Grubb & Ellis Healthcare REIT, Inc.
Form 10-Q
August 13, 2008

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

FORM 10-Q

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

For the quarterly period ended **June 30, 2008**

or

o **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: **000-53206**

Grubb & Ellis Healthcare REIT, Inc.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**20-4738467** (I.R.S. Employer Identification No.)
1551 N. Tustin Avenue, Suite 300 **Santa Ana, California** (Address of principal executive offices)	**92705** (Zip Code)

(714) 667-8252
(Registrant s telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 þ No o

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of July 31, 2008, there were 45,180,525 shares of common stock of Grubb & Ellis Healthcare REIT, Inc. outstanding.

Grubb & Ellis Healthcare REIT, Inc.
(A Maryland Corporation)

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Grubb & Ellis Healthcare REIT, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS
As of June 30, 2008 and December 31, 2007
(Unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
Real estate investments:		
Operating properties, net	$ 681,629,000	$ 352,994,000
Cash and cash equivalents	11,759,000	5,467,000
Accounts and other receivables, net	4,669,000	1,233,000
Restricted cash	7,542,000	4,605,000
Identified intangible assets, net	116,687,000	62,921,000
Derivative financial instruments	165,000	
Other assets, net	8,116,000	4,392,000
Total assets	$ 830,567,000	$ 431,612,000
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS EQUITY		
Liabilities:		
Mortgage loan payables, net	$ 393,694,000	$ 185,801,000
Unsecured note payable to affiliate	6,000,000	
Line of credit	74,607,000	51,801,000
Accounts payable and accrued liabilities	18,436,000	7,983,000
Accounts payable due to affiliates, net	4,221,000	2,356,000
Derivative financial instruments	1,646,000	1,377,000
Security deposits, prepaid rent and other liabilities	3,880,000	1,974,000
Identified intangible liabilities, net	7,079,000	1,639,000
Total liabilities	509,563,000	252,931,000
Commitments and contingencies (Note 10)		
Minority interest of limited partner in Operating Partnership	1,000	
Minority interest of limited partner redemption value of $3,090,000 (Note 10)	2,188,000	3,091,000
Stockholders equity:		
Preferred stock, $0.01 par value; 200,000,000 shares authorized; none issued and outstanding		

Common stock, $0.01 par value; 1,000,000,000 shares authorized; 39,403,163 and 21,449,451 shares issued and outstanding as of June 30, 2008 and December 31, 2007, respectively	394,000	214,000
Additional paid-in capital	350,321,000	190,534,000
Accumulated deficit	(31,900,000)	(15,158,000)
Total stockholders equity	318,815,000	175,590,000
Total liabilities, minority interests and stockholders equity	$ 830,567,000	$ 431,612,000

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

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Grubb & Ellis Healthcare REIT, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2008 and 2007
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues:				
Rental income	$ 16,273,000	$ 3,183,000	$ 29,390,000	$ 3,924,000
Expenses:				
Rental expenses	5,444,000	1,205,000	9,912,000	1,503,000
General and administrative	2,195,000	659,000	4,043,000	1,022,000
Depreciation and amortization	7,439,000	1,862,000	13,692,000	2,204,000
Total expenses	15,078,000	3,726,000	27,647,000	4,729,000
Income (loss) before other income (expense)	1,195,000	(543,000)	1,743,000	(805,000)
Other income (expense):				
Interest expense (including amortization of deferred financing costs and debt discount):				
Interest expense related to note payable to affiliate	(1,000)	(6,000)	(1,000)	(77,000)
Interest expense related to mortgage loan payables and line of credit	(4,132,000)	(738,000)	(7,844,000)	(939,000)
Gain (loss) on derivative financial instruments	3,432,000		(104,000)	
Interest and dividend income	20,000	84,000	31,000	85,000
Income (loss) before minority interests	514,000	(1,203,000)	(6,175,000)	(1,736,000)
Minority interests	(188,000)		(109,000)	
Net income (loss)	$ 326,000	$ (1,203,000)	$ (6,284,000)	$ (1,736,000)
Net income (loss) per share basic	$ 0.01	$ (0.18)	$ (0.22)	$ (0.46)
Net income (loss) per share diluted	$ 0.01	$ (0.18)	$ (0.22)	$ (0.46)
Weighted average number of shares outstanding				
Basic	33,164,866	6,727,995	28,714,736	3,745,793
Diluted	33,165,015	6,727,995	28,714,736	3,745,793

Distributions declared per common share	$	0.18	$	0.18	$	0.36	$	0.34

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

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Grubb & Ellis Healthcare REIT, Inc.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
For the Six Months Ended June 30, 2008
(Unaudited)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Preferred Stock	Accumulated Deficit	Total Stockholders Equity
BALANCE December 31, 2007	21,449,451	$ 214,000	$ 190,534,000	$	$ (15,158,000)	$ 175,590,000
Issuance of common stock	17,517,227	175,000	174,829,000			175,004,000
Issuance vested and nonvested restricted common stock	12,500		25,000			25,000
Offering costs			(19,113,000)			(19,113,000)
Amortization of nonvested common stock compensation			38,000			38,000
Issuance of common stock under the DRIP	456,255	5,000	4,330,000			4,335,000
Repurchase of common stock	(32,270)		(322,000)			(322,000)
Distributions					(10,458,000)	(10,458,000)
Net loss					(6,284,000)	(6,284,000)
BALANCE June 30, 2008	39,403,163	$ 394,000	$ 350,321,000	$	$ (31,900,000)	$ 318,815,000

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

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Grubb & Ellis Healthcare REIT, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2008 and 2007
(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (6,284,000)	$ (1,736,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization (including deferred financing costs, above/below market leases, debt discount, leasehold interests, deferred rent receivable and lease inducements)	12,794,000	2,320,000
Stock based compensation, net of forfeitures	63,000	58,000
Bad debt expense	230,000	
Change in fair value of derivative financial instruments	104,000	
Minority interests	109,000	
Changes in operating assets and liabilities:		
Accounts and other receivables	(3,312,000)	(682,000)
Other assets	(32,000)	164,000
Accounts payable and accrued liabilities	3,021,000	602,000
Accounts payable due to affiliates, net	88,000	(334,000)
Prepaid rent and other liabilities	260,000	(4,000)
Net cash provided by operating activities	7,041,000	388,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate operating properties	(351,027,000)	(118,128,000)
Capital expenditures	(1,248,000)	(25,000)
Restricted cash	(2,937,000)	(3,352,000)
Net cash used in investing activities	(355,212,000)	(121,505,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on mortgage loan payables	174,292,000	37,530,000
Borrowings on unsecured note payables to affiliate	6,000,000	12,500,000
Borrowings under the line of credit, net	22,806,000	
Payments on mortgage loan payables	(628,000)	
Payments on unsecured note payables to affiliate		(12,500,000)
Proceeds from issuance of common stock	177,525,000	104,953,000
Security deposits	(1,000)	12,000
Deferred financing costs	(2,606,000)	(585,000)
Repurchase of common stock	(322,000)	
Payment of offering costs	(17,344,000)	(9,771,000)
Distributions	(5,130,000)	(470,000)

Distributions to minority interest limited partner		(129,000)		
Net cash provided by financing activities		354,463,000		131,669,000
NET CHANGE IN CASH AND CASH EQUIVALENTS		6,292,000		10,552,000
CASH AND CASH EQUIVALENTS Beginning of period		5,467,000		202,000
CASH AND CASH EQUIVALENTS End of period	$	11,759,000	$	10,754,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	$	6,811,000	$	909,000
Income taxes	$		$	2,000
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:				
Investing Activities:				
Capital expenditures	$	645,000	$	37,000
The following represents the increase in certain assets and liabilities in connection with our acquisitions of operating properties:				
Other assets	$	182,000	$	397,000
Mortgage loan payables, net	$	34,221,000	$	31,410,000
Accounts payable and accrued liabilities	$	4,081,000	$	936,000
Accounts payable due to affiliates, net	$	7,000	$	385,000
Security deposits, prepaid rent and other liabilities	$	1,469,000	$	559,000
Financing Activities:				
Issuance of common stock under the DRIP	$	4,335,000	$	335,000
Distributions declared but not paid	$	2,249,000	$	568,000
Accrued offering costs	$	2,880,000	$	1,749,000
Payable for issuance of common stock	$	2,412,000	$	118,000
Accrued deferred financing costs	$	23,000	$	

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

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three and Six Months Ended June 30, 2008 and 2007

The use of the words we, us or our refers to Grubb & Ellis Healthcare REIT, Inc. and its subsidiaries, including Grubb & Ellis Healthcare REIT Holdings, L.P., except where the context otherwise requires.

1. Organization and Description of Business

Grubb & Ellis Healthcare REIT, Inc., a Maryland corporation, was incorporated on April 20, 2006. We were initially capitalized on April 28, 2006 and therefore we consider that our date of inception. We provide stockholders the potential for income and growth through investment in a diversified portfolio of real estate properties, focusing primarily on medical office buildings, healthcare related facilities and quality commercial office properties. We may also invest in real estate related securities. We focus primarily on investments that produce current income. We intend to elect to be treated as a real estate investment trust, or REIT, for federal income tax purposes beginning with our taxable year ended December 31, 2007 when we file our fiscal year 2007 tax return and intend to continue to be taxed as a REIT.

We are conducting a best efforts initial public offering, or our offering, in which we are offering up to 200,000,000 shares of our common stock for $10.00 per share and up to 21,052,632 shares of our common stock pursuant to our distribution reinvestment plan, or the DRIP, at $9.50 per share, aggregating up to $2,200,000,000. As of July 31, 2008, we had received and accepted subscriptions in our offering for 44,348,425 shares of our common stock, or $443,006,000, excluding shares of our common stock issued under the DRIP.

We conduct substantially all of our operations through Grubb & Ellis Healthcare REIT Holdings, L.P., or our operating partnership. We are externally advised by Grubb & Ellis Healthcare REIT Advisor, LLC, or our advisor, pursuant to an advisory agreement, or the Advisory Agreement, between us, our advisor and Grubb & Ellis Realty Investors, LLC, or Grubb & Ellis Realty Investors, who is the managing member of our advisor. The Advisory Agreement has a one year term that expires on October 24, 2008 and is subject to successive one year renewals upon the mutual consent of the parties. Our advisor supervises and manages our day-to-day operations and selects the properties and securities we acquire, subject to the oversight and approval by our board of directors. Our advisor also provides marketing, sales and client services on our behalf. Our advisor is affiliated with us in that we and our advisor have common officers, some of whom also own an indirect equity interest in our advisor. Our advisor engages affiliated entities, including Triple Net Properties Realty, Inc., or Realty, and Grubb & Ellis Management Services, Inc. to provide various services to us, including property management services.

On December 7, 2007, NNN Realty Advisors, Inc., or NNN Realty Advisors, which previously served as our sponsor, merged with and into a wholly owned subsidiary of Grubb & Ellis Company, or Grubb & Ellis. The transaction was structured as a reverse merger whereby stockholders of NNN Realty Advisors received shares of common stock of Grubb & Ellis in exchange for their NNN Realty Advisors shares of common stock and, immediately following the merger, former NNN Realty Advisors stockholders held approximately 59.5% of the common stock of Grubb & Ellis. As a result of the merger, we consider Grubb & Ellis to be our sponsor. Following the merger, NNN Healthcare/Office REIT, Inc., NNN Healthcare/Office REIT Holdings, L.P., NNN Healthcare/Office REIT Advisor, LLC, NNN Healthcare/Office Management, LLC, Triple Net Properties, LLC and NNN Capital Corp. changed their names to Grubb & Ellis Healthcare REIT, Inc., Grubb & Ellis Healthcare REIT Holdings, L.P., Grubb & Ellis Healthcare REIT Advisor, LLC, Grubb & Ellis Healthcare Management, LLC, Grubb & Ellis Realty Investors, LLC and Grubb & Ellis Securities, Inc., respectively.

As of June 30, 2008, we had purchased 36 properties comprising 4,215,000 square feet of gross leasable area, or GLA, for an aggregate purchase price of $790,366,000.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

2. Summary of Significant Accounting Policies

The summary of significant accounting policies presented below is designed to assist in understanding our interim unaudited condensed consolidated financial statements. Such interim unaudited condensed consolidated financial statements and the accompanying notes are the representations of our management, who are 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 our accompanying interim unaudited condensed consolidated financial statements.

Basis of Presentation

Our accompanying interim unaudited condensed consolidated financial statements include our accounts and those of our operating partnership, the wholly owned subsidiaries of our operating partnership and any variable interest entities, as defined, in Financial Accounting Standards Board Interpretation, or FIN, No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51,* as revised, or FIN No. 46(R), that we have concluded should be consolidated. We operate and intend to continue to operate in an umbrella partnership REIT structure in which our operating partnership, or wholly owned subsidiaries of our operating partnership, own substantially all of the properties acquired on our behalf. We are the sole general partner of our operating partnership and as of June 30, 2008 and December 31, 2007, we owned a 99.99% general partnership interest in our operating partnership. Our advisor is a limited partner of our operating partnership and as of June 30, 2008 and December 31, 2007, owned a 0.01% limited partnership interest in our operating partnership. Our advisor is also entitled to certain subordinated distribution rights under the partnership agreement for our operating partnership. Because we are the sole general partner of our operating partnership and have unilateral control over its management and major operating decisions (even if additional limited partners are admitted to our operating partnership), the accounts of our operating partnership are consolidated in our consolidated financial statements. All significant intercompany accounts and transactions are eliminated in consolidation.

Interim Financial Data

Our accompanying interim unaudited condensed consolidated financial statements have been prepared by us in accordance with GAAP in conjunction with the rules and regulations of the Securities and Exchange Commission, or the SEC. Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, our accompanying interim unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. Our accompanying interim unaudited condensed consolidated financial statements reflect all adjustments, which are, in our opinion, of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim period. Interim results of operations are not necessarily indicative of the results to be expected for the full year; such results may be less favorable. Our accompanying interim unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our 2007 Annual Report on Form 10-K, as filed with the SEC.

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Segment Disclosure

The Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 131, *Disclosures about Segments of an Enterprise and Related Information*, which establishes standards for reporting financial and descriptive information about an enterprise s reportable segments. We have determined that we have one reportable segment, with activities related to investing in medical office buildings, healthcare related facilities and quality commercial office properties. Our investments in real estate are geographically diversified and management evaluates operating performance on an individual property level. However, as each of our properties has similar economic characteristics, tenants, and products and services, our properties have been aggregated into one reportable segment for the six months ended June 30, 2008 and 2007.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* or SFAS No. 157. SFAS No. 157, which will be applied to other accounting pronouncements that require or permit fair value measurements, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and provides for expanded disclosure about fair value measurements. SFAS No. 157 was issued to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position, or FSP, SFAS No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13,* or FSP SFAS 157-1. FSP SFAS 157-1 excludes from the scope of SFAS No. 157 certain leasing transactions accounted for under SFAS No. 13, *Accounting for Leases*. In February 2008, the FASB also issued FSP SFAS No. 157-2, *Effective Date of FASB Statement No. 157,* or FSP SFAS 157-2. FSP SFAS 157-2 defers the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 1, 2008. We adopted SFAS No. 157 and FSP SFAS 157-1 on a prospective basis on January 1, 2008. The adoption of SFAS No. 157 and FSP SFAS 157-1 did not have a material impact on our consolidated financial statements except with regards to enhanced disclosures (See Note 7, Derivative Financial Instruments). We are evaluating the impact that SFAS No. 157 will have on our non-financial assets and non-financial liabilities since the application of SFAS No. 157 for such items was deferred to January 1, 2009 by FSP SFAS 157-2, and we have not yet determined the impact the adoption will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities,* or SFAS No. 159. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted SFAS No. 159 on a prospective basis on January 1, 2008. The adoption of SFAS No. 159 did not have a material impact on our consolidated financial statements since we did not elect to apply the fair value option for any of our eligible financial instruments or other items on the January 1, 2008 effective date.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* or SFAS No. 141(R), and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51,* or SFAS No. 160. SFAS No. 141(R) and SFAS No. 160 will significantly change the accounting for, and reporting of,

business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS No. 141(R) requires an acquiring entity to recognize acquired assets and liabilities assumed in a transaction at fair value as of the acquisition date, changes the disclosure requirements for business combination transactions and changes the accounting treatment for certain items, including contingent

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

consideration agreements which will be required to be recorded at acquisition date fair value and acquisition costs which will be required to be expensed as incurred. SFAS No. 160 requires that noncontrolling interests be presented as a component of consolidated stockholders equity, eliminates minority interest accounting such that the amount of net income attributable to the noncontrolling interests will be presented as part of consolidated net income in our accompanying consolidated statements of operations and not as a separate component of income and expense, and requires that upon any changes in ownership that result in the loss of control of the subsidiary, the noncontrolling interest be re-measured at fair value with the resultant gain or loss recorded in net income. SFAS No. 141(R) and SFAS No. 160 require simultaneous adoption and are to be applied prospectively for the first annual reporting period beginning on or after December 15, 2008. Early adoption of either standard is prohibited. We will adopt SFAS No. 141(R) and SFAS No. 160 on January 1, 2009. We are evaluating the impact of SFAS No. 141(R) and SFAS No. 160 and have not yet determined the impact the adoption will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, or SFAS No. 161. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. SFAS No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. SFAS No. 161 also provides more information about an entity s liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, SFAS No. 161 requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt SFAS No. 161 on January 1, 2009. The adoption of SFAS No. 161 is not expected to have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP SFAS No. 142-3, *Determination of the Useful Life of Intangible Assets,* or FSP SFAS 142-3. FSP SFAS 142-3 is intended to improve the consistency between the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets,* or SFAS No. 142, and the period of expected cash flows used to measure the fair value of the assets under SFAS No. 141(R). FSP SFAS 142-3 amends the factors an entity should consider in developing renewal or extension assumptions in determining the useful life of recognized intangible assets. FSP SFAS 142-3 requires an entity to consider its own historical experience in renewing or extending similar arrangements, or to consider market participant assumptions consistent with the highest and best use of the assets if relevant historical experience does not exist. In addition to the required disclosures under SFAS No. 142, FSP SFAS 142-3 requires disclosure of the entity s accounting policy regarding costs incurred to renew or extend the term of recognized intangible assets, the weighted average period to the next renewal or extension, and the total amount of capitalized costs incurred to renew or extend the term of recognized intangible assets. FSP SFAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. While the standard for determining the useful life of recognized intangible assets is to be applied prospectively only to intangible assets acquired after the effective date, the disclosure requirements shall be applied prospectively to all recognized intangible assets as of, and subsequent to, the effective date. Early adoption is prohibited. We will adopt FSP SFAS 142-3 on January 1, 2009. The adoption of FSP SFAS 142-3 is not expected to have a material impact on our consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force, or EITF, Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities,* or FSP EITF 03-6-1. FSP EITF 03-6-1 addresses whether instruments granted by an entity in share-based payment transactions should be considered as participating securities prior to vesting and, therefore, should be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, *Earnings per Share.* FSP EITF 03-6-1 clarifies that

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

instruments granted in share-based payment transactions can be participating securities prior to vesting (that is, awards for which the requisite service had not yet been rendered). Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 requires us to retrospectively adjust our earnings per share data (including any amounts related to interim periods, summaries of earnings and selected financial data) to conform to the provisions of FSP EITF 03-6-1. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. We will adopt FSP EITF 03-6-1 on January 1, 2009. The adoption of FSP EITF 03-6-1 is not expected to have a material impact on our consolidated financial statements.

3. Real Estate Investments

Our investments in our consolidated properties consisted of the following as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Land	$ 101,338,000	$ 52,428,000
Building and improvements	592,123,000	305,150,000
Furniture and equipment	8,000	5,000
	693,469,000	357,583,000
Less: accumulated depreciation	(11,840,000)	(4,589,000)
	$ 681,629,000	$ 352,994,000

Depreciation expense for the three months ended June 30, 2008 and 2007 was $4,076,000 and $780,000, respectively, and depreciation expense for the six months ended June 30, 2008 and 2007 was $7,427,000 and $900,000, respectively.

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Acquisitions in 2008

During the six months ended June 30, 2008, we completed the acquisition of 16 properties. The aggregate purchase price of these properties was $381,926,000, of which $209,284,000 was financed with mortgage debt (see Note 6), $171,685,000 was financed through our secured revolving line of credit with LaSalle Bank National Association, or LaSalle, and KeyBank National Association, or KeyBank, or our secured revolving line of credit with LaSalle and KeyBank, (see Note 8) and $6,000,000 was financed through an unsecured note payable to NNN Realty Advisors (see Note 6). We paid $11,460,000 in acquisition fees to our advisor and its affiliates in connection with these acquisitions.

					Borrowings Incurred in Connection with the Acquisition			
y	Property Location	Date Acquired	Ownership Percentage	Purchase Price	Mortgage Loan Payables(1)	Line of Credit(2)	Unsecured Note Payable to Affiliate(3)	Acqui Fee t Adv and Affili
Portfolio	Overland, KS and Largo, Brandon and Lakeland, FL	02/01/08	100%	$ 36,950,000	$ 22,000,000	$ 16,000,000	$	$ 1,1
ad Medical g	St. Paul, MN	03/06/08	100%	8,650,000	5,800,000	3,000,000		2
Falls Plaza	Liberty Township, OH	03/19/08	100%	8,150,000		7,600,000		2
rke g B	Indianapolis, IN	03/24/08	100%	5,850,000	3,861,000	6,100,000		1
Station Office g	Houston, TX	03/25/08	100%	11,200,000	7,300,000	4,500,000		3
ofessional	Lakeland, FL	03/27/08	100%	5,250,000		5,300,000		1
Care o 1	Arlington, Galveston, Port Arthur and Texas City, TX and Lomita and El Monte, CA	Various	100%	39,600,000	18,000,000	14,800,000	6,000,000	1,1
o Hospital	Amarillo, TX	05/15/08	100%	20,000,000		20,000,000		6
aza Drive	Cypress, CA	05/29/08	100%	25,700,000	16,830,000	26,050,000		7
onal	Derry, NH	06/03/08	100%	14,200,000	8,808,000	14,800,000		4
est Plaza	Stockbridge, GA	06/24/08	100%	21,176,000	12,870,000			6

Portfolio	Indianapolis, IN	06/26/08	100%	90,100,000	58,000,000	32,735,000		2,7
y Medical	Tucson, AZ	06/26/08	100%	8,100,000	5,016,000	8,200,000		2
Medical	Decatur, GA	06/27/08	100%	12,000,000		12,600,000		3
Portfolio	O Fallon and St. Louis, MO and Keller and Wichita Falls, TX	Various	100%	44,800,000	30,304,000			1,3
ance Centre	Bountiful, UT	06/30/08	100%	30,200,000	20,495,000			9
				$ 381,926,000	$ 209,284,000	$ 171,685,000	$ 6,000,000	$ 11,4

(1) Represents the amount of the mortgage loan payable assumed by us or newly placed on the property in connection with the acquisition or secured on the property subsequent to acquisition.

(2) Borrowings under our secured revolving line of credit with LaSalle and KeyBank.

(3) Represents our unsecured note payable to affiliate evidenced by an unsecured promissory note. Our unsecured note payable to affiliate bears interest at a fixed rate and requires monthly interest-only payments for the term of the unsecured note payable to affiliate.

(4) Our advisor or its affiliates receive, as compensation for services rendered in connection with the investigation, selection and acquisition of our properties, an acquisition fee of up to 3.0% of the contract purchase price for each property acquired.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Proposed Acquisitions

On June 17, 2008, our board of directors approved the acquisition of the following properties:

Property	**Property Location**	**Purchase Price**	**Acquisition Fee to our Advisor and its Affiliate(1)**
Medical Portfolio 4	Phoenix, AZ, Pharma and Cleveland, OH, and Waxahachie, Greenville, and Cedar Hill, TX	$ 59,000,000	$ 1,770,000
Mountain Empire Portfolio	Kingsport and Bristol, TN and Norton, VA	28,000,000	840,000
Total		$ 87,000,000	$ 2,610,000

(1) Our advisor or its affiliates receive, as compensation for services rendered in connection with the investigation, selection and acquisition of our properties, an acquisition fee of up to 3.0% of the contract purchase price for each property acquired.

We anticipate that the closing of the above mentioned properties will occur in the third quarter of 2008; however, closing is subject to certain agreed upon conditions and there can be no assurance that we will be able to complete the acquisitions.

4. Identified Intangible Assets

Identified intangible assets consisted of the following as of June 30, 2008 and December 31, 2007:

	June 30, 2008	**December 31, 2007**
In place leases, net of accumulated amortization of $7,075,000 and $3,326,000 as of June 30, 2008 and December 31, 2007, respectively, (with a weighted average remaining life of 84 months and 79 months as of June 30, 2008 and December 31, 2007, respectively)	$ 48,594,000	$ 25,540,000
Above market leases, net of accumulated amortization of $637,000 and $265,000 as of June 30, 2008 and December 31, 2007, respectively, (with a weighted average remaining life of 107 months and 119 months as of June 30, 2008 and December 31, 2007, respectively)	7,970,000	3,083,000

Tenant relationships, net of accumulated amortization of $3,417,000 and $1,527,000 as of June 30, 2008 and December 31, 2007, respectively, (with a weighted average remaining life of 143 months and 140 months as of June 30, 2008 and December 31, 2007, respectively)	56,518,000	31,184,000
Leasehold interests, net of accumulated amortization of $20,000 and $3,000 as of June 30, 2008 and December 31, 2007, respectively, (with a weighted average remaining life of 992 months and 1,071 months as of June 30, 2008 and December 31, 2007, respectively)	3,355,000	3,114,000
Master lease, net of accumulated amortization of $99,000 and $0 as of June 30, 2008 and December 31, 2007, respectively, (with a weighted average remaining life of 13 months and 0 months as of June 30, 2008 and December 31, 2007, respectively)	250,000	
	$ 116,687,000	$ 62,921,000

Amortization expense recorded on the identified intangible assets for the three months ended June 30, 2008 and 2007 was $3,573,000 and $1,163,000, respectively, which included $220,000 and $82,000, respectively, of amortization recorded against rental income for above market leases and $8,000 and $0, respectively, of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

amortization recorded against rental expenses for leasehold interests. Amortization expense recorded on the identified intangible assets for the six months ended June 30, 2008 and 2007 was $6,650,000 and $1,391,000, respectively, which included $396,000 and $89,000, respectively, of amortization recorded against rental income for above market leases and $17,000 and $0, respectively, of amortization recorded against rental expenses for leasehold interests.

5. Other Assets

Other assets consisted of the following as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Deferred financing costs, net of accumulated amortization of $598,000 and $170,000 as of June 30, 2008 and December 31, 2007, respectively	$ 4,526,000	$ 2,334,000
Lease commissions, net of accumulated amortization of $35,000 and $7,000 as of June 30, 2008 and December 31, 2007, respectively	553,000	275,000
Lease inducements, net of accumulated amortization of $60,000 and $19,000 as of June 30, 2008 and December 31, 2007, respectively	755,000	773,000
Deferred rent receivable	1,920,000	534,000
Prepaid expenses and deposits	362,000	476,000
	$ 8,116,000	$ 4,392,000

Amortization expense recorded on deferred financing costs, lease commissions and lease inducements for the three months ended June 30, 2008 and 2007 was $278,000 and $14,000, respectively, of which $240,000 and $13,000, respectively, of amortization was recorded against interest expense for deferred financing costs and $20,000 and $0, respectively, of amortization was recorded against rental income for lease inducements. Amortization expense recorded on deferred financing costs, lease commissions and lease inducements for the six months ended June 30, 2008 and 2007 was $497,000 and $18,000, respectively, of which $428,000 and $16,000, respectively, of amortization was recorded against interest expense for deferred financing costs and $41,000 and $0, respectively, of amortization was recorded against rental income for lease inducements.

6. Mortgage Loan Payables, Net and Unsecured Note Payable to Affiliate

Mortgage Loan Payables

Mortgage loan payables were $394,554,000 ($393,694,000, net of discount) and $185,899,000 ($185,801,000, net of discount) as of June 30, 2008 and December 31, 2007, respectively. As of June 30, 2008, we had fixed and variable rate mortgage loans with effective interest rates ranging from 3.83% to 12.75% per annum and a weighted average effective interest rate of 4.83% per annum. As of June 30, 2008, we had $125,752,000 ($124,892,000, net of discount), or 31.9%, of fixed rate debt at a weighted average interest rate of 5.81% per annum and $268,802,000, or 68.1%, of variable rate debt at a weighted average interest rate of 4.36% per annum. As of December 31, 2007, we

had fixed and variable rate mortgage loans with effective interest rates ranging from 5.52% to 6.78% per annum and a weighted average effective interest rate of 6.07% per annum. As of December 31, 2007, we had $90,919,000 ($90,821,000 net of discount), or 48.9%, of fixed rate debt at a weighted average interest rate of 5.79% per annum and $94,980,000, or 51.1%, of variable rate debt at a weighted average interest rate of 6.35% per annum. We are required by the terms of the applicable loan documents to meet certain financial covenants, such as debt service coverage ratios, rent coverage ratios and reporting requirements. As of June 30, 2008 and December 31, 2007, we were in compliance with all such covenants and requirements.

Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Mortgage loan payables consisted of the following as of June 30, 2008 and December 31, 2007:

Property	Interest Rate	Maturity Date	June 30, 2008	December 31, 2007
Fixed Rate Debt:				
Southpointe Office Parke and Epler Parke I	6.11%	09/01/16	$ 9,146,000	$ 9,146,000
Crawfordsville Medical Office Park and Athens Surgery Center	6.12%	10/01/16	4,264,000	4,264,000
The Gallery Professional Building	5.76%	03/01/17	6,000,000	6,000,000
Lenox Office Park, Building G	5.88%	02/01/17	12,000,000	12,000,000
Commons V Medical Office Building	5.54%	06/11/17	10,000,000	10,000,000