections); (iii) any amendment of provisions relating to the removal of directors, Independent Directors, Director qualifications, fiduciary duty, conflicts of interest, investment policies or investment restrictions, pre-emptive rights of holders of Stock and indemnification and limitation of liability of officers and directors and (iv) any amendment that would impose cumulative voting in the election of directors.

Section 12.2 Reorganization Subject to the provisions of any class or series of Stock at the time, the Directors shall have the power (i) to cause the organization of a corporation, association, trust or other organization to take over the Property and to carry of the affairs of the Company organization to take over the Property and to carry on the affairs of the Company, or (ii) merge the Company into, or sell, convey and transfer the Property to any such corporation, association, trust or organization in exchange for Securities thereof or beneficial interests therein, and the assumption by the transferee of the liabilities of the company, and upon the occurrence of (i) or (ii) above dissolve the Company and deliver such Securities or beneficial interest ratably among the Stockholders according to the respective rights of the class or series of Stock held by them, provided, however, that any such action shall have been approved, at a meeting of the Stockholders called for that purpose, by the affirmative vote of a majority of all votes entitled to be cast on the matter.

Section 12.3 Merger, Consolidation or Sale of Property. Subject to the provisions of any class or series of Stock at the time outstanding, the Directors shall have the power to (i) merge the Company with or into another entity, (ii) consolidate the Company with one (1) or more other entities into a new entity; (iii) sell or otherwise dispose of all or substantially all of the Property; or (iv) dissolve or liquidate the Company, other than before the initial investment in Property; provided, however, that such action shall have been approved by the affirmative vote of a majority of all votes entitled to be cast on the matter. Any such transaction involving an Affiliate of the Company or the Advisor also must be approved by a majority of the Directors (including a majority of the Independent Directors) not otherwise interested in such transaction as fair and reasonable to the Company and on terms and conditions not less favorable to the Company than those available from unaffiliated third parties.

Section 12.4 Limitations on Roll-Up Transactions. In connection with any proposed Roll-Up Transaction, an appraisal of all Assets shall be obtained from a competent independent appraiser. .If the appraisal will be included in a Prospectus used to offer the securities of a Roll-Up Entity, the appraisal shall be filed with the Securities and Exchange Commission and if applicable the states in which registration of such securities is sought as an exhibit to the registration statement for the offering. The Assets shall be appraised on a consistent basis and the appraisal shall be based on the evaluation of all relevant information and shall indicate the value of the Assets as of a date immediately prior to the announcement of the proposed Roll-Up Transaction. The appraisal shall assume an orderly liquidation of Assets over a 12-month period. The terms of the engagement of the independent appraiser shall clearly state that the engagement is for the benefit of the Company and the Stockholders. A summary of the appraisal, indicating all material assumptions underlying the appraisal, shall be included in a report to Stockholders in connection with a proposed Roll-Up Transaction. In connection with a proposed Roll-Up Transaction, the person sponsoring the Roll-Up Transaction shall offer to Stockholders who vote against the proposed Roll-Up Transaction the choice of::

(a) accepting the securities of a Roll-Up Entity offered in the proposed Roll-Up Transaction; or

(b) one of the following:

(1) remaining as Stockholders of the Company and preserving their interests therein on the same terms and conditions as existed previously; or

(2) receiving cash in an amount equal to the Stockholder's pro rata share of the appraised value of the Assets of the Company.

The Company is prohibited from participating in any proposed Roll-Up Transaction:

(c) which would result in the Stockholders having democracy rights in a Roll-Up Entity that are less than the rights provided for in Sections J O. I, 10.2, 10.5, 10.6 and 10.l of these Articles of Incorporation;

(d) which includes provisions that would operate as a material impediment to, or frustration of, the accumulation of shares by any purchaser of the securities of the Roll-Up Entity (except to the minimum extent necessary to preserve the tax status of the Roll-Up Entity), or which would limit the ability of an investor to exercise the voting rights of its Securities of the Roll-Up Entity on the basis of the number of Stock held by that investor;

(e) in which investor's rights to access of records of the Roll-Up Entity will be less than those described in Sections 10.4 and 10.5 hereof; or

(f) in which any of the costs of the Roll-Up Transaction would be borne by the Company if the Roll-Up Transaction is not approved by the Stockholders.

ARTICLE 13
DURATION OF COMPANY

The Company shall continue perpetually unless dissolved pursuant to the provisions contained herein.

THIRD: The amendment and restatement of the charter of the Company as hereinabove set forth were duly advised by the Board of Directors and approved by the stockholders of the Company as required by law.

FOURTH: The current address of the principal office of the Company is as set forth in Section 1.4 of the foregoing amendment and restatement of the Charter.

FIFTH: The name and address of the Company's current resident agent are as set forth in Section 1.2 of the foregoing amendment and restatement of the Charter.

SIXTH: The number of directors of the Company and the names of those currently in office are as set forth in Section 2.1 of the foregoing amendment and restatement of the Charter.

SEVENTH: The undersigned President acknowledges the foregoing amendment and restatement of the Charter to be the corporate act of the Company and as to all matters and facts required to be verified under oath, the undersigned President acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties of perjury.

IN WITNESS WHEREOF, Cornerstone Core Properties REIT, Inc., has caused the foregoing amendment and restatement of the Charter to be signed in its name and on its behalf by its President and attested to by its Secretary on this 30th day of June, 2010.

/s/Terry G. Roussel
TERRY G. ROUSSEL,
President

ATTEST:

By: /s/ Alfred J. Pizzurro
ALFRED J. PIZZURRO,
Secretary

Exhibit 10.29

MASTER LEASE

Between

CHP PORTLAND, LLC,
a Delaware limited liability company,

and

CHP TIGARD, LLC,
a Delaware limited liability company,

And

CHP SHERIDAN, LLC,
a Delaware limited liability company

collectively, as Landlord,

and

SNF Management, LLC,
an Oregon limited liability company,

as Tenant

Date of Lease: As of September 1, 2014

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LIST OF SCHEDULES AND EXHIBITS

LEASE

Whereas, CHP Portland, LLC, a Delaware limited liability company ("**Portland**") entered into that certain lease, with Sheridan Care Center LLC, an Oregon limited liability company, dba Sheridan Care Center ("**Sheridan Operator**"), Fernhill Estates LLC, an Oregon limited liability company, dba Fernhill Estates ("**Fernhill Operator**"), and Pacific Gardens Estates LLC, an Oregon limited liability company, dba Pacific Health and Rehabilitation ("**Pacific Operator**"), dated August 3, 2012, as amended to remove Pacific Operator as a party ("**Original Lease 1**") and CHP Tigard, LLC, a Delaware limited liability company ("**Tigard**"), entered into that certain lease with Pacific Operator, dated December 24, 2012 ("**Original Lease 2**").

Whereas, in connection with a HUD refinancing, the parties wish to terminate Original Lease 1 and Original Lease 2 and supersede those leases with this Master Lease.

Now Therefore, in consideration of the agreements and obligations set forth herein and for other good and valuable consideration, the Landlord and the Tenant specified below hereby enter into this Master Lease (this "**Lease**") as of the Date of Lease specified below.

1. Fundamental Lease Provisions; Definitions.

1.1 Fundamental Lease Provisions. The following list sets out certain fundamental provisions pertaining to this Lease:

(a) Date of Lease. As of September 1, 2014.

(b) Landlord. Portland, Tigard, and CHP Sheridan, LLC, a Delaware limited liability company ("**Sheridan**", and collectively with Portland and Tigard, the "**Landlord**").

Landlord notice address:	CHP Portland, LLC CHP Tigard, LLC CHP Sheridan, LLC c/o Summit Healthcare REIT, Inc. 2 South Pointe Dr., Suite 100 Lake Forest, CA 92630 Attn: Kent Eikanas Email: KEikanas@summithealthcarereit.com Phone: (949) 535-1923 Fax: (949) 535-2054
with copy to:	DLA Piper LLP (US) 2000 University Avenue East Palo Alto, California 94303 Attn: James E. Anderson, Esq. Email: jim.anderson@dlapiper.com Phone: (650) 833-2078 Fax: (650) 687-1158

(c) Tenant. SNF Management, LLC, an Oregon limited liability company (the "**Tenant**").

Tenant notice address:	c/o Dakavia Management Corporation 4676 Commercial Street SE, #358 Salem, Oregon 97302-1902 Attn: Kent Emry Email: Kemry@dakavia.com Phone: (503) 689-1808 Fax: (866) 501-9708
with copy to:	Eric W. Jamieson c/o Garrett Hemann Robertson P.C. 1011 Commercial Street NE P O Box 749 Salem, Oregon 97308 Email: ejamieson@ghrlawyers.com Phone: (503) 581-1501 Fax: (503) 581-5891

1.2 Definitions. The following list sets out certain definitions used in this Lease:

(a) "**Adverse Healthcare Event"**. The occurrence of any of the following at any Facility: any termination or suspension placed upon Tenant or the Healthcare Use of any portion of a Facility, the operation of the Healthcare Business conducted within a Facility or the ability to admit residents or patients for a period in excess of thirty (30) days or if the certification or licensure of any portion of the Property under any Legal Requirements is revoked, or suspended or materially limited for a period in excess of thirty (30) days, including, without limitation, (i) termination of provider agreements without Landlord's consent; or (ii) failure to maintain Tenant's qualifications for licenses, permits, certifications and any other healthcare requirement necessary to continue to operate a Facility for its Healthcare Use.

(b) "**Approved Management Agreements**." Those certain management agreements for the Premises by and between each Subtenant and each Manager, the form of which is attached hereto as Exhibit C.

(c) "**Approved Sublease**." Those certain subleases for the Premises by and between Tenant and each Subtenant, the form of which is attached hereto as Exhibit D.

(d) "**AR Lender**." A third party institutional lender providing an AR Loan or AR Financing (as defined below in Section 1.2(c)) to Tenant.

(e) "**AR Loan or AR Financing**." A loan obtained by Tenant from a third party institutional lender secured by the accounts receivable from Tenant's business operations within any Facility.

(f) "**AR Loan Documents**." All loan documents entered into by Tenant and/or AR Lender evidencing an AR Loan or AR Financing.

(g) "**Base Rent"** (See Section 6)**.** The amounts set forth on Schedule 1 hereto for the respective periods specified thereon.

(h) "**Broker**." Neither Landlord nor Tenant used a broker in connection with this Lease.

(i) "**C&C Threshold Repair Amount**." Fifty Thousand Dollars ($50,000).

(j) "**Capital Reserve Deposits**." The deposits required to be made by Tenant in the amount of Four Hundred Fifty Dollars ($450) per bed annually.

(k) "**Date of Rent Commencement**." Rent (Base Rent and Additional Rent) for each Facility shall be the date of the closing of the HUD Loan.

(l) "**EBITDAR**." Earnings before interest, taxes, depreciation, amortization and Rent.

(m) "**Exhibits**." All Exhibits and Schedules to this Lease are incorporated herein by this reference.

(n) "**Facilities**." Collectively, the Fernhill Facility, the Pacific Facility and the Sheridan Facility.

(o) "**Facility**." Any of the individual Facilities.

(p) "**Fernhill Facility**." The skilled nursing facility located at 5737 NE 37th Avenue, Portland, Oregon, and commonly referred to as Fernhill Manor.

(q) "**FF&E**." All furnishings, furniture, fixtures, and equipment owned by Landlord and used in or about the Premises, but expressly excluding any personal property owned by the residents of the Premises.

(r) "**FHA**." The Federal Housing Administration.

(s) "**Healthcare Business**." The business of operating each Facility for its respective Healthcare Use.

(t) "**Healthcare Use**." The use of the Fernhill Facility, the Pacific Facility and/or the Sheridan Facility as intermediate nursing care facilities, or as skilled nursing facilities or other statutory or regulatory approved long-term care use approved by Landlord in its sole and absolute discretion.

(u) "**HUD**." The United States Department of Housing and Urban Development.

(v) "**HUD Lender**." A Lender providing a HUD Loan to Landlord on the Premises.

(w) "**HUD Loan**." A new loan secured by the Premises from a Lender insured by HUD.

(x) "**HUD Loan Documents**." The Loan Documents evidencing a HUD Loan on the Premises.

(y) "**HUD Program Requirements**." All applicable statutes and regulations, including all amendments to such statutes and regulations, as they become effective, and all applicable requirements in HUD handbooks, notices and mortgagee letters that apply to the Premises and all requirements by HUD that Tenant's AR Lender subordinate to HUD Loan in accordance with this Lease, including all updates and changes to such handbooks, notices and mortgagee letters that apply to the Premises, except that changes subject to notice and comment rulemaking shall become effective upon completion of the rulemaking process. (Accounts Receivable lender inter creditor)

(z) "**Late Charge**." Five percent (5%) of the amount past due.

(aa) "**Laws**." As defined below in Section 11.1.

(bb) "**Lease Default Rate**." The lower of (a) fourteen percent (14%) per annum, or (b) the highest rate permitted to be contracted for under applicable Law.

(cc) "**Lease Deposit**." The Lease Deposit shall be in the amount of Four Hundred Twenty Thousand Dollars ($420,000).

(dd) "**Legal Requirements**." As defined below in Section 11.1.

(ee) "**Lender**." Any institutional entity that makes a loan or loans (such loan or loans collectively referred to herein as the "**Loan**") to Landlord which is secured by a mortgage, deed of trust or similar instrument (the "**Mortgage**") with respect to the Premises and of which Tenant is advised in writing by Landlord, and which may be insured by HUD pursuant to Sections 232 and 223(f) of the National Housing Act, as amended. Any such Loan may be evidenced by one or more promissory notes (collectively referred to herein as the "**Note**").

(ff) "**Loan Documents**." Collectively, the Note, the Mortgage and all other documents entered into in connection with the Loan by Landlord and/or Tenant, including, but not limited to, the Regulatory Agreement for a HUD Loan.

(gg) "**Management Agreements**." The management agreements, as amended, between each Subtenant and the manager of the Facilities.

(hh) "**Manager**." Dakavia Management Corporation, an Oregon corporation.

(ii) "**Minimum Licensed Beds**." Sixty-three (63) licensed beds at the Fernhill Facility for skilled nursing care, one hundred twelve (112) licensed beds at the Pacific Facility for skilled nursing care, and fifty-one (51) licensed beds at the Sheridan Facility for intermediate nursing care and/or skilled nursing care.

(jj) "**Minimum Rent Coverage**." For any trailing twelve (12) month period, a ratio of EBITDAR to all Base Rent of not less than 1.3 to 1.0, based on the amounts set forth on Schedule 1 attached hereto.

(kk) "**Pacific Facility**." The skilled nursing facility located at 14145 SW 105th Street, Tigard, Oregon 97224, and commonly referred to as Pacific Health and Rehabilitation.

(ll) "**Payment of Base Rent**." As set forth in Section 6.1, Base Rent shall be paid by wire or Automatic Clearing House (ACH) transfer to the account set forth in the rent direction letter from Landlord to Tenant delivered concurrently with the execution and delivery of this Lease.

(mm) "**Permitted Encumbrances**." All taxes (as defined in Section 30), Legal Requirements (as defined in Section 11), the Mortgage and associated encumbrances in favor of the Lender, any matters consented to by Landlord, Tenant and Lender in writing, those covenants, restrictions, reservations, liens, conditions, encroachments, easements, encumbrances and other matters of title that affect the Premises as of the date hereof (including, without limitation, those listed on Exhibit B hereto) or which arise due to the acts or omissions of Tenant with Landlord's written consent, or due to the acts or omissions of Landlord with Tenant's written consent, after the date hereof.

(nn) "**Premises**." That certain lot or parcel of real estate which is described on Exhibit A hereto, together with the Facilities and all improvements now or hereinafter situated on said property (together with all right, title and interest of Landlord in and to the lighting, electrical, mechanical, plumbing and heating, ventilation and air conditioning systems used in connection with said property, and all other carpeting, appliances and other fixtures and equipment attached or appurtenant to said property), and all rights, easements, rights of way, and other appurtenances thereto.

(oo) "**Regulatory Agreement**." Collectively, the Regulatory Agreement with Landlord and the Regulatory Agreement with Tenant.

(pp) "**Regulatory Agreement with Landlord**." That certain Regulatory Agreement to be entered into between HUD and Landlord relating to the Premises.

(qq) "**Regulatory Agreement with Tenant**." That certain Regulatory Agreement to be entered into between HUD and Tenant relating to the Premises.

(rr) "**Renewal Option(s)**." The Tenant shall have the following Renewal Option (herein so called) to extend the Term of this Lease for up to a total of one (1) Extension Period (herein so called) of five (5) years each upon the same terms and conditions as are set forth in this Lease (except as otherwise expressly set forth herein), and for the Base Rent set forth on Schedule 1 hereto.

(ss) "**Required Advance Notice to Exercise Renewal Options**." Notice to exercise a renewal option shall be provided no earlier than fifteen (15) months and no later than nine (9) months prior to the expiration of the then-current Term. (See Section 4).

(tt) "**Sheridan Facility**." The intermediate care nursing facility located at 411 SE Sheridan Road, Sheridan, Oregon, and commonly referred to as Sheridan Care Center.

(uu) "**State**." The State of Oregon.

(vv) "**Subtenant**." Sheridan Operator, Fernhill Operator, and Pacific Operator (collectively, the "**Subtenant**").

(ww) "**Term**." The term of this Lease shall commence on the Date of Rent Commencement, and shall expire on the 31st day of July following the fifteenth (15th) anniversary of the Date of Rent Commencement; all subject to all terms and conditions of this Lease. One Hundred Eight days prior to termination of this Lease, Landlord shall identify and give Tenant notice of the name of the State-approved replacement tenant or operator which is licensed to provide skilled nursing care and intermediate nursing care in the State of Oregon. Tenant shall cooperate with Landlord in the transition to a new tenant.

(xx) "**Threshold Repair Amount**." Twenty-Five Thousand Dollars ($25,000).

2. Premises. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, for the Term and on the conditions herein provided, the Premises, subject, however, to the Permitted Encumbrances.

3. No Merger of Title. There shall be no merger of this Lease nor of the leasehold estate created hereby with the fee estate in or ownership of the Premises by reason of the fact that the same entity may acquire or hold or own (i) this Lease or the leasehold estate created hereby or any interest therein and (ii) the fee estate or ownership of any of the Premises or any interest therein. No such merger shall occur unless and until all persons having any interest in (x) this Lease and the leasehold estate created hereby, and (y) the fee estate in the Premises including, without limitation, Lender's interest therein, shall join in a written, recorded instrument effecting such merger.

4. Renewal Options. Tenant has the Renewal Options, and may extend the Term of this Lease for each of the Extension Periods, upon all of the terms set forth in this Lease with the Base Rent in the amounts specified on Schedule 1 hereto for the respective Extension Periods. The Term of this Lease shall be extended if Tenant provides Landlord written notice of Tenant's exercise of the Renewal Option in accordance with the Required Advance Notice to Exercise Renewal Options. Notwithstanding the foregoing, if (a) Tenant is in default beyond the applicable cure period on the date of giving Landlord notice of Tenant's exercise of the Renewal Option, or (b) Landlord has previously given Tenant two (2) or more notices of default under this Lease during the previous twelve (12) month period, Tenant shall have no right to extend the Term and this Lease shall expire at the end of the existing Term.

5. Use; Licensing Requirements and Operating Covenants.

5.1 Use. Tenant may use the Premises for the Healthcare Use and for no other use or purpose. Tenant's use of the Premises must be in accordance with all applicable Laws, including, without limitation, applicable zoning and land use Laws. In no event shall the Premises be used for any purpose which shall violate any of the provisions of any Permitted Encumbrance or any covenants, restrictions or agreements hereafter created by or consented to by Tenant applicable to the Premises; provided, however, that this sentence shall not apply with respect to any Permitted Encumbrance in effect on the Date of Rent Commencement so long as (i) the title insurance policy obtained by Landlord in connection with its purchase of the Premises (and the simultaneously issued Lender's policy of title insurance) contains affirmative insurance against any loss arising due to a violation of such Permitted Encumbrance or if such affirmative title insurance is subsequently provided to Landlord and Lender at Tenant's cost with respect to such Permitted Encumbrance on terms and conditions satisfactory to Landlord and Lender in their sole discretion, and (ii) violation of such Permitted Encumbrance could not result in Landlord or Lender suffering (A) any criminal liability, penalty or sanction, (B) any civil liability, penalty or sanction for which Tenant has not made provisions reasonably acceptable to Landlord and Lender, or (C) defeasance or loss of priority of its interest in the Premises; provided, further, however, that **TENANT SHALL NONETHELESS BE OBLIGATED TO INDEMNIFY, DEFEND AND HOLD HARMLESS LANDLORD, LENDER AND ALL OTHER INDEMNIFIED PARTIES, FROM ANY AND ALL LOSSES, LIABILITIES, PENALTIES, ACTIONS, SUITS, CLAIMS, DEMANDS, JUDGMENTS, DAMAGES, COSTS OR EXPENSES SUFFERED AS A RESULT OF THE VIOLATION OF ANY SUCH PERMITTED ENCUMBRANCE BY TENANT**. Tenant agrees that with respect to the Permitted Encumbrances and any covenants, restrictions or agreements hereafter created by or consented to by Tenant, Tenant shall observe, perform and comply with and carry out the provisions thereof required therein to be observed and performed by Landlord. Notwithstanding the foregoing, Tenant shall not use, occupy or permit the Premises to be used or occupied, nor do or permit anything to be done in or on the Premises in a manner which would constitute a public or private nuisance or waste.

5.2 Licensing Requirements. During the term of this Lease, the Premises shall be licensed by Tenant or its Subtenant for not less than the Minimum Licensed Beds. However, it is understood that Tenant is expected to use fewer than the current minimum licensed beds in the facility(ies). Tenant shall at all times maintain in good standing and full force a probationary or non-probationary license issued by the State and any other governmental agencies permitting the operation within the Pacific Facility and the Fernhill Facility as a skilled nursing facility of no less than the Minimum Licensed Beds for such Facilities and within the Sheridan Facility as an intermediate nursing facility of no less than the Minimum Licensed Beds for such Facility (subject to any reduction in the number of licensed beds required by any governmental authority, solely as a result of changes in laws, rules and regulations relating to the physical attributes of the improvements on the Premises) and shall at all times maintain in good standing and full force a provider agreement pursuant to which the Premises shall be entitled to participate in the Medicaid reimbursement program, and when applicable Medicare reimbursement program in order to receive reimbursement for the services provided at the Premises. Except as otherwise specifically provided herein no reduction in the number of licensed beds shall entitle Tenant to any reduction or adjustment of the Base Rent or Additional Rent payable hereunder, which shall be and continue to be payable by Tenant in the full amount set forth herein notwithstanding any such reduction in the number of licensed beds. Tenant shall, within five (5) business days following its receipt thereof, provide Landlord with a copy of any notice from the Department of Health and Human Services or any federal, state or municipal governmental agency, authority and/or court regarding any reduction in the number of licensed beds and Landlord shall have the right, but not the obligation, to contest, by appropriate legal or administrative proceedings, any such reduction. In the event Tenant temporarily or permanently loses the right or licensure to operate a skilled nursing facility and/or intermediate nursing facility described herein, then Tenant may obtain a substitute tenant approved by the State of Oregon to operate the facility(ies) subject to the consent of the Landlord which consent shall be in Landlord's sole and absolute discretion.

5.3 Operating Covenants.

(a) Financial Reporting.

(i) Within forty-five (45) days after the end of each of its fiscal years, Tenant shall furnish to Landlord full and complete unaudited financial statements of the operations of the Facilities for such annual fiscal period which shall be compiled by an independent Certified Public Accountant and such financial statements shall present fairly the financial condition of Tenant, and which shall contain a statement of capital changes, balance sheet and detailed income and expense statement (collectively called "**Financial Statements**") as of the end of the fiscal year. Tenant shall also furnish to Landlord a copy of its cost report within ten (10) days after filing thereof. Each such cost report shall be certified as being true and correct by an officer of Tenant.

(ii) Tenant shall also furnish to Landlord and to Lender copies of all financial statements for the Facilities for the preceding calendar month by the thirtieth (30th) day following the last day of said month.

(iii) Within thirty (30) days after the date for filing Tenant's tax return (as the same may be extended), Tenant shall furnish (and cause its auditor to be permitted to furnish) to Tenant and to Lender a copy of the tax return for Tenant for said year, certified by an officer of Tenant to be true, correct and complete.

(iv) At least twenty-five (25) days prior to the commencement of Tenant's fiscal year, Tenant shall provide Landlord with an annual budget covering the operations of the Facilities including any proposed capital expenditures for the forthcoming fiscal year. Tenant shall also provide Landlord with such other information with respect to Tenant or the operations of the Facilities as Landlord may reasonably request from time to time. Tenant acknowledges that Landlord's receipt of the budgets shall not constitute nor be deemed an assumption of any obligation or liability of Landlord in connection with Tenant's business or operations, nor shall Landlord be deemed to be involved in Tenant's business or operations in any manner other than as Landlord under this Lease.

(v) In addition to the above financial statements, Tenant shall also provide to Landlord such other financial statement(s) or information relating to its operation as required by Landlord or Landlord's Lender which is customarily maintained by Tenant, which shall be furnished to Landlord and to Lender not later than the date same are required under the Loan Documents, provided that in the event of a conflict between the dates required under this Lease for deliveries and the reasonable dates under any Loan Documents for such deliveries, then the dates for deliveries set forth in the Loan Documents shall control.

(vi) Tenant shall keep and maintain or cause to be kept and maintained at all times at the offices of the Manager, or such other place as Landlord and/or Landlord's Lender may approve in writing, complete and accurate books of accounts and records adequate to reflect the results of the operations of the Property and to provide the financial statements required to be provided under this Section 5.3 and copies of all written contracts, correspondence, reports in connection with Landlord's loan, if any, and other documents affecting the Facilities. Landlord and Landlord's Lender and its designated agents shall have the right to inspect and copy, at their expense, any of the foregoing. Additionally, Tenant acknowledges that Landlord's Lender shall have the right to audit such records, and Tenant shall reasonably cooperate with such audit(s). The costs and expenses of the audit shall be paid by Tenant if the audit discloses a monetary variance in any financial information or computation equal to or greater than the greater of: (a) five percent (5%) of gross revenue which variance was a result of Tenant's malfeasance or gross negligence; or (b) Twenty-Five Thousand Dollars ($25,000.00) more than any computation submitted by Tenant if such variance resulted in a substantial detriment to Landlord.

(b) Regulatory Reporting. Tenant shall deliver to Landlord copies of all regulatory survey's conducted by the State or any Federal agency, Reports of Contract ("**ROCs**"), Plans of Corrections ("**POCs**") and Substantial Compliance notices within three (3) days of receiving or preparing.

(c) Minimum Rent Coverage. Tenant shall maintain on a monthly basis the Minimum Rent Coverage. If Tenant fails to maintain the Minimum Rent Coverage, then Tenant shall deposit on a monthly basis with Landlord an additional Lease Deposit equal to five percent (5%) of the monthly revenue that Tenant derives from the business operated from the Premises. The funding of such additional Lease Deposit shall continue until the earlier of (i) the Lease Deposit equaling six (6) months of the then Base Rent payable under this Lease, or (ii) Tenant coming back into compliance with the Minimum Rent Coverage. Additional Lease Deposits funded pursuant to this Section 5.3(c) shall be held by Landlord until the end of the Term.

(d) Occupancy. On a rolling three (3) month basis, Tenant shall maintain an occupancy level of not less than eighty-five percent (85%) of the occupancy level existing on the Date of this Lease. As of the Date of this Lease, Tenant represents and warrants to Landlord that there are not less 35 residents in the Fernhill Facility, 58 residents in the Pacific Facility, and 34 residents in the Sheridan Facility.

6. Rent.

6.1 Payment of Base Rent. Commencing as of the Date of Rent Commencement, Tenant shall pay Base Rent to Landlord, or to Lender if directed by Landlord in writing, at the business address of Landlord or Lender, as the case may be, specified herein, or at such other address as Landlord or Lender, as the case may be, shall from time to time designate by written notice to Tenant. The Base Rent shall be due and payable in the amounts set forth on Schedule 1 hereto, which Schedule 1 is incorporated herein by this reference. Tenant shall commence paying Base Rent on the Date of Rent Commencement (which Date of Rent Commencement is not required to occur on the first day of a month), and to the extent that the Date of Rent Commencement does not fall on the first day of a calendar month, then Base Rent for the calendar month in which the Date of Rent Commencement occurs shall be prorated based on the number of days in the calendar month in which the Date of Rent Commencement occurs. Other than payment of Base Rent on the Date of Rent Commencement (to the extent that the Date of Rent Commencement does not occur on the first day of a calendar month), Base Rent shall be due and payable on the first day of each month (or if such first day is not a business day, the first business day of each month) during the Term (each such date being referred to herein as a "**Due Date**"). Notwithstanding the foregoing, from the Date of Rent Commencement until Tenant is notified otherwise by Landlord and Lender, Base Rent shall be paid by wire or Automatic Clearing House (ACH) transfer to the account specified in the rent direction letter from Landlord to Tenant.

6.2 Partial Months. Any Base Rent paid for a partial period of occupancy shall be allocated to such partial period. The foregoing notwithstanding, Tenant's obligation to pay insurance charges pursuant to Section 31 of this Lease, taxes pursuant to Section 30 of this Lease, and all other Additional Rent shall commence upon the Date of Rent Commencement.

6.3 Payment of Additional Rent. Commencing as of the Date of Rent Commencement, all taxes, costs, expenses, and other amounts which Tenant is required to pay pursuant to this Lease (other than Base Rent), including, but not limited to insurance required pursuant to Section 31 of this Lease together with every fine, penalty, interest and cost which may be added for non-payment or late payment thereof, shall constitute additional obligations hereunder ("**Additional Rent**"). All Additional Rent shall be paid directly by Tenant to the party to whom such Additional Rent is due. If Tenant shall fail to pay any such Additional Rent or any other sum due hereunder when the same shall become due (and if no due date is specified, then such amounts shall be payable within ten (10) business days following written notice of demand therefor), Landlord shall have all rights, powers and remedies with respect thereto as are provided herein or by Law in the case of non-payment of any Base Rent and shall, except as expressly provided herein, have the right, not sooner than ten (10) days after notice to Tenant (except in the event of an emergency, as reasonably determined by Landlord, in which case prior notice shall not be necessary) of its intent to do so, to pay the same on behalf of Tenant, and Tenant shall repay such amounts to Landlord on demand. Tenant shall pay to Landlord interest at the Lease Default Rate on all overdue Additional Rent and other sums due hereunder, in each case paid by Landlord or Lender on behalf of Tenant, from the date of payment by Landlord or Lender until repaid by Tenant.

6.4 Late Payments. If any installment of Base Rent, Additional Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee by the due date therefor, then Tenant shall pay to Landlord the Late Charge calculated off of the past due amount plus any attorneys' fees incurred by Landlord by reason of Tenant's failure to pay such amount. The late charge shall be deemed Additional Rent and the right to require it shall be in addition to all of Landlord's other rights and remedies hereunder, at law and/or in equity and shall not be construed as liquidated damages or as limiting Landlord's remedies in any manner. In addition to the Late Charge, any Base Rent, Additional Rent or other amounts owing hereunder which are not paid within five (5) days of the date that they are due shall thereafter bear interest until paid at the Lease Default Rate.

6.5 Lease Deposit. The Lease Deposit shall be deposited by Tenant with Landlord in accordance with Section 1.2(bb) of this Lease. The Lease Deposit shall serve as security for the payment and performance of the obligations, covenants, conditions and agreements contained herein. The Lease Deposit shall not constitute an advance payment of any amounts owed by Tenant under this Lease, nor a measure of damages to which Landlord shall be entitled upon a breach of this Lease by Tenant or upon termination of this Lease nor any other limitation on Landlord's damages or other rights under this Lease nor as a payment of liquidated damages. Landlord may, without prejudice to any other remedy, use the Lease Deposit to the extent necessary to remedy any default which has lapsed beyond the applicable notice and cure period in the payment of Base Rent or Additional Rent or to satisfy any other obligation of Tenant hereunder and to remedy any Event of Default hereunder. In the event that any portion of the Lease Deposit is used by Landlord as set forth herein, Tenant shall promptly, on demand, restore the Lease Deposit to its original amount. Landlord shall keep the Lease Deposit separate from its own funds in a separately segregated, interest bearing account. The Lease Deposit shall not be a limitation on Landlord's damages or other rights under this Lease, or a payment of liquidated damages, or an advance payment of the Base Rent. Landlord shall return the unused portion of the Lease Deposit to Tenant within thirty (30) days after the end of the Term. If Landlord transfers its interest in the Premises during the Term, Landlord shall assign the Lease Deposit to the transferee who shall become obligated to Tenant for its return pursuant to the terms of this Lease, and thereafter Landlord shall have no further liability for its return, provided assignee shall assume such obligations in writing.

7. Net Lease; True Lease.

7.1 Net Lease. The obligations of Tenant hereunder shall be separate and independent covenants and agreements, and Base Rent, Additional Rent and all other sums payable by Tenant hereunder shall continue to be payable in all events, and the obligations of Tenant hereunder shall continue during the Term, unless the requirement to pay or perform the same shall have been terminated pursuant to the provisions of Section 14.4 or Section 15. This is an absolutely net lease and Base Rent, Additional Rent and all other sums payable hereunder by Tenant shall be paid without notice or demand, and without setoff, counterclaim, recoupment, abatement, suspension, reduction or defense. This Lease is the absolute and unconditional obligation of Tenant, and the obligations of Tenant under this Lease shall not be affected by any interference with Tenant's use of any of the Premises for any reason, including, but not limited to, the following: (i) any damage to or destruction of any of the Premises by any cause whatsoever (except as otherwise expressly provided in Section 14.4), (ii) any Condemnation (except as otherwise expressly provided in Section 15), (iii) the prohibition, limitation or restriction of Tenant's use of any of the Premises, (iv) Tenant's acquisition of ownership of any of the Premises other than pursuant to an express provision of this Lease, (v) any default on the part of Landlord under this Lease or under any other agreement, (vi) any latent or other defect in, or any theft or loss of any of the Premises, (vii) any violation of Section 34 by Landlord (provided, that this Section 7.1(vii) shall not limit Tenant's rights, if any, to seek injunctive relief against Landlord for violation of said Section 34), or (viii) any other cause, whether similar or dissimilar to the foregoing, any present or future Law to the contrary notwithstanding. Except as otherwise set forth herein, all costs and expenses (other than depreciation, interest on and amortization of debt incurred by Landlord, and costs incurred by Landlord in financing or refinancing the Premises) and other obligations of every kind and nature whatsoever relating to the Premises and the appurtenances thereto and the use and occupancy thereof which may arise or become due and payable with respect to the period which ends on the expiration or earlier termination of the Term in accordance with the provisions hereof (whether or not the same shall become payable during the Term or thereafter) shall be paid and performed by Tenant. Tenant shall pay all expenses related to the maintenance and repair of the Premises, and taxes and insurance costs. This Lease shall not terminate and Tenant shall not have any right to terminate this Lease (except as otherwise expressly provided in this Lease), or to abate Base Rent or Additional Rent during the Term.

7.2 True Lease. Landlord and Tenant agree that this Lease is a true lease and does not represent a financing arrangement. Each party shall reflect the transaction represented hereby in all applicable books, records and reports (including income tax filings) in a manner consistent with "true lease" treatment rather than "financing" treatment.

7.3 No Termination of Lease. Tenant shall remain obligated under this Lease in accordance with its terms and shall not take any action to terminate, rescind or avoid this Lease, notwithstanding any bankruptcy, insolvency, reorganization, liquidation, dissolution or other proceeding affecting Landlord or any action with respect to this Lease which may be taken by any trustee, receiver or liquidator or by any court.

8. Condition. Tenant acknowledges that it or one of its affiliates owned and occupied the Premises immediately prior to the commencement of the Term. Accordingly, Tenant is fully familiar with the physical condition of the Premises as of the date hereof, and that Landlord makes no representation or warranty express or implied, with respect to same, except as expressly set forth herein. **EXCEPT FOR LANDLORD'S COVENANT OF QUIET ENJOYMENT SET FORTH IN SECTION 34 AND ANY OTHER REPRESENTATIONS EXPRESSLY SET FORTH HEREIN, LANDLORD MAKES NO AND EXPRESSLY HEREBY DENIES ANY REPRESENTATIONS OR WARRANTIES REGARDING THE CONDITION OR SUITABILITY OF THE PREMISES TO THE EXTENT PERMITTED BY LAWS, AND TENANT WAIVES ANY RIGHT OR REMEDY OTHERWISE ACCRUING TO TENANT ON ACCOUNT OF THE CONDITION OR SUITABILITY OF THE PREMISES, OR (EXCEPT WITH RESPECT TO LANDLORD'S WARRANTY SET FORTH IN SECTION 34) TITLE TO THE PREMISES, AND TENANT AGREES THAT IT TAKES THE PREMISES "AS IS," WITHOUT ANY SUCH REPRESENTATION OR WARRANTY, INCLUDING WITHOUT LIMITATION, ANY IMPLIED WARRANTIES.** Tenant has examined the Premises and title to the Premises, and has found all of the same satisfactory for all purposes.

9. Liens. Tenant shall not, directly or indirectly, create, or permit to be created or to remain, and shall remove and discharge (including, without limitation, by any statutory bonding procedure or any other bonding procedure reasonably satisfactory to Landlord and Lender which shall be sufficient to prevent any loss of the Landlord's or Lender's interest in the Premises) within thirty (30) days after obtaining knowledge thereof any mortgage, lien, encumbrance or other charge on the Premises or the leasehold estate created hereby or any Base Rent or Additional Rent payable hereunder which arises for any reason, other than: the Landlord's Mortgage (and any assignment of leases or rents collateral thereto); the Permitted Encumbrances or which subsequently arise with the prior written consent of Landlord and Lender; and any mortgage, lien, encumbrance or other charge created by or resulting from any act or omission by Landlord or those claiming by, through or under Landlord (other than Tenant). Landlord shall not be liable for any labor, services or materials furnished to Tenant or to any party holding any portion of the Premises through or under Tenant and no mechanic's or other liens for any such labor, services or materials shall attach to the Premises or the leasehold estate created hereby.

10. Repairs and Maintenance.

10.1 Tenant's Repair and Maintenance Obligations. Tenant shall keep, maintain and repair, at its sole cost and expense, the Premises, including, without limitation, the roof walls, footings, foundations, HVAC, mechanical and electrical equipment and systems in or serving the Premises and structural and nonstructural components and systems of the Premises, parking areas, sidewalks, roadways and landscaping in safe and good condition and repair, and shall make all repairs and replacements (substantially equivalent in quality and workmanship to the original work) of every kind and nature, whether foreseen or unforeseen, which may be required to be made, in order to keep and maintain the Premises in good repair and condition, except for ordinary wear and tear and (other than for any Restoration required by the terms of this Lease) any damage to the Premises by any Major Condemnation of the Premises. Tenant shall prevent deferred maintenance from accumulating at the Premises. Landlord shall have the right to enter the Premises at reasonable times and upon reasonable notice to Tenant to perform annual inspections of the Premises to ensure that the Premises are maintained in good working order and that the Premises are free from maintenance issues and any other issues which would decrease the value of the Premises once returned to Landlord at the end of the Term. Tenant shall do or cause others to do all shoring of the Premises or of the foundations and walls of the Facilities and every other act necessary or appropriate for the preservation and safety thereof (including, without limitation, any repairs required by Law as contemplated by Section 11), by reason or in connection with any excavation or other building operation upon the Premises, and Landlord shall have no obligation to do so. Landlord shall not be required to make any repair, replacement, maintenance or other work whatsoever, or to maintain the Premises in any way. Nothing in the preceding sentence shall be deemed to preclude Tenant from being entitled to insurance proceeds or awards for any taking to the extent provided in this Lease. Tenant shall, in all events, make all repairs, replacements and perform maintenance and other work for which it is responsible hereunder, in a good, proper and workmanlike manner. Without limiting the generality of the foregoing, Tenant shall be responsible for the performance of all maintenance and repairs of the Facilities.

10.2 Encroachments and Non-Compliance Issues. If all or any part of any Facility shall encroach upon any property, street or right-of-way adjoining or adjacent to the Premises, or shall violate the agreements or conditions affecting the Premises or any part thereof or shall violate any Laws or Legal Requirements, or shall hinder, obstruct or impair any easement or right-of-way to which the Premises is subject, then, promptly after written request of Landlord (unless such encroachment, violation of any agreements or conditions of record, hindrance, obstruction or impairment (a) existed or was constructed prior to the Date of Rent Commencement and constituted an encroachment, violation, hindrance, obstruction or impairment as of the Date of Rent Commencement; (b) is a Permitted Encumbrance in existence as of the Date of Rent Commencement and constituted an encroachment, violation, hindrance, obstruction or impairment as of the Date of Rent Commencement, or (c) subsequently arises with the prior written consent of Landlord and Lender, and Landlord and Lender have obtained, at Tenant's cost, affirmative title insurance coverage against any loss arising due to any such matter on terms and conditions satisfactory to Landlord and Lender in their sole discretion, provided that this clause (c) shall not relieve Tenant from any liability for the removal, remedying, repair or replacement of any such encroachment, violation, hindrance, obstruction or impairment to the extent that the same exists) or of any person affected thereby, Tenant shall, at its sole expense, either (i) obtain valid and effective waivers or settlements of all claims, liabilities and damages resulting therefrom, or (ii) make such changes, including alterations to such Facility (subject, however, to Tenant's maintenance and repair obligations in Section 10.1) and take such other action as shall be necessary to remove or eliminate such encroachments, violations, hindrances, obstructions or impairments, provided that, if Landlord's or Lender's consent is required for such changes pursuant to this Lease, Landlord's or Lender's consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall have no liability for and shall not be required to take any action to remove or eliminate any Permitted Encumbrance in existence as of the Date of Rent Commencement that constituted an encroachment, violation, hindrance, obstruction or impairment as of the Date of Rent Commencement.

10.3 Tenant's Failure to Perform. If Tenant shall be in default under any of the provisions of this Section 10, Landlord may, after thirty (30) days written notice to Tenant and failure of Tenant to cure during said period (or such longer period of time as may reasonably be necessary, but under no circumstances longer than a total of ninety (90) days, if the default may not be cured within thirty (30) days but Tenant has commenced and is diligently pursuing a cure of such default), but without notice in the event of an emergency, do whatever is necessary to cure such default as may be appropriate under the circumstances for the account of and at the expense of Tenant. If an emergency exists, Landlord shall use reasonable efforts to notify Tenant of the situation by phone or other available communication before taking any such action to cure such default. All reasonable sums so paid by Landlord and all reasonable costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) so incurred, together with interest at the Lease Default Rate from the date of payment or incurring of the expense, shall constitute Additional Rent payable by Tenant under this Lease and shall be paid by Tenant to Landlord on demand.

10.4 Inspection Prior to Expiration of Term. One (1) year prior to the expiration of the Term of this Lease, Tenant shall at its own expense cause the Premises to be inspected, the results of which shall be made available to Landlord and Lender not less than eleven (11) months prior to the end of the Term, to determine whether the condition of the Premises complies with the requirements of this Lease. In addition to any document or information which Tenant is expressly required to deliver pursuant to this Lease, Tenant will also deliver to Landlord, promptly upon request, information with reasonably available to Tenant with respect to the Premises reasonably (both as to content and frequency) requested by Lender pursuant to the Mortgage or other documents evidencing or securing the Loan; provided that this shall not increase the obligations of Tenant to deliver environmental reports beyond that required in Section 38. Neither Landlord nor Lender shall request such information more than annually unless a change in circumstances after the Rent Commencement Date makes it reasonable to request information more frequently.

10.5 Lender Required Repairs. Tenant shall be responsible for any repairs to the Facilities or reserves for repairs to the Facilities required by Lender in accordance with the Loan Documents. Landlord shall provide a copy of Loan Documents to Tenant upon receipt of the Loan Documents by Landlord.

10.6 Life Safety Repairs. Tenant shall make such repairs and replacements relating to items covered by temporary life safety code waivers if such temporary life safety code waivers are not continued or are otherwise removed and shall correct any deficiencies or violations previously covered by such waivers, at Tenant's sole cost, within the time periods required by applicable governmental authorities.

10.7 Capital Reserve Deposits. Tenant shall be required to make Capital Reserve Deposits and shall make monthly deposits with Landlord, in an amount equal to one-twelfth (1/12) (or such greater amount as may be reasonably required by Lender) of the Capital Reserve Deposit to fund future anticipated capital expenditures. The Capital Reserve Deposits shall be due and payable on the first (1st) day of each month as Additional Rent. The Capital Reserve Deposits shall not bear interest, unless interest on the Capital Reserve Deposits is paid to Landlord by Lender. The Capital Reserve Deposits shall be held by Landlord and/or Lender and shall be used to pay the capital expenditures as they become due and payable. If the amount of Tenant's payments made under this Section 10.7 shall be less than the total amount due or otherwise required, then Tenant shall pay the full deficiency at the time the qualifying capital expenditure is made. Tenant shall provide all capital expenditure draw requests to Landlord in writing along with receipts and or invoices documenting the amount of the capital expenditure to be reimbursed by Landlord. Upon receipt of such receipts, invoices and/or additional documentation reasonably requested by Landlord, Landlord shall reimburse Tenant for such costs up to the amount of Capital Reserve Deposits made by Tenant and then being held by Landlord and/or Lender.

11. Compliance With Laws.

11.1 Tenant's Obligations. During the Term, Tenant shall comply with all Laws and Legal Requirements relating to the Premises. As used herein, (i) the term "**Laws**" shall mean all present and future laws, statutes, codes, ordinances, orders, judgments, decrees, injunctions, rules, regulations and requirements, even if unforeseen or extraordinary, of every duly constituted governmental authority or agency (but excluding those which by their terms are not applicable to and do not impose any obligation on Tenant, Landlord or the Premises or which are due to take effect after expiration of the Term), and (ii) the term "**Legal Requirements**" shall mean all Laws and all covenants, restrictions and conditions now or in the future of record which may be applicable to Tenant, Landlord (with respect to the Premises) or to all or any part of or interest in the Premises, or to the use, manner of use, occupancy, possession, operation, maintenance, alteration, repair or reconstruction of the Premises.

11.2 Tenant's Right to Contest. Notwithstanding anything herein to the contrary, after prior written notice to Landlord, Tenant, at Tenant's own expense, may contest by appropriate legal proceeding promptly initiated and conducted in good faith and with due diligence, the validity of any Law or Legal Requirement, the applicability of any Law or Legal Requirement to Tenant or the Premises or any alleged violation of any Law or Legal Requirement, provided that (i) Tenant is not in default of any of the provisions of this Lease, which default has lapsed beyond any applicable notice and cure period; (ii) such proceeding shall be permitted under and be conducted in accordance with the provisions of any instrument to which Tenant is subject and shall not constitute a default thereunder and such proceeding shall be conducted in accordance with all applicable statutes, laws and ordinances; (iii) neither the Premises, nor any part thereof or interest therein will be in imminent danger of being sold, forfeited, terminated, cancelled or lost; (iv) Tenant shall promptly upon final determination thereof comply with any such Law or Legal Requirement determined to be valid or applicable or cure any violation of any Law or Legal Requirement; (v) such proceeding shall suspend the enforcement of the contested Law or Legal Requirement against Tenant or the Premises; and (vi) Tenant shall furnish such security as may be required in the proceeding to insure compliance with such Law or Legal Requirement, together with all interest and penalties payable in connection therewith. Landlord may apply any such security, as necessary to cause compliance with such Law or Legal Requirement at any time when, in the reasonable judgment of Landlord, the validity, applicability or violation of such Law or Legal Requirement is finally established or the Premises (or any part thereof or interest therein) shall be in danger of being sold, forfeited, terminated, cancelled or lost.

12. Access to Premises.

12.1 Access Rights. Upon reasonable notice to Tenant, Landlord and Lender and their respective employees, contractors, agents and representatives may enter upon the Premises to (i) show the Premises to purchasers and potential purchasers, and to mortgagees and potential mortgagees, or (ii) for the purpose of inspecting the Premises or performing any work which Landlord is permitted to perform under this Lease; provided, that, for purposes of subpart (ii) of this sentence, Landlord and Lender shall not be required to give notice prior to entry onto the Premises in the event of an emergency situation. Upon reasonable notice to Tenant, during the six (6) months preceding the expiration or earlier termination of this Lease, Landlord also may enter onto the Premises to show the Premises to persons wishing to rent the same, at reasonable times and accompanied by a representative of Tenant. No such entry shall constitute an eviction of Tenant but any such entry shall be done by Landlord in such reasonable manner as to minimize any disruption of Tenant's business operations. Provided, however, that neither Landlord nor Lender shall enter the Premises as described above or stay on the Premises in a manner which unreasonably disrupts Tenant's activities and operations of Tenant's business on the Premises nor in violation of any Law.

12.2 Lender Meetings. Upon request of Lender, Tenant will arrange for meetings between such Lender (or its representatives) and a representative of Tenant designated by Tenant to discuss operations at the Premises; provided, that Tenant shall not be obligated to arrange for such meetings more than once in each calendar quarter. If allowed by the Lender, such meetings may be by telephone, email or other electronic method as may be reasonable under the circumstances and in view of the meeting cost.

12.3 Lender's Rights under Mortgage. Further, to the extent allowed by Law, Tenant hereby agrees to the licenses and other rights to enter onto the Premises which are granted to Lender under the Mortgage. Provided, however, that Tenant shall not be required to obtain from any occupant of the Premises a waiver of any Law relating to the occupant's privacy or notice prior to inspection.

13. Waiver of Subrogation. To the extent allowed by Law, notwithstanding anything in this Lease to the contrary, Landlord and Tenant each waive any rights of action for negligence against the other party, which may arise during the Term for damage to the Premises or to the property therein resulting from any fire or other casualty, but only to the extent covered by insurance or to the extent the same would have been covered by the insurance had Tenant maintained the insurance to be maintained under this Lease.

14. Damage; Destruction.

14.1 In the event of any damage to or destruction of the Premises by fire, the elements or other casualty during the Term (a "**Casualty**"), Tenant shall give Landlord and Lender, if any, prompt written notice thereof. Tenant shall adjust, collect and compromise any and all claims covered by insurance.

14.2 In the event of any such Casualty (whether or not insured against) the Term shall continue and there shall be no abatement or reduction of Base Rent, Additional Rent or of any other sums payable by Tenant hereunder.

14.3 All proceeds of any insurance required to be carried hereunder less any and all expenses of Landlord or Lender in collecting such proceeds, if any (the "**Net Proceeds**") shall be delivered to Tenant to apply in accordance with the terms of this Lease if (i) the estimated cost of restoring or repairing the Premises to as nearly as possible to its value, condition, character, utility and useful life immediately before such Condemnation or Casualty, but in any event assuming the Premises have been maintained in accordance with the requirements of Section 10 (such restoration or repair of the Premises, whether in connection with a Condemnation or a Casualty, as the context requires, herein called a "**Restoration**"), shall be the C&C Threshold Repair Amount or less, (ii) no Event of Default or Disqualifying Default (as hereinafter defined) has occurred and is continuing, and (iii) the long-term unsecured debt of Tenant is rated at least BBB by Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc. ("**S&P**") and at least Baa2 by Moody's Investors Service, Inc. ("**Moody's**") (the "**Minimum Rating**"). In all other events the Net Proceeds shall be delivered to a trustee which shall be a federally insured bank or other financial institution, selected by Landlord and Tenant and reasonably satisfactory to Lender (the "**Trustee**") to be held and disbursed in accordance with the provisions of Section 14.5; provided, however, that if at the time of the delivery of the Net Proceeds a Mortgage is in existence, the Lender or the servicer of the Loan may act as Trustee without the consent of either Landlord or Tenant. As used herein, a "**Disqualifying Default**" shall mean and include (i) any uncured failure to make any payment of Base Rent when due hereunder, and (ii) the occurrence of any event or condition described in subparts (vi) or (vii) of Section 23.1 hereof without regard to any notice or lapse of time set forth in such subparts which may be required for such events or conditions to mature into an Event of Default

14.4 Tenant shall, whether or not the Net Proceeds of such insurance are sufficient for the purpose or delivered to Tenant, promptly complete the Restoration of the Improvements damaged by any such Casualty in compliance with all requirements set forth in this Lease and all Legal Requirements, and such Restoration shall be completed in such a manner as not to impair the market value or usefulness of the Premises for use in Tenant's ordinary course of business, all at Tenant's sole cost and expense. Tenant shall notify Landlord in writing of the estimated cost thereof (the "**Restoration Cost**"). Landlord and its agents, employees and contractors shall have the right to enter the Premises for the purpose of assessing and adjusting the amount of the Restoration Cost, and Landlord shall have the right in its reasonable discretion to reasonably approve the amount of the Restoration Cost. Tenant shall not have any right to abate the payment of Fixed Rent or Additional Rent as a result of any Casualty. Notwithstanding anything to the contrary, unless if otherwise provided in the Loan Documents, all insurance proceeds shall be utilized for payment of the Restoration Costs or deposited in the Capital Reserve and the Capital Reserves may be utilized to pay all or portion of the restoration costs if the insurance proceeds are not sufficient to do so.

14.5 Net Proceeds held by the Trustee shall be invested in accordance with prudent investment standards adopted by the Landlord, Lender and Tenant from time to time, and shall be disbursed from time to time in accordance with the following conditions:

(a) Before commencing the Restoration the architects, general contractor(s), and plans and specifications for the Restoration shall be approved by Landlord and Lender, which approval shall not be unreasonably withheld or delayed; and which approval shall be granted to the extent that the plans and specifications depict a Restoration which is substantially similar to the improvements and equipment which existed prior to the occurrence of the Casualty or Taking, whichever is applicable, or, if any Facility was under construction prior thereto, which depict a Restoration to the condition to which such Facility was to have been constructed.

(b) At the time of any requested disbursement, no Event of Default or Disqualifying Default shall exist and no mechanics' or materialmen's liens shall have been filed and remain undischarged or unbonded, with the exception of any mechanics' or materialmen's liens caused by Landlord.

(c) Disbursements shall be made from time to time in an amount not exceeding the hard and soft cost of the work and costs incurred since the last disbursement upon receipt of (A) satisfactory evidence, including architects' certificates of the stage of completion, of the estimated costs of completion and of performance of the work to date in a good and workmanlike manner in accordance with the contracts, plans and specifications, (B) partial releases of liens, if the same are obtainable or, if such partial releases are not obtainable, endorsements to Landlord's and Lender's title insurance policies showing no exceptions for mechanics' or materialmen's or any similar liens, and (C) other reasonable evidence of cost and payment so that Landlord can verify that the amounts disbursed from time to time are represented by work that is completed in place or delivered to the site and free and clear of mechanics' lien claims.

(d) Each request for disbursement shall be accompanied by a certificate of Tenant or its architect describing the work, materials or other costs or expenses for which payment is requested, stating the cost incurred in connection therewith and stating that Tenant has not previously received payment for such work or expense and the certificate to be delivered by Tenant upon completion of the work shall, in addition, state that the work has been substantially completed and complies with the applicable requirements of this Lease.

(e) The Trustee may retain ten percent (10%) of the Net Proceeds until the Restoration is at least eighty percent (80%) complete and five percent (5%) of the Net Proceeds thereafter, which amount may continue to be held as retainage until the completion of all punch list items following substantial completion of the Restoration.

(f) At all times the undisbursed balance of the Net Proceeds held by Trustee plus any funds contributed thereto by Tenant, at its option, shall be not less than the cost of completing the Restoration, free and clear of all liens.

(g) In addition, before commencement of Restoration and at any time during Restoration, if the estimated cost of Restoration, as reasonably determined by an independent architect mutually agreed upon by the parties in their reasonable discretion, exceeds the amount of the Net Proceeds available for such Restoration, the amount of such excess shall (i) be paid by Tenant to the Trustee to be added to the Net Proceeds, (ii) be secured by Tenant by posting a payment bond or other security in form and in the amount of such excess, as satisfactory to Landlord, (iii) be secured by Tenant by providing Landlord with an irrevocable letter of credit ("**Letter of Credit**") in a form satisfactory to Landlord and issued by a bank which is a commercial bank or trust company satisfactory to Landlord and insured by the Federal Deposit Insurance Corporation (FDIC), having banking offices at which the Letter of Credit may be drawn down upon in New York City, payable at sight to Landlord, or (iv) Tenant shall fund at its own expense the costs of such Restoration until the remaining Net Proceeds are sufficient for the completion of the Restoration. For purposes of determining the source of funds with respect to the disposition of funds remaining after the completion of Restoration, the Net Proceeds shall be deemed to be disbursed prior to any amount added by Tenant.

(h) Provided no Event of Default or Disqualifying Default exists and is continuing, any Net Proceeds remaining after final payment has been made for such Restoration shall be promptly delivered to Tenant. Notwithstanding any contrary provision hereof, if an Event of Default or a Disqualifying Default has occurred and is continuing, Landlord shall be entitled to retain any Net Proceeds and to apply the same to either repair the damages or to pay other amounts accrued and payable to Landlord hereunder or Lender under the Mortgage, at Lender's or, if there is then no Lender, Landlord's sole option. No such retention by Landlord shall impose on Landlord any obligation to repair the Premises or relieve Tenant of its obligations to repair the Premises.

15. Condemnation.

15.1 Promptly upon obtaining knowledge of any proceeding for condemnation or eminent domain with respect to the Premises (a "**Taking**" or "**Condemnation**"), Tenant and Landlord shall each notify the other and Lender, and each shall be entitled to participate in such proceeding at Tenant's sole expense. Tenant shall pay the costs of such proceeding and Tenant and Landlord, to the extent ethically possible, shall utilize the same legal counsel in such proceeding. Provided, however, that if the Condemnation Award for the applicable Facility exceeds the Landlord's Purchase Price for the Facility that is subject to the Taking by more than $2,000,000, the excess funds above that amount (i.e. Purchase Price for the Facility plus $2,000,000) shall first be paid to Tenant to reimburse Tenant for its attorneys' fees and costs incurred in the Condemnation proceeding, and any remaining proceeds shall thereafter shall be paid to Landlord. Subject to the provisions of this Section 15, Tenant hereby irrevocably assigns to Landlord's Lender or to Landlord, in that order, any award or payment in respect of any Condemnation of the Premises, except that (except as hereinafter provided) nothing in this Lease shall be deemed to assign to Landlord or Lender any award relating to the value of the leasehold interest created by this Lease or any award or payment on account of an interruption of Tenant's business at the Premises or the Tenant's trade fixtures, moving expenses and out-of-pocket expenses incidental to the move, if available, to the extent Tenant shall have a right to make a separate claim therefor against the condemnor, it being agreed, however, that Tenant shall in no event be entitled to any payment that reduces the award to which Landlord is or would be entitled for the condemnation of Landlord's interest in the Premises.

15.2 If (i) the entire Premises or (ii) a material portion of any Facility or land comprising a portion of the Premises the loss of which would, in Tenant's commercially reasonable judgment, render the Premises unsuitable for Restoration or for the continued use and occupancy in Tenant's business after Restoration, shall be the subject of a Taking (a "**Major Condemnation**"), then not later than ninety (90) days after such Taking has occurred, Tenant shall serve written notice upon Landlord and Lender ("**Tenant's Termination Notice**") of Tenant's intention to terminate this Lease on any Base Rent payment Due Date specified in such notice, which Due Date (the "**Involuntary Conversion Termination Date**") shall be no sooner than ninety (90) days and no later than one hundred twenty (120) days after Tenant's Termination Notice but, in any event, not later than the last day of the Term of this Lease.

15.3 In the event of any Taking of a portion of the Premises which does not result in a termination of this Lease, the net award resulting from the Taking, *i.e.*, after deducting therefrom all expenses incurred in the collection thereof shall be held in accordance with Section 14.3. In the event of any such Taking, Tenant shall promptly commence and diligently complete the Restoration (as defined in Section 14.3) of the Premises in accordance with all Laws and Legal Requirements and all other terms of this Lease. Any net award from Condemnation not resulting in a termination of this Lease shall be disbursed in the same manner as set forth with respect to Net Proceeds in Section 14.5, provided, however, that Net Proceeds remaining after final payment has been made for such Restoration shall be promptly delivered to Landlord and shall be owned by Landlord.

15.4 No agreement with any Taking authority in settlement of or under threat of any Taking shall be made by Landlord or Lender without Tenant's prior written consent (provided, that Tenant's consent shall, not be required if an Event of Default or a Disqualifying Default then exists and is continuing), or by Tenant without Landlord's and Lender's prior written consent.

15.5 In the case of any Taking, all Base Rent, Additional Rent and other obligations of Tenant shall continue unabated until the termination of this Lease.

16. Assignment and Subletting.

16.1 Other than the Permitted Subleases and except in the normal course of Tenant's business, Tenant shall not have the right to assign this Lease nor any interest therein, nor to sublet the whole or any part of the Premises without the prior written consent of Landlord, which consent may be withheld in Landlord's sole and absolute discretion. Landlord and Tenant agree that Tenant may lease a portion of the Premises to a provider of rehabilitation services, physical therapy services, or similar service provider, after obtaining the written consent of Landlord which consent shall not be unreasonably withheld. In the event of any permitted assignment of the Lease or a sublease of a portion of the Premises described in this Lease, Tenant shall remain liable for the obligations of Tenant hereunder, which liability of Tenant shall be and remain that of a primary obligor and not a guarantor or surety. Tenant agrees that in the case of a permitted assignment of this Lease, Tenant shall, within fifteen (15) days after the execution and delivery of any such assignment, deliver to Landlord (i) a duplicate original of such assignment in recordable form and (ii) an agreement executed and acknowledged by the assignee in recordable form wherein the assignee shall agree to assume and agree to observe and perform all of the terms and provisions of this Lease on the part of the Tenant to be observed and performed from and after the date of such assignment. In the case of a permitted sublease, Tenant shall, within fifteen (15) days after the execution and delivery of such sublease, deliver to Landlord a duplicate original of such sublease. Any sublease or license relating to the Premises shall be subject to and subordinate to this Lease. In no event shall Tenant be permitted to assign this Lease to an entity with long-term unsecured debt rated below the minimum rating.

16.2 For the purposes of this Section 16.2, the term “assign” or “assignment” shall include the following events: if Tenant is a partnership, a withdrawal or change (voluntary, involuntary or by operation of law or otherwise) of any of the general partners thereof or of general and limited partners owning in the aggregate fifty percent (50%) or more of the capital and profits of the partnership, or the dissolution of the partnership; or if Tenant consists of more than one person, a purported assignment, transfer, mortgage or encumbrance (voluntary, involuntary or by operation of law or otherwise) from one thereof unto the other or others thereof; or, if Tenant is a corporation, any dissolution merger, consolidation or other reorganization of Tenant or any change in the ownership of fifty percent (50%) or more of its capital stock or fifty percent (50%) or more of its voting stock from the ownership existing on the date of execution hereof; or, the sale of fifty percent (50%) or more of the value of the assets of Tenant.

16.3 Upon the occurrence of an Event of Default under this Lease, Landlord shall have the right to collect and enjoy all rents and other sums of money payable under any sublease of any of the Premises, and Tenant hereby irrevocably and unconditionally assigns such rents and money to Landlord, which assignment may be exercised upon and after (but not before) the occurrence of an Event of Default.

17. Alterations.

17.1 Tenant may make non-structural, interior and/or exterior alterations, changes, additions, improvements, reconstructions or replacements of any of the Premises (“**alterations**”), other than those which would result in a diminution in the value of the Premises that do not exceed the Threshold Repair Amount in the aggregate. Unless required by applicable federal, state or local law or regulation, Tenant shall obtain the prior written consent of Landlord and Lender to any alteration (i) which would result in a diminution in the value of the Premises, (ii) the cost of which in the aggregate exceeds the Threshold Repair Amount or (iii) which is structural in nature, which consent to a structural alteration shall not be unreasonably withheld. Without limitation, in determining whether a structural alteration is “reasonable” for purposes of subsection (iii) of the preceding sentence, Landlord shall have the right to consider whether such alteration would impair the structural integrity of the Premises, would impair the fair market value of the Premises, or would otherwise adversely affect the overall marketability of the Premises, as determined in Landlord’s reasonable discretion.

17.2 Tenant shall do all such work in a good and workmanlike manner, at its own cost, and in accordance with Laws and Legal Requirements. Tenant shall discharge, within sixty (60) days after notice of the filing of the same (by payment or by filing the necessary bond, or otherwise), any mechanics', materialmen's or other lien against the Premises and/or Landlord's interest therein, which lien may arise out of any payment due for any labor, services, materials, supplies, or equipment furnished to or for Tenant in, upon, or about the Premises.

17.3 At Tenant's sole cost and without liability to Landlord, Landlord agrees to reasonably cooperate with Tenant (including signing applications upon Tenant's written request) in obtaining any necessary permits, variances and consents for any alterations which Tenant is permitted or required to make hereunder; provided none of the foregoing shall, in any manner, result in a material reduction of access to or ingress to or egress from the Premises, a diminution in the value of the Premises, a change in zoning having a material adverse effect on the ability to use the Premises for the Healthcare Business by Tenant or otherwise have a material adverse effect on the ability to use the Premises for the Healthcare Business by Tenant.

17.4 Tenant agrees that in connection with any alteration: (i) the fair market value of the Premises shall not be lessened by more than a de minimus extent after the completion of any such alteration, or its structural integrity impaired; (ii) all such alterations shall be performed in a good and workmanlike manner, and shall be expeditiously completed in compliance with all Legal Requirements; (iii) Tenant shall promptly pay all costs and expenses of any such alteration; (iv) Tenant shall procure and pay for all permits and licenses required in connection with any such alteration; and (v) all alterations shall be made (in the case of any alteration the estimated cost of which in any one instance exceeds the Threshold Repair Amount) under the supervision of an architect or engineer and in accordance with plans and specifications which shall be submitted to Landlord and Lender (for information purposes only) prior to the commencement of the alterations.

17.5 All contracts and payments to contractors, subcontractors, suppliers and other persons in connection with any alteration, Restoration, repair or other work performed at the Premises shall be entered into, made and performed in compliance with all Laws and Legal Requirements.

18. Signs. At Tenant's sole cost, Tenant may install, replace, relocate and maintain and repair in and on the Facilities, such signs, awnings, lighting effects and fixtures as may be used from time to time by Tenant (collectively, ''**Signs**"). At Tenant's sole cost and without liability to Landlord, Landlord agrees to cooperate with Tenant (including signing applications upon Tenant's written request) in obtaining any necessary permits, variances and consents for Tenant's Signs. All Signs of Tenant shall comply with Laws and Legal Requirements.

19. Surrender.

19.1 At the expiration or other termination of this Lease, Tenant shall surrender the Premises to Landlord in as good order and condition as they were at the commencement of the Term or may be put in thereafter in accordance with this Lease, reasonable wear and tear and (other than for any Restoration required by the terms of this Lease) damage to the Premises by any Major Condemnation of the Premises excepted. All alterations, except Tenant's furniture, trade fixtures, satellite communications dish and equipment, computer and other similar moveable equipment and shelving ("**trade fixtures**"), shall become the property of Landlord and shall remain upon and be surrendered with the Premises as a part thereof at the termination or other expiration of the Term. At the expiration or termination of the Term, Tenant shall remove its trade fixtures, as well as its Signs and identification marks, from the Premises. Tenant agrees to repair any and all damage caused by such removal. Trade fixtures and personal property not so removed at the end of the Term or within thirty (30) days after the earlier termination of the Term for any reason whatsoever shall become the property of Landlord, and Landlord may thereafter cause such property to be removed from the Premises. The reasonable cost of removing and disposing of such property and repairing any damage to any of the Premises caused by such removal shall be borne by Tenant. Landlord shall not in any manner or to any extent be obligated to reimburse Tenant for any property which becomes the property of Landlord as a result of such expiration or earlier termination. The provisions of this Section 19.1 shall survive the termination or expiration of this Lease.

19.2 Upon termination of this Lease for any reason, Tenant will return to Landlord the Premises licensed by the State of Oregon and by any and all governmental agencies having jurisdiction over the Premises as a skilled nursing facility and/or intermediate nursing care facility for the Fernhill Facility and the Pacific Facility and an intermediate nursing care facility for the Sheridan Facility with at least the Minimum Licensed Beds for each Facility (subject to any reduction in the number of licensed beds required by any governmental authority solely as a result of changes in laws, rules and regulations relating to the physical attributes of the improvements on the Premises) with an unrestricted license in full force and good standing for no less than the Minimum Licensed Beds (subject to any reduction in the number of licensed beds required by any governmental authority solely as a result of changes in laws, rules and regulations relating to the physical attributes of the improvements on the Premises).

19.3 Upon the expiration or earlier termination of this Lease, Tenant and Subtenant, as applicable, shall enter into an operating transition agreement (the "**OTA**") with Landlord in order to provide for the orderly transition of the operation of each Facility following the termination of this Lease. The OTA shall provide for a procedure for the assignment and assumption of all resident agreements, operating agreements and other agreements that Landlord elects to have assigned from Tenant. In addition, the OTA shall address the transition of licensing requirements for each Facility under all applicable Legal Requirements.

20. Subordination of Lease; Mortgage Reserves.

20.1 Subordination. This Lease shall be subject and subordinate to any Mortgage and to all advances made upon the security thereof provided that Lender shall execute and deliver to Tenant an agreement in a form reasonably requested by Lender ("**SNDA Agreement**"), providing that Lender recognizes this Lease and agrees to not disturb Tenant's possession of the Premises in the event of foreclosure if Tenant is not then in default hereunder beyond any applicable cure period. Tenant agrees, upon receipt of such SNDA Agreement, to execute such SNDA Agreement and such further reasonable instruments) as may be necessary to so subordinate this Lease. The term "Mortgage" shall include any mortgages, deeds of trust or any other similar hypothecations on the Premises securing Lender's Loan to Landlord, regardless of whether or not such Mortgage is recorded.

20.2 Attornment. Tenant agrees to attorn, from time to time, to Lender, and to any purchaser of the Premises, for the remainder of the Term, provided that Lender or such purchaser shall then be entitled to possession of the Premises, subject to the provisions of this Lease. This subsection shall inure to the benefit of Lender or such purchaser, shall apply notwithstanding that, as a matter of Law, this Lease may terminate upon the foreclosure of the Mortgage (in which event the parties shall execute a new lease for the remainder of the Term containing the provisions of this Lease), shall be self-operative upon any such demand, and no further instrument shall be required to give effect to said provisions. Each such party shall however, upon demand of the other, execute instruments in confirmation of the foregoing provisions reasonably satisfactory to the requesting party acknowledging such subordination, non-disturbance and attornment and setting forth the terms and conditions hereof.

20.3 Consent to Assignment of Lease to Lender. Tenant hereby consents to any assignment of this Lease by Landlord to or for the benefit of any Lender. Without limitation of the preceding sentence, Tenant hereby specifically consents to any Assignment of Lease and Rents executed by Landlord to and for the benefit of the Lender named herein.

20.4 Mortgage Reserves. Notwithstanding anything to the contrary in this Lease, all real estate tax, insurance reserve, capital expenditure reserves or other reserves required by the Lender against the Premises during the term of this Lease shall be paid by the Tenant to Landlord and shall be repaid to Tenant to the extent not applied in accordance with this Lease or the Mortgage when such holder repays such sums to Landlord and to the extent same are not required to be held for any replacement mortgage or are required to fund obligations of the Tenant under this Lease. Real estate taxes for the first and last year of the Lease Term shall be prorated in the same manner as the real estate taxes were prorated in connection with Landlord's acquisition of the Premises.

21. Tenant's Obligation to Discharge Liens. Prior to the imposition of any fine, lien, interest or penalty Tenant shall timely pay and discharge all amounts and obligations which Tenant assumes or agrees to pay or discharge pursuant to this Lease, together with every fine, penalty and interest with respect thereto.

22. Utilities. Tenant agrees to timely pay for all utilities consumed by it in the Premises, prior to delinquency.

23. Tenant Default.

23.1 Any of the following occurrences or acts shall constitute an Event of Default (herein so called) under this Lease:

(a) Tenant's failure to make any payment when due of any installment of Base Rent payable hereunder, and such default shall continue for ten (10) days after written notice of such default is sent to Tenant by Landlord (or Lender).

(b) Tenant's failure to make any payment when due of any installment of Additional Rent payable hereunder and such default shall continue for ten (10) days after notice of such default is sent to Tenant by Landlord (or Lender).

(c) The failure by Tenant to maintain insurance as required under this Lease, provided that if the insurance required under this Lease lapses for a period not in excess of thirty (30) days, and Tenant reinstates such lapsed insurance without a claim having been made, then such Event of Default shall be deemed cured for purposes of this Lease, provided further that Tenant shall indemnify Landlord for any claim arising in connection with such lapsed insurance.

(d) Tenant's failure to abide by any of the other covenants, agreements or obligations of this Lease, and such default shall continue for more than thirty (30) days after written notice thereof from Landlord (or Lender) specifying such default, provided, that if Tenant has commenced to cure within said thirty (30) days, and thereafter is in good faith diligently prosecuting same to completion, said thirty (30) day period shall be extended, for a reasonable time (not to exceed one hundred eighty (180) days or, with respect to a breach of Tenant's obligations under Section 38, such longer period as may reasonably be necessary to cure such default so long as (i) Tenant delivers to Landlord a certificate of a qualified environmental remediation specialist that such default could not be cured within such one hundred eighty (180) days but is curable; and (ii) Tenant is in good faith diligently prosecuting such cure to completion) where, due to the nature of a default, it is unable to be completely cured within thirty (30) days.

(e) Any execution or attachment shall be issued against Tenant or any of its property whereby the Premises shall be taken or occupied or attempted to be taken or occupied by someone other than Tenant, and the same shall not be bonded, dismissed, or discharged as promptly as possible under the circumstances

(f) Tenant (i) shall make any assignment or other act for the benefit of creditors, (ii) shall file a petition or take any other action seeking relief under any state or federal insolvency or bankruptcy Laws, or (iii) shall have an involuntary petition or any other action filed against either of them under any state or federal insolvency or bankruptcy Laws which petition or other action is not vacated or dismissed within sixty (60) days after the commencement thereof.

(g) The estate or interest of Tenant in the Premises shall be levied upon or attached in any proceeding and such estate or interest is about to be sold or transferred and such process shall not be vacated or discharged within sixty (60) days after such levy or attachment.

(h) Any material representation or warranty made by Tenant to Landlord herein or in any document delivered pursuant to this Lease is misleading or false when made.

(i) The occurrence of an Adverse Healthcare Event at any Facility; provided if (i) the default described in this Section is curable, (ii) Tenant diligently commences the cure of such default and uses commercially reasonable efforts to diligently pursue any appeals or other required actions in accordance with applicable laws and regulations, and (iii) such default does not affect the ability of Tenant to comply with its financial obligations under this Lease, then such Adverse Healthcare Event shall not constitute a default until the earlier to occur of (A) final, adverse action upholding, in whole or in part, such termination, suspension, or material adverse action or restriction or (B) the passage of ninety (90) days from the date such termination, suspension or material adverse action or restriction was instituted without a final action having occurred.

23.2 If an Event of Default shall have occurred and be continuing, Landlord shall be entitled to all remedies available at law or in equity. Without limiting the foregoing, Landlord shall have the right to give Tenant notice of Landlord's termination of the Term of this Lease. Upon the giving of such notice, the Term of this Lease and the estate hereby granted shall expire and terminate on such date as fully and completely and with the same effect as if such date were the date herein fixed for the expiration of the Term of this Lease, and all rights of Tenant hereunder shall expire and terminate, but Tenant shall remain liable as hereinafter provided.

23.3 To the extent allowable under applicable Law, if an Event of Default shall have occurred and be continuing, Landlord shall have the immediate right, whether or not the Term of this Lease shall have been terminated pursuant to Section 23.2, to re-enter and repossess the Premises and the right to remove all persons and property therefrom by summary proceedings, ejectment, any other legal action or in any lawful manner Landlord determines to be necessary or desirable. Landlord shall be under no liability by reason of any such re-entry, repossession or removal unless such re-entry, repossession or removal has not been authorized and approved by any and all federal, state and/or local governmental agencies having jurisdiction. Such re-entry, repossession or removal shall be construed as an election by Landlord to terminate this Lease unless a notice of such termination is given to Tenant pursuant to Section 23.2.

23.4 At any time or from time to time after a re-entry, repossession or removal pursuant to Section 23.3, whether or not the Term of this Lease shall have been terminated pursuant to Section 23.2, Landlord may (but, except to the extent expressly required by any applicable Law, shall be under no obligation to) relet the Premises for the account of Tenant, in the name of Tenant or Landlord or otherwise, without notice to Tenant, for such term or terms and on such conditions and for such uses as Landlord, in its absolute discretion, may determine. Landlord may collect any rents payable by reason of such reletting. Except to the extent required by applicable Law, Landlord shall not be liable for any failure to relet the Premises or for any failure to collect any rent due upon any such reletting.

23.5 No expiration or termination of the Term of this Lease pursuant to Section 23.2, by operation of law or otherwise, and no re-entry, repossession or removal pursuant to Section 23.3 or otherwise, and no reletting of the Premises pursuant to Section 23.4 or otherwise, shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination, re-entry, repossession, removal or reletting,

23.6 In the event of any expiration or termination of the Term of this Lease or re-entry or repossession of the Premises or removal of persons or property therefrom by reason of the occurrence of an Event of Default, Tenant shall pay to Landlord all Base Rent, Additional Rent and other sums required to be paid by Tenant, in each case together with interest thereon at the Lease Default Rate from the due date thereof to and including the date of such expiration, termination, re-entry, repossession or removal; and thereafter, Tenant shall, until the end of what would have been the Term of this Lease in the absence of such expiration, termination, re-entry, repossession or removal and whether or not the Premises shall have been relet, be liable to Landlord for, and shall pay to Landlord, as liquidated and agreed current damages: (i) all Base Rent, Additional Rent and other sums which would be payable under this Lease by Tenant in the absence of any such expiration, termination, re-entry, repossession or removal, less (ii) the net proceeds, if any, of any reletting effected for the account of Tenant pursuant to Section 23.4, after deducting from such proceeds all reasonable expenses of Landlord in connection with such reletting, including, without limitation, all repossession costs, brokerage commissions, reasonable attorneys' fees and expenses (including, without limitation, fees and expenses of appellate proceedings), alteration costs and expenses of preparation for such reletting. Tenant shall pay such liquidated and agreed current damages on the dates on which Base Rent would be payable under this Lease in the absence of such expiration, termination, re-entry, repossession or removal, and Landlord shall be entitled to recover the same from Tenant on each such date.

23.7 At any time after any such expiration or termination of the Term of this Lease or re-entry or repossession of the Premises or removal of persons or property thereon by reason of the occurrence of an Event of Default, whether or not Landlord shall have collected any liquidated and agreed current damages pursuant to Section 23.6, Landlord shall be entitled to recover from Tenant, and Tenant shall pay to Landlord on demand, as and for liquidated and agreed final damages for Tenant's default and in lieu of all liquidated and agreed current damages beyond the date of such demand (it being agreed that it would be impracticable or extremely difficult to fix the actual damages), an amount equal to the sum of (i) the excess, if any of (A) the aggregate of all Base Rent, Additional Rent and other sums which would be payable under this Lease, in each case from the date of such demand (or, if it be earlier, the date to which Tenant shall have satisfied in full its obligations under Section 23.6 to pay liquidated and agreed current damages) for what would be the then-unexpired Term of this Lease in the absence of such expiration, termination, re-entry, repossession or removal, discounted at the rate equal to the then current rate on U.S. Treasury obligations of comparable maturity to such Term (the "**Treasury Rate**"), but in no event greater than the non-default rate of interest for the Loan (such lower rate being referred to as the "**Discount Rate**") over (B) the amount of such rental loss that Tenant proves could be reasonably avoided by commercially reasonable mitigation efforts by Landlord, discounted at the Discount Rate for the same period, plus (ii) all reasonable legal fees and other costs and expenses incurred by Landlord and Lender as a result of Tenant's default under this Lease. If any Law shall limit the amount of liquidated final damages to less than the amount above agreed upon, Landlord shall be entitled to the maximum amount allowable under such Law.

Mention in this Lease of any particular remedy shall not preclude Landlord from any other remedy at law or in equity, including the right of injunction. Tenant waives any rights of redemption granted by any Laws if Tenant is evicted or dispossessed, for any cause, or if Landlord obtains possession of the Premises by reason of the violation by Tenant of any of the terms of this Lease.

23.8 In addition to the foregoing remedies set forth in this Section 23 and all other remedies available at law or in equity, and regardless of whether or not an Event of Default has occurred under this Lease, if Tenant has failed to perform any of its duties, obligations, covenants or agreements under this Lease, Landlord may give notice to Tenant that it has failed to perform any such duty, obligation, covenant or agreement (herein called a "**Notice of Breach**") and may thereafter pursue any rights or remedies available to it at law or in equity including, without limitation, filing a suit for damages as a result of such breach or a suit for specific performance of any such duties, obligations, covenants or agreements. Any Notice of Breach delivered under this Section 23.8 or any such rights or remedies pursued by Landlord shall not be deemed to be a notice of default under any provision of this Section 23 and shall not result, with or without the passage of time, in an Event of Default existing under this Lease; provided that the delivery of any such Notice of Breach shall not limit Landlord's right (which right will not be exercised without the consent of Lender so long as the Premises are subject to a Mortgage which requires Lender's consent for the exercise thereof) to subsequently deliver notice (with respect to the same event or condition which is the subject of such Notice of Breach or any other event or condition) which will declare or, with the passage of time, result in an Event of Default hereunder. Further, after delivery of any such Notice of Breach, but without notice in the event of an emergency, if Tenant fails to cure such breach during the time that Tenant has to cure such breach under Section 23.1 above, Landlord may do whatever is reasonably necessary and permitted hereunder to cure such breach as may be appropriate under the circumstances for the account of and at the expense of Tenant. All reasonable sums so paid by Landlord and all reasonable costs and expenses (including attorneys' fees and expenses) so incurred, together with interest thereon at the Lease Default Rate from the date of payment, shall constitute Additional Rent payable by Tenant under this Lease and shall be paid by Tenant to Landlord on demand.

23.9 Subject to applicable Laws relating to the operations of Tenant in the Premises, Tenant acknowledges that one of the rights and remedies available to Landlord under applicable law is to apply to a court of competent jurisdiction for the appointment of a receiver to take possession of part or all of the Premises, to collect the rents, issues, profits and income of the Premises and to manage the operation of the Premises. Tenant further acknowledges that the revocation or suspension of the certification of any portion of the Premises for provider status under Medicare or Medicaid (or successor programs) for a period of thirty (30) days or more and/or the revocation or suspension of a license relating to the operation of any portion of the Premises for its intended use under the laws of the State for a period of thirty (30) days or more will materially and irreparably impair the value of Landlord's investment in the Premises. Therefore, in any of such events, and in addition to any other right or remedy of Landlord under this Lease, Landlord may petition any appropriate court for, and Tenant hereby consents to, the appointment of a receiver to take possession of the Property, to manage its operation, to collect and disburse all rents, issues, profits and income generated thereby and to preserve or replace to the extent possible any such license and provider certification for the Property or to otherwise substitute the licensee or provider thereof. The receiver shall be entitled to a reasonable fee for its services as a receiver. All such fees and other expenses of the receivership estate shall be added to the Minimum Rent due to Landlord under this Lease. Tenant hereby irrevocably stipulates to the appointment of a receiver under such circumstances and for such purposes and agrees not to contest such appointment. Tenant, on behalf of itself and its affiliates, agrees to waive all rights to negotiate terms of an OTA and further agrees to execute all transfer documentation including an OTA.

24. HUD Addendum.

24.1 The provisions of the Master Lease Addendum attached hereto (the "Addendum") are incorporated into this Lease by this reference. For so long as HUD is the holder or insurer of any indebtedness secured by the Leased Premises, the provisions of the Addendum shall apply to this Lease.

24.2 In the event of any conflict between any provision of the Addendum and any other provision of this Lease, the provision of the Addendum shall govern and control.

24.3 The Addendum shall not be modified or removed from this Lease without the prior written consent of HUD and Lender, unless the Leased Premises is no longer security for the Loan.

25. Rent Payments. If Landlord’s interest in this Lease shall pass to another, or if the Base Rent or Additional Rent hereunder shall be assigned, or if a party other than Landlord shall become entitled to collect the Base Rent or Additional Rent due hereunder, then notice thereof shall be given to Tenant by Landlord in writing, or, if Landlord is an individual and shall have died or become incapacitated, by Landlord’s legal representative, accompanied by due proof of the appointment of such legal representative; provided, that if Base Rent is then being paid to Lender, then notwithstanding such notice from Landlord, Tenant shall continue to pay Base Rent to Lender until it receives contrary notice from Lender. Until such notice and proof shall be received by Tenant, Tenant may continue to pay the rent due hereunder, and Landlord shall indemnify and hold Tenant harmless from any challenges to such payments, to the one to whom, and in the manner in which, the last preceding installment of rent hereunder was paid, and each such payment shall fully discharge Tenant with respect to such payment.

Tenant shall not be obligated to recognize any agent for the collection of rent or otherwise authorized to act with respect to the Premises until written notice of the appointment and the extent of the authority of such agent shall be given to Tenant by the one appointing such agent.

26. Holdover. If Tenant shall hold over after the expiration date of the Term, or if Tenant shall hold over after the date specified in the Tenant's Termination Notice given by Tenant under Section 15.2, then, in either such event, Tenant shall be a month-to-month Tenant on the same terms as herein provided, except that the monthly Base Rent will be 1.5 times the monthly Base Rent payable by Tenant during the final full calendar month of the Term or, if applicable, during any extension of the Term, immediately preceding such holdover period.

27. Notices. Whenever, pursuant to this Lease, notice or demand shall or may be given to either of the parties (including Lender) by the other, and whenever either of the parties shall desire to give to the other any notice or demand with respect to this Lease or the Premises, each such notice or demand shall be in writing, and any Laws to the contrary notwithstanding, shall not be effective for any purpose unless the same shall be given or served as follows: by mailing the same to the other party by registered or certified mail, return receipt requested, or by delivery by nationally recognized overnight courier service provided a receipt is required, at its Notice Address set forth in Part I hereof, or at such other address as either party (including, without limitation, Lender) may from time to time designate by notice given to the other. The date of receipt of the notice or demand shall be deemed the date of the service thereof (unless delivery of the notice or demand is refused or rejected, in which case the date of such refusal or rejection shall be deemed the date of service thereof).

28. Indemnity. TENANT SHALL DEFEND LANDLORD AND ANY OF LANDLORD'S OWNERS, PARTNERS, TRUSTEES, BENEFICIAL OWNERS, MEMBERS, MANAGERS, EMPLOYEES, AGENTS, OFFICERS, DIRECTORS OR SHAREHOLDERS, TOGETHER WITH THE LENDER, AND ANY OWNER, PARTNER, MEMBER, MANAGER, TRUSTEE, BENEFICIAL OWNER, OFFICER, DIRECTOR, SHAREHOLDER, EMPLOYEE OR AGENT OF THE LENDER OR ANY HOLDER OF A PASS-THROUGH OR SIMILAR CERTIFICATE ISSUED BY THE LENDER (HEREIN, COLLECTIVELY, "INDEMNIFIED PARTIES") WITH RESPECT TO, AND SHALL PAY, PROTECT, INDEMNIFY AND HOLD HARMLESS THE INDEMNIFIED PARTIES FROM AND AGAINST, ANY AND ALL LIABILITIES, LOSSES, DAMAGES, PENALTIES, COSTS, EXPENSES (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS' FEES AND EXPENSES), CAUSES OF ACTION, SUITS, CLAIMS, DEMANDS OR JUDGMENTS OF ANY NATURE WHATSOEVER, HOWEVER CAUSED, (A) TO WHICH ANY INDEMNIFIED PARTY IS SUBJECT BECAUSE OF LANDLORD'S OR LENDER'S ESTATE IN THE PREMISES OR (B) ARISING FROM (I) INJURY TO OR DEATH OF ANY PERSON OR PERSONS OR DAMAGE TO OR LOSS OF PROPERTY, REAL OR PERSONAL, IN ANY MANNER ARISING THEREFROM, OCCURRING ON THE PREMISES OR CONNECTED WITH THE USE, NON-USE, CONDITION, OCCUPANCY, MAINTENANCE, REPAIR OR REBUILDING OF ANY THEREOF, WHETHER OR NOT SUCH INDEMNIFIED PARTY HAS OR SHOULD HAVE KNOWLEDGE OR NOTICE OF THE DEFECT OR CONDITIONS, IF ANY, CAUSING OR CONTRIBUTING TO SAID INJURY, DEATH, LOSS, DAMAGE OR OTHER CLAIM, (II) TENANT'S VIOLATION OF THIS LEASE, (III) ANY ACT OR OMISSION OF TENANT OR ITS AGENTS, CONTRACTORS, LICENSEES, SUBTENANTS OR INVITEES, AND (IV) ANY CONTEST REFERRED TO IN SECTION 30.2; PROVIDED, THAT TENANT SHALL NOT BE REQUIRED TO INDEMNIFY, DEFEND OR HOLD HARMLESS ANY INDEMNIFIED PARTY FOR ANY SUCH MATTERS ARISING DUE TO THE GROSS NEGLIGENCE, INTENTIONAL ACT, OR WILLFUL MISCONDUCT OF SUCH INDEMNIFIED PARTY. TENANT COVENANTS UPON NOTICE FROM SUCH INDEMNIFIED PARTY TO DEFEND SUCH INDEMNIFIED PARTY IN SUCH ACTION, WITH THE EXPENSES OF SUCH DEFENSE PAID BY TENANT; PROVIDED, THAT IN CONNECTION WITH TENANT'S OBLIGATIONS TO PROVIDE A DEFENSE OF THE INDEMNIFIED PARTIES HEREUNDER, TENANT SHALL BE ENTITLED TO SELECT COUNSEL REASONABLY SATISFACTORY TO LANDLORD TO DEFEND SUCH INDEMNIFIED PARTIES SO LONG AS DEFENSE OF MULTIPLE PARTIES IS REASONABLE UNDER THE CIRCUMSTANCES AND SO LONG AS SUCH COMMON DEFENSE DOES NOT LIMIT ANY REASONABLE CLAIMS OR DEFENSES WHICH COULD BE RAISED BY ANY SUCH INDEMNIFIED PARTIES. THE OBLIGATIONS OF TENANT UNDER THIS SECTION 28 SHALL SURVIVE ANY TERMINATION OF THIS LEASE. ANY AMOUNTS PAYABLE TO ANY INDEMNIFIED PARTY HEREUNDER BY REASON OF THE APPLICATION OF THIS SECTION 28 SHALL BECOME IMMEDIATELY DUE AND PAYABLE; AND SUCH AMOUNTS SHALL BEAR INTEREST AT THE LEASE DEFAULT RATE FROM THE DATE LOSS OR DAMAGE IS PAID BY SUCH INDEMNIFIED PARTY UNTIL PAID BY TENANT.

LANDLORD AND TENANT INTEND THAT, UNLESS OTHERWISE EXPRESSLY PROVIDED IN THIS LEASE, THE INDEMNITIES AND RELEASES PROVIDED IN THIS LEASE BY TENANT FOR THE BENEFIT OF LANDLORD, LENDER OR ANY OTHER INDEMNIFIED PARTIES (INCLUDING WITHOUT LIMITATION, THE INDEMNITIES SET FORTH IN THIS SECTION 28 AND IN SECTION 38.5 OF THIS LEASE), SHALL APPLY EVEN IF AND WHEN THE SUBJECT MATTER OF THE INDEMNITIES AND RELEASES ARE CAUSED BY OR ARISE OUT OF THE NEGLIGENCE OF LANDLORD, LENDER OR ANY OTHER INDEMNIFIED PARTIES, OR ARISE AS A RESULT OF STRICT LIABILITY OF LANDLORD, LENDER OR ANY OTHER INDEMNIFIED PARTIES, BUT IN NO EVENT SHALL TENANT BE OBLIGATED TO INDEMNIFY LANDLORD, LENDER OR ANY OTHER INDEMNIFIED PARTIES WITH RESPECT TO MATTERS ARISING FROM THEIR GROSS NEGLIGENCE AND/OR INTENTIONAL ACT OR WILLFUL MISCONDUCT.

29. Tenant to Comply with Matters of Record. Tenant agrees to perform all obligations of Landlord and pay all costs, expenses and other amounts (including, without limitation, any liquidated damages) which Landlord or Tenant may be required to pay in accordance with, and to comply and cause the Premises to comply in all respects with all of the terms and conditions o£ any reciprocal easement agreement or any other agreement or document of record now affecting the Premises (including, without limitation, the Permitted Encumbrances) or hereafter executed or filed with Tenant's written consent (each, herein referred to as a "**Matter of Record**", and collectively as the "**Matters of Record**") during the Term. TENANT SHALL INDEMNIFY, DEFEND AND HOLD HARMLESS LANDLORD AND LENDER AND ALL OTHER INDEMNIFIED PARTIES FROM ANY CLAIM, LOSS OR DAMAGE SUFFERED BY LANDLORD OR LENDER OR SUCH INDEMNIFIED PARTIES BY REASON OF TENANT'S FAILURE TO PERFORM ANY OBLIGATIONS OR PAY ANY COSTS, EXPENSES OR OTHER AMOUNTS (INCLUDING WITHOUT LIMITATION, LIQUIDATED DAMAGES) AS REQUIRED UNDER ANY MATTERS OF RECORD OR COMPLY AND CAUSE THE PREMISES TO COMPLY WITH THE TERMS AND CONDITIONS OF ANY MATTERS OF RECORD DURING THE TERM.

30. Taxes.

30.1 Subject to the provisions hereof relating to contests and mortgage reserves, Tenant shall pay and discharge, before any interest or penalties are due thereon, all of the following taxes, charges, assessments, ground rents, levies and other items (collectively, "tax" or "taxes"), even if unforeseen or extraordinary, which are imposed or assessed on or subsequent to the Date of Rent Commencement during the Term, regardless of whether payment thereof is due prior to, during or after the Term: all taxes of every kind and nature (including, without limitation, real, ad valorem, personal property, and sales and use tax), on or with respect to the Premises (including, without limitation, any taxes assessed against Landlord's reversionary estate in the Premises or against any real property other than the Premises which is included within the tax parcel which includes the Premises), the Base Rent and Additional Rent (including, without limitation, ad valorem taxes) payable hereunder, this Lease or the leasehold estate created hereby; all charges and/or assessments for any easement or agreement maintained for the benefit of the Premises; and all general and special assessments, levies, water and sewer assessments and other utility charges, use charges, impact fees and rents and all other public charges and/or taxes whether of a like or different nature. Landlord shall promptly deliver to Tenant any bill or invoice Landlord receives with respect to any tax; provided, that the Landlord's failure to deliver any such bill or invoice shall not limit Tenant's obligation to pay such tax. Landlord agrees to cooperate with Tenant to enable Tenant to receive tax bills directly from the respective taxing authorities. Nothing herein shall obligate Tenant to pay, and the term "taxes" shall exclude (unless the taxes referred to in clauses (i) and (ii) below are in lieu of or a substitute for any other tax or assessment upon or with respect to any of the Premises which, if such other tax or assessment were in effect on the Date of Rent Commencement, would be payable by Tenant hereunder or by Law), federal, state or local (i) franchise, capital stock or similar taxes, if any, of Landlord, (ii) income, excess profits or other taxes, if any, of Landlord, determined on the basis of or measured by Landlord's net income, (iii) any estate, inheritance, succession, gift, capital levy or similar taxes of Landlord, (iv) taxes imposed upon Landlord under Section 59A of the Internal Revenue Code of 1986, as amended, or any similar state, local, foreign or successor provision, (v) any amounts paid by Landlord pursuant to the Federal Insurance Contribution Act (commonly referred to as FICA), the Federal Unemployment Tax Act (commonly referred to as FUTA), or any analogous state unemployment tax act, or any other payroll related taxes, including, but not limited to, any required withholdings relating to wages, (vi) except as otherwise provided in Section 15, any taxes in connection with the transfer or other disposition of any interest, other than Tenant's (or any person claiming under Tenant), in the Premises or this Lease, to any person or entity, including but not limited to, any transfer, capital gains, sales, gross receipts, value added, income, stamp, real property gains or withholding tax, and (vii) any interest, penalties, professional fees or other charges relating to any item listed in clauses (i) through (vi) above; provided, further, that Tenant is not responsible for making any additional payments in excess of amounts which would have otherwise been due, as tax or otherwise, but for a withholding requirement which relates to the particular payment and such withholding is in respect to or in lieu of a tax which Tenant is not obligated to pay; and provided, further, that if at any time during the Term of this Lease, the method of taxation shall be such that there shall be assessed, levied, charged or imposed on Landlord a tax upon the value of the Premises or any present or future improvement or improvements on the Premises, including without limitation, any tax which uses rents received from Tenant as a means to derive value of the property subject to such tax, then all such levies and taxes or the part thereof so measured or based shall be payable by Tenant, but only to the extent that such levies or taxes would be payable if the Premises were the only property of Landlord, and Tenant shall pay and discharge the same as herein provided in the event that any assessment against the Premises is payable in installments, Tenant may pay such assessment in installments; and in such event, Tenant shall be liable only for those installments which become due and payable prior to or during the Term, or which are appropriately allocated to the Term even if due and payable after the Term. Tenant shall deliver, or cause to be delivered, to Landlord and Lender, promptly upon Landlord's or Lender's written request, evidence satisfactory to Landlord and Lender that the taxes required to be paid pursuant to this Section 30 have been so paid and are not then delinquent.

30.2 After prior written notice to Landlord and Lender, at Tenant's sole cost, Tenant may contest (including seeking an abatement or reduction of) in good faith any taxes agreed to be paid hereunder; provided, that (i) Tenant first shall satisfy any Legal Requirements, including, if required, that the taxes be paid in full before being contested or, if not required to be paid in full, such contest shall suspend the collection of such taxes, (ii) no Event of Default has occurred and is continuing and no Event of Default under this Lease shall occur as a result of such contest, and (iii) failing to pay such taxes will not subject Landlord or Lender to criminal or civil penalties or fines or to prosecution for a crime, or result in the sale, forfeiture, termination, cancellation or loss of any portion of the Premises or any interest therein, any Base Rent or any Additional Rent Tenant agrees that each such contest shall be promptly and diligently prosecuted to a final conclusion, except that Tenant shall have the right to attempt to settle or compromise such contest through negotiations. Tenant shall pay and shall indemnify, defend and hold Landlord and Lender and all other indemnified Parties harmless against any and all losses, judgments, decrees and costs (including, without limitation, all reasonable attorneys' fees and expenses) in connection with any such contest and shall promptly, after the final determination of such contest, fully pay and discharge the amounts which shall be levied, assessed, charged or imposed or be determined to be payable therein or in connection therewith, together with all penalties, fines, interest, costs and expenses thereof or in connection therewith, and perform all acts the performance of which shall be ordered or decreed as a result thereof. At Tenant's sole cost, Landlord shall assist Tenant as reasonably necessary with respect to any such contest, including joining in and signing applications or pleadings. Any rebate applicable to any portion of the Term shall belong to Tenant If at the time of any such contest an Event of Default has occurred and is continuing under this Lease, then Tenant shall post a bond or other security with and acceptable to Landlord and Lender in their discretion in an amount equal to one hundred twenty-five percent (125%) of the amount being contested.

31. Insurance.

31.1 Tenant shall maintain All-Risk insurance for the Facilities for one hundred percent (100%) of its replacement value. Said All-Risk policy shall include flood coverage if the Premises is located in a Flood Zone A, and shall not exclude earthquake coverage.

31.2 Tenant also shall maintain General Liability coverage, including Broad Form Endorsement, on an occurrence basis; in combined policy limits of not less than Ten Million and No/100 Dollars ($10,000,000.00) per occurrence for bodily injury and for property damage with respect to the Premises.

31.3 Professional Liability insurance of not less than One Million /Three Million and No/100 Dollars ($1,000,000/$3,000,000).

31.4 If, during the Term, Tenant is covered by general liability, professional liability, residential healthcare malpractice or other liability insurance on a "claims made" basis, ninety (90) days before the termination of this Lease, Tenant shall procure and maintain, at Tenant's sole cost and expense, an extended reporting endorsement or "tail" insurance coverage, with such coverage limits and such deductible amounts as shall be reasonably acceptable to Landlord for general liability, professional liability, residential healthcare professional malpractice or other liability claims reported after the termination of this Lease or expiration of the claims made policy, but concerning services provided during the Term or the claims made policy. Tenant shall provide Landlord with a certificate evidencing such coverage no later than ninety (90) days before the termination of this Lease and, if Tenant fails to procure and maintain tail insurance on termination of this Lease, Landlord shall have the right to apply any portion of the Lease Deposit to procure and maintain the insurance required under this Section to the extent such coverage is available at commercially reasonable rates.

31.5 At all times when any construction is in progress, Tenant shall maintain or cause to be maintained by its contractors and subcontractors with such companies reasonably approved by Landlord, builder’s risk insurance, completed value form, covering all physical loss, in an amount reasonably satisfactory to Landlord

31.6 Any insurance maintained by Tenant pursuant to this Section 31 shall name Landlord and Lender as additional insured parties and/or as loss payees, as appropriate, as their respective interests may appear.

31.7 All proceeds received from such All-Risk and/or builder’s risk insurance shall be used in the first instance in accordance with Tenant’s obligations under Section 14 hereof and any surplus shall be retained by Tenant.

31.8 Tenant may carry such All-Risk and/or General Liability insurance through blanket insurance covering the Premises and other locations of Tenant and/or of Tenant's affiliates, provided that such blanket insurance policy specifically designates the Premises and shall not be reduced by claims as to other property covered by such blanket policy; and Tenant may maintain the required limits in the form of excess and/or umbrella policies, provided that the other requirements set forth herein have been satisfied.

31.9 All insurance coverage required to be carried hereunder shall be carried with insurance companies licensed to do business in the State and which have a claims paying ability rating of "A" or better by S&P and a rating of "A2" or better by Moody's, and shall require the insured's insurance carrier to notify the Landlord and Lender at least thirty (30) days prior to any cancellation or material modification of such insurance. Notwithstanding the foregoing, Tenant may carry insurance with companies which are affiliated with Tenant (and do not meet the requirements herein) provided such insurance provided by such companies shall not exceed the deductible or self-insurance limitations herein. The insurance policies shall be in amounts sufficient at all times to satisfy any coinsurance requirements thereof. If said insurance or part thereof shall expire, be withdrawn, become void by breach of any condition thereof by Tenant or become void or unsafe by reason of the failure or impairment of the capital of any insurer, Tenant shall immediately obtain new or additional insurance reasonably satisfactory to Landlord and Lender.

31.10 Each insurance policy referred to above shall, to the extent applicable, contain standard non-contributory mortgagee clauses in favor of Lender and shall provide that it may not be canceled except after thirty (30) days prior notice to Landlord and Lender and that any loss otherwise payable thereunder shall be payable notwithstanding (i) any act or omission of Landlord or Tenant which might, absent such provision, result in a forfeiture of all or a part of such insurance payment, (ii) the occupation or use of any of the Premises for purposes more hazardous than permitted by the provisions of such policy, (iii) any foreclosure or other action or proceeding taken by any Lender pursuant to any provision of the Mortgage upon the happening of an event of default therein, or (iv) any change in title or ownership of any of the Premises. Any insurance policy may be written with a deductible of not more than Twenty Five Thousand and No/100 Dollars ($25,000.00), provided that Tenant indemnifies, defends and holds Landlord harmless for any Restoration and Restoration Cost to the extent that the net proceeds of insurance are insufficient to pay and perform the Restoration and the Restoration Costs.

31.11 Tenant shall pay all premiums for the insurance required by this Section 31 as they become due, and shall renew or replace each policy, and shall deliver to Landlord and Lender a certificate or other evidence of the then-existing policy and each renewal or replacement policy, not less than fifteen (15) days prior to the expiration of such policy (together with a certificate of a responsible officer of Tenant that the insurance maintained by Tenant with respect to the Premises is in compliance with the requirements of this Section 31 of this Lease). In the event of Tenant's failure to comply with any of the foregoing requirements, Landlord shall be entitled to procure such insurance. Any sums so expended by Landlord, together with interest thereon from the date paid at the Lease Default Rate, shall be Additional Rent and shall be repaid by Tenant to Landlord, if accompanied by an invoice or other supporting documentation, immediately upon delivery of written demand therefor by Landlord.

32. Landlord Exculpation. Anything contained herein to the contrary notwithstanding, any claim based upon liability of Landlord under this Lease shall be enforced only against the Landlord's interest in the Premises and shall not be enforced against the Landlord individually or personally other than with respect to fraud or the misappropriation of insurance or Condemnation proceeds. In no event shall any partner, shareholder, trustee, manager, member, beneficial owner, officer, director or other owner or agent of Landlord have any liability under this Lease.

33. Landlord's Title. The Premises are demised and let subject to the Permitted Encumbrances without representation or warranty by Landlord. The recital of the Permitted Encumbrances herein shall not be construed as a revival of any Permitted Encumbrance which has expired.

34. Quiet Enjoyment. So long as the Lease is in full force and effect, Landlord warrants and agrees that Tenant, on paying the Base Rent, Additional Rent and other charges due hereunder and performing all of Tenant's other obligations pursuant to this Lease, shall and may peaceably and quietly have, hold, and enjoy the Premises for the full Term, free from molestation, eviction, or disturbance by Landlord or by any other person(s) lawfully claiming by, through or under Landlord, subject, however, to the Permitted Encumbrances.

35. Broker. Landlord and Tenant each represent and warrant that it has had no dealings or conversations with any real estate broker in connection with the negotiation and execution of this Lease. **LANDLORD AND TENANT EACH AGREE TO DEFEND, INDEMNIFY AND HOLD HARMLESS THE OTHER AGAINST ALL LIABILITIES ARISING FROM ANY CLAIM OF ANY REAL ESTATE BROKERS, INCLUDING COST OF COUNSEL FEES, RESULTING FROM THEIR RESPECTIVE ACTS. IN THE EVENT OF ANY BREACH OF LANDLORD'S REPRESENTATIONS UNDER THIS SECTION 35 OR ANY CLAIM BY TENANT AGAINST LANDLORD FOR ANY INDEMNITY UNDER THIS SECTION 35, TENANT SHALL HAVE NO RIGHT TO ABATE OR DEFER ANY PAYMENT OF ANY BASE RENT, ADDITIONAL RENT AND/OR OTHER AMOUNTS DUE UNDER THIS LEASE, OR TO EXERCISE ANY RIGHTS OF OFFSET WITH RESPECT THERETO, AND TENANT HEREBY EXPRESSLY WAIVES ANY SUCH RIGHTS THAT MAY EXIST AT LAW, IN EQUITY OR OTHERWISE.**

36. Transfer of Title. In the event of any transfer(s) of the title to the Premises, Landlord (and in the case of any subsequent transfer, the then-grantor) automatically shall be relieved from and after the date of such transfer, of all liability with respect to the performance of any obligations on the part of said Landlord contained in this Lease thereafter to be performed, including, without limitation, the release of Landlord's outstanding obligations, if any, owed in connection with the Loan (provided that there is an assumption of Landlord's obligations under this Lease and the Loan and subject to any conditions for such transfer as are contained in the Loan documents); provided that any amount then due and payable to Tenant by Landlord (or the then-grantor), and any other obligation then to be performed by Landlord (or the then-grantor) under this Lease, either shall be paid or performed by Landlord (or the then-grantor) or such payment or performance assumed by the transferee; it being intended hereby that the covenants, conditions and agreements contained in this Lease on the part of Landlord shall, subject to the foregoing, be binding on Landlord, its successors and assigns, only during and with respect to their respective successive period of ownership. Landlord may freely transfer the Premises and this Lease without the consent of Tenant. Until Landlord gives Tenant notice in accordance with the terms of this Lease, or Tenant receives notice, of a transfer of the Premises by Landlord, Tenant may deal with Landlord as if it continued to be the owner of the Premises. If a controlling ownership interest in Landlord is transferred and, in connection therewith, the address for notices to Landlord is changed, until Landlord gives, or Tenant receives, notice of such transfer and new address Tenant may correspond with the current owner of a controlling interest in Landlord at the prior address for notices to Landlord.

37. Management Agreements. Tenant shall not enter into any Management Agreement without the prior written approval of Landlord or Landlord's Lender. Any Manager shall be required to enter into an assignment and subordination of management fees or operating agreement in form and substance reasonably satisfactory to Landlord's Lender. Such restrictions and approval rights are solely for the purposes of assuring that the Healthcare Business is managed and operated in a first class manner consistent with applicable healthcare laws and the preservation and protection of the Premises as security for the Loan and shall not place responsibility for the control, care, management or repair of the Premises and/or the Healthcare Business upon Landlord's Lender, or make Landlord's Lender responsible or liable for negligence in the management, operation, upkeep, repair or control of the Premises and/or the Healthcare Business. Notwithstanding the foregoing, as of the Date of Lease, Landlord's Lender has approved the Manager pursuant to the terms of the Approved Management Agreement attached hereto as Exhibit C.

38. Hazardous Materials.

38.1 For the purposes hereof, the term "**Hazardous Materials**" shall include, without limitation, any material, waste or substance which is (i) included within the definitions of "hazardous substances," "hazardous materials," "toxic substances," or "hazardous wastes" in or pursuant to any Laws, or subject to regulation under any Law; (ii) listed in the United States Department of Transportation Optional Hazardous Materials Table, 49 C.F.R. Section 172.101, as enacted as of the date hereof or as hereafter amended, or in the United States Environmental Protection Agency List of Hazardous Substances and Reportable Quantities, 40 C.F.R. Part 302, as enacted as of the date hereof or as hereafter amended; or (iii) explosive, radioactive, asbestos, a polychlorinated biphenyl, petroleum or a petroleum product or waste oil. The term "**Environmental Laws**" shall include all Laws pertaining to health, industrial hygiene, Hazardous Materials or the environment, including, but not limited to each of the following, as enacted as of the date hereof or as hereafter amended: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. §9601 *et seq.*; the Resource Conservation and Recovery Act of 1976,42 U.S.C. §6901 *et seq.*; the Toxic Substance Control Act, 15 U.S.C. §2601 *et seq.;* the Water Pollution Control Act (also known as the Clean Water Act), 33 U.S.C. §1251 *et seq.*; the Clean Air Act, 42 U.S.C. §7401 *et seq.*; and the Hazardous Materials Transportation Act, 49 U.S.C. §5101 *et seq*.

38.2 Tenant represents and warrants to Landlord that neither the Premises, nor any portion thereof, has been used by Tenant for the generation, manufacture, storage, handling, transfer, treatment, recycling, transportation, processing, production, refinement or disposal (each, a "**Regulated Activity**") of any Hazardous Materials. As of the Date of Rent Commencement, Tenant covenants it (i) will comply, and will cause the Premises to comply, with all Environmental Laws applicable to the Premises, (ii) will not use, and shall prohibit the use of the Premises for Regulated Activities or for the storage, handling or disposal of Hazardous Materials (other than in connection with the operation and maintenance of the Premises and in commercially reasonable quantities as a consumer thereof, subject to compliance with applicable Laws), (iii) (A) will not install or permit the installation on the Premises of any asbestos or asbestos-containing materials (except in compliance with all applicable Environmental Laws), underground storage tanks or surface impoundments and shall not permit there to exist any petroleum contamination in violation of applicable Environmental Laws originating on the Premises, and (B) with respect to any petroleum contamination on the Premises which originates from a source off the Premises, Tenant shall notify all responsible third parties and appropriate government agencies (collectively, ''**Third Parties**") and shall prosecute the cleanup of the Premises by such Third Parties, including, without limitation, undertaking legal action, if necessary, to enforce the cleanup obligations of such Third Parties and, to the extent not done so by such Third Parties and to the extent technically feasible and commercially practicable, Tenant shall remediate such petroleum contamination, and (iv) shall cause any alterations of the Premises to be done in a way which complies with applicable Laws relating to exposure of persons working on or visiting the Premises to Hazardous Materials and, in connection with any such alterations, shall remove any Hazardous Materials present upon the Premises which are not in compliance with applicable Environmental Laws or which present a danger to persons working on or visiting the Premises.

Landlord agrees that Tenant may use household and commercial cleaners and chemicals to maintain the Premises, provided that such use is in compliance with all Environmental Laws. Landlord and Tenant acknowledge that any or all of the cleaners and chemicals described in this paragraph may constitute Hazardous Materials. However, Tenant may use, store and dispose of same as herein set forth, provided, that in doing so Tenant complies with all Laws. For the purposes of Sections 38.3 and 38.4, the term "Hazardous Materials" shall exclude the Hazardous Materials used as permitted in this paragraph.

38.3 If, at any time during the Term, Hazardous Materials shall be found in, on or under the Premises, unless such Hazardous Materials have been introduced by Landlord or Landlord's agents or employees or were introduced to the Premises prior to the Substantial Completion Date, then Tenant shall (at Tenant's sole expense), or shall cause such responsible Third Parties to, promptly commence and diligently prosecute to completion all investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work of any kind or nature (collectively, "**Remedial Work**") to the extent required by Environmental Laws, and in compliance with Environmental Laws, and at Tenant's sole cost; provided, that except as otherwise expressly provided in this subparagraph (c), Landlord shall not be required to accept any institutional control (such as a deed restriction) that restricts the permitted use of the Premises or any real property as a condition to any remedial plan approved by any governmental agency in connection with such Remedial Work. The Remedial Work required of Tenant under this Lease shall be limited to achieving clean-up standards applicable to residential use of the Premises as provided herein ("**Commercial Closure**"), if allowed under applicable Environmental Laws and if approved by the applicable governmental authority with jurisdiction over the Premises, Hazardous Materials and Remedial Work; provided, that the Hazardous Materials left in place would not reasonably be expected to cause or threaten to cause current or future migration of such Hazardous Materials from the environmental media in which such Hazardous Materials are present to other environmental media or to other properties in excess of applicable regulatory standards permitted under applicable Legal Requirements; and provided, further, that nothing contained in this Section 38.3 shall be deemed to limit the obligations of the Tenant under any other provision of this Section 38 including, without limitation, the indemnification obligations of the Tenant under Section 38.5. In the event an institutional control (such as a deed restriction, environmental land use restriction, or activity and use limitation) that restricts the permitted use of or activities on the Premises (hereinafter a "**Restriction**") is required in order to achieve Commercial Closure, prior to submitting any proposed plan for Remedial Work to a governmental authority which proposes such a Restriction or performing or implementing such Remedial Work or actually recording any Restriction in the relevant real property records, Tenant shall submit such Restriction to Landlord for review and approval. Landlord shall not unreasonably withhold or delay its approval of any such Restrictions (i) so long as the condition set forth in subpart (iii) of this sentence is satisfied, which require that the Premises not be used for a day care facility or for agricultural purposes, (ii) so long as the condition set forth in subpart (iii) of this sentence is satisfied and the Premises are adequately served by a municipal water supply, which prohibit the use of the ground water underlying the Premises, or (iii) so long as such Restrictions would not reasonably be likely to result in a material decrease in the fair market value of the Premises based upon the use of the Premises for the Healthcare Business, would not reasonably be likely to materially affect the marketability of the Premises or the ability to obtain financing secured by the Premises based upon the use of the Premises for the Healthcare Business, and would not reasonably be likely to create ongoing monitoring or reporting obligations with respect to the Premises.

38.4 To the extent that Tenant has knowledge thereof Tenant shall promptly provide notice to Landlord and Lender of any of the following matters:

(a) any proceeding or investigation commenced or threatened by any governmental authority with respect to the presence of any Hazardous Material affecting the Premises;

(b) any proceeding or investigation commenced or threatened by any governmental authority, against Tenant or Landlord, with respect to the presence, suspected presence, release or threatened release of Hazardous Materials from any property owned by Landlord;

(c) all written notices of any pending or threatened investigation or claims made or any lawsuit or other legal action or proceeding brought by any person against (A) Tenant or Landlord or the Premises, or (B) any other party occupying the Premises or any portion thereof in any such case relating to any loss or injury allegedly resulting from any Hazardous Material or relating to any violation or alleged violation of Environmental Laws;

(d) the discovery of any occurrence or condition on the Premises, of which Tenant becomes aware and which is not corrected within ten (10) days, or written notice received by Tenant of an occurrence or condition on any real property adjoining or in the vicinity of the Premises, which reasonably could be expected to lead to the Premises or any portion thereof being in violation of any Environmental Laws or subject to any restriction on ownership, occupancy, transferability or use under any Environmental Laws or which might subject Landlord or Lender to any Environmental Claim. "**Environmental Claim**" means any claim, action, investigation or written notice by any person alleging potential liability (including, without limitation, potential liability for investigatory costs, cleanup costs, governmental response costs, natural resource damages, property damages, personal injuries or penalties) arising out o£ based on or resulting from (A) the presence, or release into the environment, of any Hazardous Materials at or from the Premises, or (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; and

(e) the commencement and completion of any Remedial Work.

38.5 TENANT SHALL BE SOLELY RESPONSIBLE FOR AND SHALL DEFEND, REIMBURSE, INDEMNIFY AND HOLD EACH INDEMNIFIED PARTY HARMLESS FROM AND AGAINST ALL DEMANDS, CLAIMS, ACTIONS, CAUSES OF ACTION, ASSESSMENTS, LOSSES, DAMAGES, LIABILITIES (INCLUDING WITHOUT LIMITATION, STRICT LIABILITIES), INVESTIGATIONS, WRITTEN NOTICES, COSTS AND EXPENSES OF ANY KIND (INCLUDING, WITHOUT LIMITATION, DIMINUTION IN PROPERTY VALUE AND REASONABLE EXPENSES OF INVESTIGATION BY ENGINEERS, ENVIRONMENTAL CONSULTANTS AND SIMILAR TECHNICAL PERSONNEL AND REASONABLE FEES AND DISBURSEMENTS OF COUNSEL), ARISING OUT OF, IN RESPECT OF OR IN CONNECTION WITH (I) TENANT'S BREACH OF ITS REPRESENTATIONS, WARRANTIES, COVENANTS OR OBLIGATIONS IN THIS LEASE, (II) THE OCCURRENCE OF ANY REGULATED ACTIVITY AT, ON OR UNDER THE PREMISES AT ANY TIME DURING THE TERM OF THIS LEASE, (III) ANY ENVIRONMENTAL CLAIM WITH RESPECT TO THE PREMISES AGAINST ANY INDEMNIFIED PARTY OR ANY PERSON WHOSE LIABILITY FOR SUCH ENVIRONMENTAL CLAIM LANDLORD OR TENANT HAS OR MAY HAVE ASSUMED OR RETAINED EITHER CONTRACTUALLY OR BY OPERATION OF LAW, (IV) THE RELEASE, THREATENED RELEASE OR PRESENCE OF ANY HAZARDOUS MATERIALS AT, ON, UNDER OR FROM THE PREMISES, REGARDLESS OF HOW DISCOVERED BY TENANT, LANDLORD OR ANY THIRD-PARTY, (V) ANY REMEDIAL WORK REQUIRED TO BE PERFORMED PURSUANT TO ANY ENVIRONMENTAL LAW OR THE TERMS HEREOF WITH RESPECT TO MATTERS ARISING OR OCCURRING PRIOR TO THE EXPIRATION OF THE TERM OR SURRENDER OF THE PREMISES TO LANDLORD, WHICHEVER IS LAST TO OCCUR, OR (VI) ANY MATTERS ARISING UNDER OR RELATING TO ANY ENVIRONMENTAL LAW AND RELATING TO THE TENANT OR THE PREMISES.

38.6 Upon Landlord's request, at any time that Landlord has reasonable grounds to believe that Hazardous Materials (except to the extent those substances are permitted to be used by Tenant under Section 38.2 in the ordinary course of its business and in compliance with all Environmental Laws) are or have been released, stored or disposed of on or around the Premises during the Term or that the Premises may be in violation of the Environmental Laws during the Term, Tenant shall provide, at Tenant's sole cost and expense, except as otherwise expressly set forth herein, an inspection or audit of the Premises prepared by a hydrogeologist or environmental engineer or other appropriate consultant approved by Landlord and Lender indicating the presence or absence of the reasonably suspected Hazardous Materials on the Premises or an inspection or audit of the Premises prepared by an engineering or consulting firm approved by Landlord and Lender indicating the presence or absence of friable asbestos or substances containing asbestos on the Premises. In the event that such inspection or audit determines that no such Hazardous Materials are or have been released, stored or disposed of on or around the Premises during the Term and that the Premises is not in violation of the Environmental Laws, the cost and expense of Tenant's inspection or audit will be borne solely by Landlord. If Tenant fails to provide such inspection or audit within thirty (30) days after such request, Landlord may order the same, and Tenant hereby grants to Landlord and Lender and their respective employees, contractors and agents access to the Premises upon reasonable notice and a license to undertake such inspection or audit. The cost of such inspection or audit, together with interest thereon at the Lease Default Rate from the date Tenant is provided with written confirmation of costs incurred by Landlord until actually paid by Tenant, shall be immediately paid by Tenant on demand.

38.7 Without limiting the foregoing, where recommended by any "Phase I" or "Phase II" assessment of the Premises and where the particular conditions on the Premises which formed the basis for such recommendation were introduced to the Premises during the Term and still exist, Tenant shall establish and comply with an operations and maintenance program relative to the Premises, in form and substance acceptable to Landlord and Lender, prepared by an environmental consultant reasonably acceptable to Landlord and Lender, which program shall address any Hazardous Materials (including, without limitation, asbestos-containing material or lead based paint) that may now or in the future be detected on the Premises. Without limiting the generality of the preceding sentence, Landlord may require (i) periodic notices or reports to Landlord and Lender in form, substance and at such intervals as Landlord may specify to address matters raised in a "Phase I" or "Phase II' assessment, (ii) an amendment to such operations and maintenance program to address changing circumstances, laws or other matters, (iii) at Tenant's sole cost and expense, supplemental examination of the Premises by consultants reasonably acceptable to Landlord and Lender to address matters raised in a "Phase I" or "Phase II" assessment, (iv) access to the Premises upon reasonable notice, by Landlord or Lender, and their respective agents or servicer, to review and assess the environmental condition of the Premises and Tenant's compliance with any operations and maintenance program, and (v) variation of the operation and maintenance program in response to the reports provided by any such consultants.

38.8 The indemnity obligations of the Tenant and the rights and remedies of the Landlord under this Section 38 shall survive the expiration or termination of this Lease.

39. Estoppel Certificate. Landlord and Tenant agree to deliver to each other, from time to time as reasonably requested in writing, and within a reasonable period of time after receipt of such request, an estoppel certificate, addressed to such persons as the requesting party may reasonably request, certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that this Lease is in full force and effect as modified and stating the modifications), the dates to which any Base Rent due hereunder has been paid in advance, if any, and that to the knowledge of the signer of such certificate, no default hereunder by either Landlord or Tenant exists hereunder (or specifying each such default to which this signer may have knowledge), together with such other information as Landlord or Tenant may reasonably require with respect to the status of this Lease and Tenant's use and occupancy of the Premises.

40. Notice of Lease. Upon the request of either party hereto, Landlord and Tenant agree to execute a short form Notice of Lease or Memorandum of Lease in recordable form, setting forth information regarding this Lease, including, without limitation, if available, the dates of commencement and expiration of the Term, the Renewal Options, Tenant's Purchase Option and the Right of First Refusal. All taxes, fees, costs and expenses of recording such Notice of Lease or Memorandum of Lease shall be paid by Tenant unless otherwise agreed in writing by Landlord.

41. Miscellaneous.

41.1 This Lease shall be governed and construed in accordance with the Laws of the State.

41.2 The headings of the Sections are for convenient reference only, and are not to be construed as part of this Lease.

41.3 The language of this Lease shall be construed according to its plain meaning, and not strictly for or against Landlord or Tenant; and the construction of this Lease and of any of its provisions shall be unaffected by any argument or claim that this Lease has been prepared, wholly or in substantial part, by or on behalf of Tenant or Landlord.

41.4 Landlord and Tenant each warrant and represent to the other, that each has full right to enter into this Lease and that there are no impediments, contractual or otherwise, to full performance hereunder.

41.5 This Lease shall be binding upon the parties hereto and shall inure to the benefit of and be binding upon the heirs, executors, administrators, successors and assigns of Landlord and the successors and assigns of Tenant.

41.6 In the event of any suit, action, or other proceeding at law or in equity, by either party hereto against the other, by reason of any matter arising out of this Lease, the prevailing party shall recover, not only its legal costs, but also reasonable attorneys' fees (to be fixed by the Court) for the maintenance or defense of said suit, action or other proceeding, as the case may be.

41.7 A waiver by either party of any breach(es) by the other of any one or more of the covenants, agreements, or conditions of this Lease, shall not bar the enforcement of any rights or remedies for any subsequent breach of any of the same or other covenants, agreements, or conditions.

41.8 This Lease and the referenced schedules and exhibits set forth the entire agreement between the parties hereto and may not be amended, changed or terminated orally or by any agreement unless such agreement shall be in writing and signed by Tenant and Landlord and approved in writing by the Lender. Landlord and Tenant further agree that this Lease shall not be amended and no amendment shall be effective unless (i) all guarantors of the Tenant's obligations under this Lease, remain liable for all of the Tenant's obligations under this Lease notwithstanding such amendment, and (ii) Landlord and Tenant receive written notification from each nationally recognized statistical rating organization (including, without limitation, S&P and Moody's, if applicable) which has issued a rating of any securities issued by the Lender or the Landlord which is secured by the Premises that such amendment will not result in a downgrade, withdrawal or qualification of the rating then assigned to such securities.

41.9 If any provision of this Lease or the application thereof to any persons or circumstances shall to any extent be invalid or unenforceable, the remainder of this Lease or the application of such provision to persons or circumstances other than those to which it is held invalid or unenforceable shall not be affected thereby, and each provision of this Lease shall be valid and enforceable to the fullest extent permitted by Law.

41.10 The submission of this Lease for examination does not constitute a reservation of or agreement to lease the Premises; and this Lease shall become effective and binding only upon proper execution and unconditional delivery thereof by Landlord and Tenant.

41.11 When the context in which words are used in this Lease indicates that such is the intent, words in the singular number shall include the plural and vice versa, and words in the masculine gender shall include the feminine and neuter genders and vice versa. Further, references to "person" or "persons" in this Lease shall mean and include any natural person and any corporation, partnership, joint venture, limited liability company, trust or other entity whatsoever.

41.12 All references to "business days" contained herein are references to normal working business days, *i.e.*, Monday through Friday of each calendar week, exclusive of federal and national bank holidays.

41.13 Time is of the essence in the payment and performance of the obligations of Tenant under this Lease.

41.14 In the event that the Landlord hereunder consists of more than one (1) person, then all obligations of the Landlord hereunder shall be joint and several obligations of all persons named as Landlord herein. If any such person directly or indirectly transfers its interest in the Premises, whether by conveyance of its interest in the Premises, merger or consolidation or by the transfer of the ownership interest in such Person, such transferee and its successors and assigns shall be bound by this subparagraph (n). All persons named as Landlord herein shall collectively designate a single person (the "Designated Person") to be the person entitled to give notices, waivers and consents hereunder. If Landlord consists of only one person, such person shall be the Designated Person. Landlord agrees that Tenant may rely on a waiver, consent or notice given by such Designated Person as binding on all other persons named as Landlord herein; provided, that any amendment, change or termination of this Lease which is permitted under Section 41.8 must be signed by all persons named as Landlord. The Designated Person shall be the only person entitled to give notices hereunder by the Landlord, and Tenant may disregard all communications from any other person named as Landlord herein, except as provided in the immediately following sentence. The identity of the Designated Person may be changed from time to time by ten (10) business days' advance written notice to the Tenant signed by either the Designated Person or by all persons named as Landlord herein.

41.15 If Landlord shall be in default under any of the provisions of this Lease, Tenant may, after thirty (30) days written notice to Landlord and failure of Landlord to cure during said period (or such longer period of time as may reasonably be necessary, but under no circumstances longer than a total of ninety (90) days, if the default may not be cured within thirty (30) days but Landlord has commenced and is diligently pursuing a cure of such default), but without notice in the event of an emergency, do whatever is necessary to cure such default as may be appropriate under the circumstances for the account of and at the expense of Landlord. If an emergency exists, Tenant shall use reasonable efforts to notify Landlord of the situation by phone or other available communication before taking any such action to cure such default.

[Signatures on Following Page]

IN WITNESS WHEREOF, Landlord and Tenant have duly executed this Lease as of the Date of Lease above written.

LANDLORDS:

CHP PORTLAND, LLC

By: Summit Healthcare REIT, Inc., a Maryland corporation
Its: Manager

By: /s/ Kent Eikanas
Name: Kent Eikanas
Its: President and Chief Operating Officer

CHP TIGARD, LLC

By: Summit Healthcare REIT, Inc., a Maryland corporation
Its: Manager

By: /s/ Kent Eikanas
Name: Kent Eikanas
Its: President and Chief Operating Officer

CHP SHERIDAN, LLC

By: Summit Healthcare REIT, Inc., a Maryland corporation
Its: Manager

By: /s/ Kent Eikanas
Name: Kent Eikanas
Its: President and Chief Operating Officer

TENANT:

SNF MANAGEMENT, LLC

By: Dakavia Management Corporation
Its: Manager

By: /s/ Kent Emry
Name: Kent Emry
Its: President

SCHEDULE 1

BASE RENT SCHEDULE

Annual Base Rent	Year	Monthly Base Rent
$1,743,787.00	1	$145,315.60
$1,778,663.00	2	$148,221.92
$1,814,236.00	3	$151,186.35
$1,850,521.00	4	$154,210.80
$1,887,531.00	5	$157,294.28
$1,925,282.00	6	$160,440.17
$1,963,788.00	7	$163,648.97
$2,003,063.00	8	$166,921.95
$2,043,125.00	9	$170,260.39
$2,083,987.00	10	$173,664.60
$2,125,667.00	11	$177,138.91
$2,168,180.00	12	$180,681.69
$2,211,544.00	13	$184,295.32
$2,255,775.00	14	$187,981.23
$2,359,750.00	15	$196,645.79

If Tenant exercises the Renewal Option for the Extended Period, the Annual Base Rent shall continue to increase by two percent (2%) over the previous year's Annual Base Rent. This includes the first year of the Extended Period.

EXHIBIT A

LEGAL DESCRIPTION OF THE PREMISES

I. Tigard, Oregon Property

A tract of land in the Northeast quarter of Section 10, Township 2 South, Range 1 West, Willamette Meridian, in the City of Tigard, Washington County, Oregon, being portions of those tracts of land described in Book 405 at Page 575 and Book 446 at Page 736 of the Washington County Records; said tract of land is described as follows:

Beginning at a 5/8 inch iron rod which bears North 89°54'02" West, 169.86 feet, and South 00° 39' West, 205.00 feet from the Northeast corner of Section 10, said iron rod being on the West line of that public right of way described in Book 677 at Page 251 of the said records; thence South 00° 39' West, 4.51 feet to a 5/8 inch iron rod; thence on a 50.00 foot radius curve to the left, 124.65 feet along the arc (the long chord bears South 19°13'55" West, 94.79 feet) to a 5/8 inch iron rod on the West line of that tract of land conveyed to Robert T. Cooper, et al, as recorded in Book 556, Page 17 of the said records; thence South 00°39' West, 306.95 feet along the West line of the said Cooper tract, to a 5/B inch iron rod; thence North 73°46'12" West, 259.71 feet to a 5/8 inch iron rod; thence North 40°28'06" West, 90.33 feet to a 5/8 inch iron rod; thence North 63°39'08" West, 25.00 feet; thence North 33°54'34" East, 245.65 feet to a 5/8 inch iron rod; thence South 64°13'58" East, 25.02 feet to a 5/8 inch iron rod; thence North 51 °45'05" East, 90.14 feet to a 5/B inch iron rod; thence South 89°53'18" East, 134.79 feet to the point of beginning.

II. Portland, Oregon Property

Lots 12, 13, 14 and 15, the East 50 feet of Lot 3, the East 50 feet of Lot 4 and the South 30 feet of Lot 5, Block 2, KENNEDY'S ADDITION TO EAST PORTLAND, in the City of Portland, Multnomah County, Oregon.

III. Sheridan, Oregon Property

Parcel 1: A tract of land in Section 35, Township 5 South, Range 6 West of the Willamette Meridian in Yamhill County, Oregon, more particularly described as follows:

Beginning at a point in the center of Sheridan Road, which said point is reached by running South 78° East 455.40 feet; South 77° East 50.16 feet and South 70° 15' East 142.56 feet from the intersection of the center lines of Schley Street and Second Street in South Sheridan, said beginning point being the Southeast corner of that certain tract conveyed by Helen and Robert Dixon to Mark and Bernice Smith by Deed as recorded on Page 334 of Volume 148 of the Deed Records of Yamhill County, and being also the Southwest corner of that certain tract described in Deed from Emil and Maude Schuman and others to George and Delia Epley as recorded on Page 298 of Volume 103 of the Deed Records of Yamhill County, and running thence from said point of beginning North 1° East along the East line of said Smith Tract, 428.0 feet to the South bank of the Yamhill River, from which point an iron pipe bears South 1° West 40.0 feet; thence continuing North 1° East to the North line of said Graves Claim; thence North 77° West along said Claim line 96.8 feet; thence South 1° West to a point on the South bank of the Yamhill River, from which point an iron pipe bears South 1° West 40.0 feet; thence continuing South 1° West 412.4 feet to a point in the center of Sheridan Road, from which point an iron pipe bears North 1° East 26.4 feet; thence South 70° 15' East along center of said Road, 100.0 feet to the place of beginning.

Parcel 2:

Being a part of the Charles B. Graves Donation Land Claim No. 57, Notification No. 5329 in Section 35, Township 5 South, Range 6 West of the Willamette Meridian in Yamhill County, Oregon, said part being described as follows:

Beginning at a point which is North 1° East 207 feet from a stone set South 78° East 6.90 chains from the intersection of the lines of Schley and Second Streets in South Sheridan in Yamhill County; thence North 1° East 340.8 feet to the North line of said Graves Donation Land Claim; thence South 77° East to the Northwest corner of a certain tract of land conveyed by Mark D. Smith, et ux. to Charles A. Casteel, et ux. by deed recorded November 25, 1957 in Book 186, Page 110 (erroneously described as Book 185, Page 662), Deed Records; thence South 1° West along the West line of said Casteel tract 340.8 feet; thence North 77° West to the place of beginning.

Parcel 3:

Beginning at a 1/2 inch iron pipe at the Southeast corner of a tract of land described in a deed recorded November 25, 1957 in Book 185, Page 662, Deed Records of Yamhill County, Oregon, being South 80° 58 1/2' East 277.54 feet and North 70° 15' West 121.6 feet from the Northeast corner of Block 1 of Gutbrod Addition to the City of Sheridan in Township 5 South, Range 6 West of the Willamette Meridian in Yamhill County, Oregon; thence South 70° 15' East 67.2 feet to an iron rod; thence North 01° 11' East 86.71 feet to an iron rod; thence North 01° 33' West to the North boundary of the C.B. Graves Donation Land Claim; thence along the North boundary of the Graves Donation Land Claim North 77° West 50 feet, more or less, to a point North 01° 00' East of the point of beginning; thence South 01° West 560 feet, more or less, to the point of beginning.

SAVING AND EXCEPTING the following described tract of land:

Beginning at a 1/2 inch iron pipe at the Southeast corner of a tract of land described in deed recorded November 25, 1957 in Book 185, Page 662, Deed Records, said iron pipe being South 80° 50' 30" East 277.54 feet and North 70° 15' West 121.6 feet from the Northeast corner of Block 1 of Gutbrod's Addition to the Town of Sheridan in Yamhill County, Oregon; thence South 70° 15' East 67.2 feet to an iron rod; thence North 01° 11' East 86.71 feet to an iron rod; thence North 01° 33' West 104.60 feet to a 1/2 inch iron rod; thence South 89° West 59.26 feet to a 1/2 inch iron rod; thence South 1° West 169.60 feet to the place of beginning.

Parcel 4:

Beginning at a point in Section 35, Township 5 South, Range 6 West of the Willamette Meridian, Yamhill County, Oregon, said point being 207.00 feet North 1° East of a stone, said stone being 455.40 feet South 78° East of the intersection of the lines of Schley and Second Streets in South Sheridan; thence South 77° East 91.36 feet; thence North 87° 04' 54" West 89.42 feet; thence North 1° East 16.00 feet to the place of beginning.

EXHIBIT B OMITTED

EXHIBIT C OMITTED

EXHIBIT D OMITTED

Public reporting burden for this collection of information is estimated to average 1 hour(s). This includes the time for collecting, reviewing, and reporting the data. The information is being collected to obtain the supportive documentation which must be submitted to HUD for approval, and is necessary to ensure that viable projects are developed and maintained. The Department will use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as ensuring the continued marketability of the properties. This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

Warning: Any person who knowingly presents a false, fictitious, or fraudulent statement or claim in a matter within the jurisdiction of the U.S. Department of Housing and Urban Development is subject to criminal penalties, civil liability, and administrative sanctions.

THIS HUD ADDENDUM TO MASTER LEASE (this "**Addendum**"), dated as of September 1, 2014 is attached to and made a part of that certain Master Lease Agreement (the "**Master Lease**"), dated as of September 1, 2014 entered into by those entities identified as Landlords on Schedule 1 (each, individually, a "**Landlord**", and collectively, the "**Landlords**", provided that, where the context allows, a singular reference to Landlord in this Addendum shall refer jointly, severally and collectively to the Landlords as set forth herein); and **SNF Management, LLC** an Oregon limited liability company ("**Master Tenant**"), and amends and/or supplements the Master Lease. For so long as HUD is the holder or insurer of any indebtedness secured by one or more of the Healthcare Facilities (as defined herein), the provisions of this Addendum shall apply to the Master Lease. In the event of any conflict between the terms of this Addendum and the Master Lease, the terms of this Addendum shall govern and control.

1. **Definitions**. The following terms shall have the meanings specified below:

"Approved Use" means the use of each Healthcare Facility, as set forth on Schedule 1, and such other uses as may be approved in writing from time to time by HUD based upon a request made by a Landlord, Master Tenant or an Operator, but excluding any uses that are discontinued with the written approval of the HUD.

"CON" means collectively all Certificates of Need and Certificate of Need rights under Healthcare Requirements authorizing and permitting the use of each Healthcare Facility as a skilled nursing or long-term care facility, as applicable.

"Cross Guaranty" has the meaning set forth in Section 5.

"**FF&E**" means furnishings, fixtures and equipment of all kinds used in connection with the Healthcare Facility, including additions, substitutions and replacements thereto.

"**FHA**" means the Federal Housing Administration.

"**Healthcare Facilities**" means the healthcare facilities listed on *Schedule 1* as the same may be amended from time to time. Each facility listed on such schedule is a "**Healthcare Facility**."

"**Healthcare Requirements**" shall mean, relating to each Healthcare Facility, all federal, state, county, municipal and other governmental statutes, laws, rules, orders, regulations, ordinances, judgments, decrees and injunctions or agreements, in each case, pertaining to or concerned with the establishment, construction, ownership, operation, use or occupancy of the Healthcare Facility or any part thereof as a healthcare facility, and all material permits, licenses, authorizations and regulations relating thereto, including all material rules, orders, regulations and decrees of and agreements with healthcare authorities pertaining to the Healthcare Facility.

"**HUD**" means the U.S. Department of Housing and Urban Development.

"**Landlord Regulatory Agreement**" means each Healthcare Regulatory Agreement–Borrower entered into by and between each Landlord and HUD, acting by and through the Secretary, his or her successors, assigns or designates with respect to each Healthcare Facility and any riders, amendments and supplements thereto.

"**Lender**" means Lancaster Pollard Mortgage Company, LLC, a Delaware limited liability company, and any future holder of the Security Instrument(s).

"**Loan**" means the FHA-insured loans in the original principal amounts as set forth on Schedule 2 attached hereto and incorporated herein, each made by Lender to a Landlord, secured by one or more Healthcare Facility, as such Loan may be amended, increased or decreased.

"**Loan Documents**" means each Landlord Regulatory Agreement, Security Instrument, Note, Master Tenant Regulatory Agreement, Operator Regulatory Agreement, Operator Security Agreement, Master Tenant Security Agreement, Cross Guaranty, Subordination/Subordination, Non-Disturbance and Attornment Agreement, and any and all other documents now or in the future required by and/or assigned to HUD and/or the Lender in connection with any of the Loans, whether executed by or on behalf of any Landlord, Master Tenant, or Operator, as the same may be amended from time to time, provided that the Master Lease and any Borrower-Operator Agreement, and any amendments thereto, shall not be considered Loan Documents.

"**Master Tenant Regulatory Agreement**" means each Healthcare Regulatory Agreement-Master Tenant entered into by and between the Master Tenant and HUD, acting by and through the Secretary, his or her successors, assigns or designates with respect to each Healthcare Facility and any riders, amendments and supplements thereto.

"**Operator**" means, any entity that has entered into a Sublease (or other equivalent agreement) as an Operator with the Master Tenant, and such entity's successors and assigns.

"**Operator Regulatory Agreement**" means each Healthcare Regulatory Agreement-Operator entered into by and between each Operator and HUD with respect to each Healthcare Facility and any riders, amendments and supplements thereto.

“Operator Security Agreement” means each Operator Security Agreement between each Operator and Lender with respect to the Healthcare Facility and any amendments or supplements thereto.

“**Program Obligations**” means (1) all applicable statutes and any regulations issued by HUD pursuant thereto that apply to the Project, including all amendments to such statutes and regulations, as they become effective, except that changes subject to notice and comment rulemaking shall become effective only upon completion of the rulemaking process, and (2) all current requirements in HUD handbooks and guides, notices, and mortgagee letters that apply to the Project, and all future updates, changes and amendments thereto, as they become effective, except that changes subject to notice and comment rulemaking shall become effective only upon completion of the rulemaking process, and provided that such future updates, changes and amendments shall be applicable to the Project only to the extent that they interpret, clarify and implement terms in this Addendum rather than add or delete provisions from such document. Handbooks, guides, notices, and mortgagee letters are available on HUD’s official website (http://www.hud.gov/offices/adm/hudclips/index.cfm), or a successor location to that site.

“**Rent**” means any and all rent, including base rent, additional rent, and all other such charges paid by an Operator pursuant to its Borrower-Operator Agreement, and any such amounts payable by Master Tenant under the Master Lease to one or more Landlords, with respect to one or more Healthcare Facilities.

“**Security Instrument(s)**” means those certain Healthcare Mortgage, Assignment of Leases, Rents and Revenue and Security Agreement, from the Landlords in favor of the Lender with respect to the Project securing the Loans, and any amendments and supplements thereto.

“**Sublease(s)**” means those certain leases by which Master Tenant subleases one or more Healthcare Facilities subject to the Master Lease to an Operator, as now or hereafter amended, and/or renewed or extended.

“**Subordination Agreement/SNDA**” means either the Subordination Agreement or the Subordination Non-Disturbance and Attornment Agreement (whichever is applicable) executed by Landlord, Lender, Master Tenant and Operator as to the Healthcare Facility subleased by that particular Operator from the Master Tenant.

2. Compliance with Program Obligations.

a. The parties to this Addendum intend that the Master Lease comply with all Program Obligations. The Master Tenant agrees to comply, and to cause each Operator to comply, with all applicable Program Obligations and the Loan Documents. The Master Tenant further agrees that the Master Lease and all Subleases will be part of the collateral pledged by Landlords to Lender and HUD as security for the Loan. The Master Tenant agrees that it will not take any action which would violate any applicable Program Obligations or any of the Loan Documents.

b. In the event of any conflict between the terms and provisions of this Master Lease and/or the Sublease and any applicable Program Obligations or the Loan Documents, the Program Obligations and Loan Documents shall control in all respects. Landlords and Master Tenant agree that no provision of this Master Lease and/or the Subleases shall modify any obligation of Landlords or Master Tenant or Operator under the Loan Documents. Landlords and Master Tenant acknowledge that HUD's acceptance of this Master Lease and/or any Subleases in connection with the closing of the Loans shall in no way constitute HUD's consent to arrangements which are inconsistent with Program Obligations. This Master Lease and any Subleases are subject to all Program Obligations.

3. **Modification**. Neither the provisions of this Addendum nor the provisions of the Master Lease or any Sublease may be amended without the express prior written consent of HUD and the Lender. None of the Healthcare Facilities may be released from the Master Lease, nor may the Master Lease, or any of the Subleases, be terminated without the express prior written consent of HUD and the Lender, and in accordance with the provisions of the Subordination Agreement/SNDA, as applicable.

4. **Single, Indivisible Lease**. The Master Lease constitutes one indivisible lease of the Healthcare Facilities and not separate leases governed by similar terms. The Healthcare Facilities constitute one economic unit, and the Rent and all other provisions have been negotiated and agreed to based on a demise of all of the Healthcare Facilities to Master Tenant as a single, composite, inseparable transaction, and the Rent and all other provisions would have been substantially different had separate leases or a divisible lease been intended. Except as expressly provided in this Master Lease for specific, isolated purposes (and then only to the extent expressly stated), all provisions of this Master Lease apply equally and uniformly to all of the Healthcare Facilities as one unit. An Event of Default with respect to any Healthcare Facility is an Event of Default as to all of the Healthcare Facilities. The parties intend that the provisions of this Master Lease shall at all times be construed, interpreted and applied so as to carry out their mutual objective to create an indivisible lease of all of the Healthcare Facilities, and in particular but without limitation, that for purposes of any assumption, rejection or assignment of this Master Lease under 11 U.S.C. § 365, this is one indivisible and non-severable lease and executory contract dealing with one legal and economic unit, and that this Master Lease must be assumed, rejected or assigned as a whole with respect to all (and only as to all) of the Healthcare Facilities. No Healthcare Facility may be released from the Master Lease except with the prior written approval of HUD.

5. **Cross-Default Guaranty of Subtenants**. Master Tenant agrees to cause all Operators to execute a Cross-Default Guaranty of Subtenants (each, individually, a "**Cross Guaranty**", and collectively, the "**Cross Guaranties**") in favor of Master Tenant, in the HUD-approved format, by which each Operator guarantees performance of all obligations of all other Operators under all of the Subleases. Master Tenant further agrees to assign and hereby assigns such Cross Guaranties to the Lender.

6. **Payments and Impounds**. Landlords and Master Tenant each acknowledges and agrees that the Rents and other amounts payable pursuant to this Master Lease or any Sublease are, and shall at all times be, sized so as at to allow for proper maintenance of all of the Healthcare Facilities, and to enable each Landlord to meet its debt service obligations, and all related expenses, in connection with its Loan and the Healthcare Facilities Without limiting the generality of the foregoing, the Master Tenant agrees to pay, as additional rent, when due all premiums for (i) FHA mortgage insurance, (ii) liability insurance and full coverage property insurance on the Healthcare Facility, and (iii) all other insurance coverage required under the Loan Documents, and/or Program Obligations. Unless the Lender and the applicable Landlord agree otherwise in writing, the Master Tenant shall be responsible for funding all escrows and impounds for taxes, reserves for replacements, FHA mortgage insurance premiums, and other insurance premiums as may be required by the Lender and/or HUD.

7. **Rental Payments**. Subject to the rights of the Lender and to HUD consent thereto, Landlords reserve the right, as set forth herein, to adjust and reallocate the amount of Rent allocated to each Healthcare Facility covered by this Master Lease as set forth on Schedule 2 to this Addendum, so long as the total aggregate amount of Rent for all of the Healthcare Facilities shown thereon is not decreased. Landlords may adjust and reallocate the amounts of Rent for the purposes of maximizing reimbursements from the Medicaid or Medicare programs, and/or preventing a default under the Loan Documents, provided that Landlords obtain Master Tenant's prior consent, which consent shall not be unreasonably withheld, and so long as the total amount of Rent for all of the Healthcare Facilities in the aggregate shall not be decreased.

8. **Compliance with HUD Insurance Requirements**. The Master Tenant agrees to procure and maintain, and cause the Operators to procure and maintain, the insurance coverages required pursuant to the Loan Documents and Program Obligations. Annually, Master Tenant shall provide, or cause each Operator to provide, to Lender, a Certification of Compliance with HUD's professional liability insurance requirements. Insurance proceeds and the proceeds of any condemnation award or other compensation paid by reason of a conveyance in lieu of the exercise of such power, with respect to a Healthcare Facility or any portion thereof shall be applied in accordance with the terms of the Loan Documents and Program Obligations. The decision to repair, reconstruct, restore or replace the Healthcare Facility following a casualty or condemnation shall be subject to the terms of the Loan Documents and Program Obligations.

9. Ownership of the FF&E, and Transfer of Personal Property

a. Master Tenant agrees that during the term of the Master Lease and/or Sublease, as applicable, Master Tenant shall not remove and shall not permit any Operator to remove, any FF&E from a Healthcare Facility, except in the ordinary course of business.

b. At the termination of the Master Lease and/or Sublease, as applicable, the Landlords shall have the right to purchase the Master Tenant's or Operator's personal property located at the applicable Healthcare Facility at book value. To the extent any of the personal property is subject to an equipment lease, the Landlords shall have the right to cause Master Tenant or Operators to pay in full all obligations under such equipment leases, or to assume some or all of such equipment leases at Landlords' sole cost and expense and at no additional liability to Master Tenant. Master Tenant shall sign and deliver or cause Operator to sign or deliver, as applicable, to Landlords any document that may be reasonably necessary to transfer any leased property back to the Landlords.

10. **Provider Agreements.** Master Tenant shall require that each Operator shall be responsible for obtaining and maintaining any necessary provider agreements with Medicaid, Medicare and other governmental third party payors. Master Tenant shall ensure that each Operator agrees to furnish HUD and Lender with copies of all such provider agreements and any and all amendments promptly after execution, and additionally, promptly upon request.

11. **Subletting and Assignment**.

a. Neither the Master Lease nor any sublease shall be assigned or subleased in whole or in part (including any transfer of title or right to possession and control of any Healthcare Facility, or of any right to collect fees or Rents), without the prior written approval of HUD. The prior written approval of HUD shall be required for (a) any change in or transfer of the management, operation, or control of any of the Healthcare Facilities or (b) any change in the ownership of the Master Tenant that requires HUD approval under HUD's Program Obligations. Landlords and Master Tenant acknowledge that any proposed assignee or sublessee will be required to execute, as applicable, a Master Tenant Regulatory Agreement or Operator Regulatory Agreement and a Master Tenant Security Agreement or Operator Security Agreement, each in form and substance satisfactory to HUD, as a prerequisite to any such approval. Any assignment or subletting of any Healthcare Facility made without such prior approval shall be null and void.

b. Master Tenant acknowledges that each Landlord is assigning the Master Lease to the Lender, to further secure that Landlord's obligations to Lender under the applicable Loan Documents. Master Tenant acknowledges that Lender is authorized to exercise all rights and remedies available to Landlord as Lender may determine are reasonably necessary to cure a default by Landlord under any Loan Documents.

12. **HUD/FHA Not Subject to Indemnification Requirements.** Notwithstanding any other provision or term contained in this Master Lease, in the event of an assignment of the Master Lease to HUD or FHA, neither HUD nor FHA shall have any indemnification obligations under this Master Lease or any of the Subleases. In addition, any payment obligations of HUD or FHA pursuant to this Master Lease shall be limited to actual amounts received by HUD or FHA, and otherwise not prohibited by applicable law or regulation, including without limitation, the Anti-Deficiency Act, 31 U.S.C. § 1341 et seq.

13. **Notices to Lender and HUD of Default by Landlord**. Master Tenant and Landlords agree to copy Lender and HUD on all notices of default. Such copies shall be provided to Lender and HUD at the same time and in the same manner as provided by Master Tenant or Landlords to the other party. Lender shall have the right, but not the obligation, to cure (or cause to be cured) any default by Landlords under this Master Lease. For the purpose of effecting such cure, Master Tenant grants the Lender such period of time as may be reasonable to enable Lender to cure (or cause to be cured) any default, in addition to the time given to Landlords to cure the default. In the event of any act or omission of Landlords which would give Master Tenant the right, immediately or after lapse of a period of time, to cancel or terminate this Master Lease, or to claim a partial or total eviction, Master Tenant shall not exercise such right (i) until it has given written notice of such act or omission to Lender and HUD, and (ii) unless such act or omission shall be one which is not capable of being remedied by Landlords or Lender within a reasonable period of time, until a reasonable period for remedying such act or omission shall have elapsed following the giving of such notice and following the time when Lender shall have become entitled under the Loan Documents in connection therewith, as the case may be, to remedy the same (which reasonable period shall in no event be less than the period to which Landlords would be entitled under this Master Lease or otherwise, after similar notice, to effect such remedy).

14. **Transfer of Operations**. Upon the expiration or earlier termination of the Master Lease for any reason whatsoever, the Master Lease shall become and be construed as an absolute assignment for purposes of vesting in Landlords (or Landlords' designees) all of Master Tenant's right, title, and interest in and to the following, to the extent assignable by law: (A) the licenses, any Medicare or Medicaid provider agreements and any CON, (B) all documents, charts, personnel records, patient records, and other documents relating to the Healthcare Facilities or operations at the Healthcare Facilities, (C) all existing agreements with residents of the Healthcare Facilities, and any guarantors of such agreements, and any and all patient trust fund accounts and (D) all other assignable intangible property not enumerated above that is now or in the future used in connection with the operation of the Healthcare Facilities. Master Tenant shall sign and deliver to Landlords any documents that may be reasonably necessary to transfer the foregoing to Landlords.

15. **Master Tenant and Operator Regulatory Agreements; Master Tenant and Operator Security Agreements**. At the time of the closing of each Loan, the Master Tenant agrees to execute a Master Tenant Regulatory Agreement and a Master Tenant Security Agreement, and to cause each Operator to execute the applicable Operator Regulatory Agreement and the applicable Operator Security Agreement, and other applicable documents evidencing the Lender's security interest in the collateral of the Master Tenant and each Operator. The Master Tenant agrees to comply with its obligations under the Master Tenant Regulatory Agreement and the Master Tenant Security Agreement, and agrees that a default by the Master Tenant under the Master Tenant Regulatory Agreement or Master Tenant Security Agreement shall be deemed to be a default of this Master Lease. Therefore, pursuant to Program Obligations and the terms of the Master Tenant Regulatory Agreement, upon any event of default of the Master Tenant Regulatory Agreement or any event of default of any Operator Regulatory Agreement relating to any Healthcare Facility, upon the completion of any applicable notice and cure periods, Landlords shall immediately upon written request from HUD terminate this Master Lease without any penalty to Landlords.

16. **Master Tenant Cooperation**. Master Tenant agrees to cooperate with Landlords in providing, and upon request by Landlords, Lender, or HUD, Master Tenant shall provide or cause its Operators to provide, such documents, information, financial reports, and other items as may be required by Lender or HUD. When applicable, Master Tenant agrees to execute, and cause the Operators to execute, subordination agreements in form and substance required by Lender or HUD. Master Tenant further agrees to cooperate with Landlords and with its lender(s) who are processing and will be making Loans to Landlords.

17. **Compliance with Healthcare Requirements**. Master Tenant shall use, or shall cause the Operators to use, the Healthcare Facilities solely for Approved Uses and for no other purposes. On or before the master lease commencement date, Master Tenant or Operators shall have acquired, and thereafter Master Tenant or Operators, shall maintain all licenses, certificates, accreditations, approvals, permits, variances, waivers, provider agreements and other authorizations needed to operate the Healthcare Facilities for Approved Uses.

18. **Counterpart Signatures**. This Addendum may be executed in counterparts.

19. This Addendum shall be governed by the laws of the State of Oregon without giving effect to conflicts of laws principles.

20. **Third Party Beneficiaries.** HUD and Lender are not parties to this Addendum and have no obligations hereunder; however, HUD and Lender are third party beneficiaries for the sole purpose of enforcing their rights hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Addendum effective as of the date first herein above written.

MASTER TENANT:

SNF MANAGEMENT, LLC

By: Dakavia Management Corporation
Its: Manager

By: /s/ Kent Emry
Name: Kent Emry
Its: President

LANDLORDS:

CHP PORTLAND, LLC

By: Summit Healthcare REIT, Inc., a Maryland corporation
Its: Manager

By: /s/ Kent Eikanas
Name: Kent Eikanas
Its: President and Chief Operating Officer

CHP TIGARD, LLC

By: Summit Healthcare REIT, Inc., a Maryland corporation
Its: Manager

By: /s/ Kent Eikanas
Name: Kent Eikanas
Its: President and Chief Operating Officer

CHP SHERIDAN, LLC

By: Summit Healthcare REIT, Inc., a Maryland corporation
Its: Manager

By: /s/ Kent Eikanas
Name: Kent Eikanas
Its: President and Chief OperatingOfficer

Schedule 1

LIST OF HEALTHCARE FACILITIES AND APPROVED USES.

Healthcare Facility	**Address**	**Landlords**	**Operators/Subtenants**	**FHA Project #**	**Bed Count**	**Type of Healthcare Facility**
Fernhill Manor	5737 NE 37th Avenue, Portland, Oregon	CHP Portland, LLC	Fernhill Estates, LLC	126-22125	63	Skilled nursing facility
Pacific Health and Rehabilitation	14145 SW 105th Street, Tigard, Oregon 97224	CHP Tigard, LLC	Pacific Gardens Estates, LLC	126-22124	112	Skilled nursing facility
Sheridan Care Center	411 SE Sheridan Road, Sheridan, Oregon	CHP Sheridan, LLC	Sheridan Care Center, LLC	126-11216	51	Intermediate care nursing facility

Schedule 2

LOANS

Healthcare Facility	Landlords	Principal Loan Amount	Monthly Rent Amount
Fernhill Manor	CHP Portland, LLC	$4,560,000	$38,786
Pacific Health and Rehabilitation	CHP Tigard, LLC	$7,601,900	$64,569
Sheridan Care Center	CHP Sheridan, LLC	$5,198,200	$41,840

Exhibit 21.1

Summit Healthcare Operating Partnership	Delaware
Healthcare Properties	
Cornerstone Healthcare Partners, LLC	Delaware
Cornerstone Healthcare Holdings 1, LLC	Delaware
CHP Portland LLC	Delaware
CHP Medford 1 LLC	Delaware
CHP Friendswood SNF, LLC	Delaware
CHP Tigard, LLC	Delaware
Healthcare Property Holding Co., LLC	Delaware
HP Winston-Salem, LLC	Delaware
NHP Holding Co., LLC	Delaware
HP Aledo, LLC	Delaware
HP Shelby, LLC	Delaware
HP Carteret, LLC	Delaware
HP Hamlet, LLC	Delaware
HP Redding, LLC	Delaware
Friendswood TRS, LLC	Delaware
Summit Lamar, LLC	Delaware
Summit Monte Vista, LLC	Delaware
Summit Myrtle Point, LLC	Delaware
Summit Portland, LLC	Delaware
Summit Salem, LLC	Delaware

Exhibit 31.1

CERTIFICATIONS

I, Kent Eikanas, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Healthcare REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Kent Eikanas

Date: March 20, 2015

Kent Eikanas
President (Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Elizabeth A. Pagliarini, certify that:

1. I have reviewed this annual report on Form 10-K of Summit Healthcare REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Elizabeth A. Pagliarini

Date March 20, 2015

Elizabeth A. Pagliarini
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. Sec.1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Kent Eikanas and Elizabeth A. Pagliarini, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his or her knowledge, the Annual Report of Summit Healthcare REIT, Inc. on Form 10-K for the twelve month period ended December 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Summit Healthcare REIT, Inc.

/s/ Kent Eikanas

Date: March 20, 2015

Kent Eikanas
(Principal Executive Officer)

/s/ Elizabeth A. Pagliarini

Date: March 20, 2015

Elizabeth A. Pagliarini
Chief Financial Officer
(Principal Financial Officer)