Grubb & Ellis Healthcare REIT, Inc.
Form 10-Q
May 14, 2008

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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 **March 31, 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 April 30, 2008, there were 31,432,816 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 March 31, 2008 and December 31, 2007
(Unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Real estate investments:		
Operating properties, net	$ 442,653,000	$ 352,994,000
Cash and cash equivalents	9,415,000	5,467,000
Accounts and other receivables, net	2,517,000	1,233,000
Restricted cash	3,951,000	4,605,000
Identified intangible assets, net	76,598,000	62,921,000
Other assets, net	5,672,000	4,392,000
Total assets	$ 540,806,000	$ 431,612,000
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS EQUITY		
Liabilities:		
Mortgage loan payables, net	$ 238,653,000	$ 185,801,000
Line of credit	58,700,000	51,801,000
Accounts payable and accrued liabilities	10,189,000	7,983,000
Accounts payable due to affiliates, net	3,051,000	2,356,000
Derivative financial instruments	4,913,000	1,377,000
Security deposits, prepaid rent and other liabilities	3,089,000	1,974,000
Identified intangible liabilities, net	2,510,000	1,639,000
Total liabilities	321,105,000	252,931,000
Commitments and contingencies (Note 10)		
Minority interests of limited partners	2,129,000	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; 27,394,097 and 21,449,451 shares issued and outstanding as of March 31, 2008 and December 31, 2007, respectively	274,000	214,000

Additional paid-in capital	243,481,000	190,534,000
Accumulated deficit	(26,183,000)	(15,158,000)
Total stockholders equity	217,572,000	175,590,000
Total liabilities, minority interests and stockholders equity	$ 540,806,000	$ 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 Months Ended March 31, 2008 and 2007
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenues:		
Rental income	$ 13,117,000	$ 742,000
Expenses:		
Rental expenses	4,468,000	298,000
General and administrative	1,848,000	363,000
Depreciation and amortization	6,253,000	342,000
Total expenses	12,569,000	1,003,000
Income (loss) before other income (expense)	548,000	(261,000)
Other income (expense):		
Interest expense (including amortization of deferred financing costs and debt discount):		
Interest expense related to note payables to affiliate		(71,000)
Interest expense related to mortgage loan payables and line of credit	(3,712,000)	(201,000)
Loss on derivative financial instruments	(3,536,000)	
Interest and dividend income	11,000	1,000
Loss before minority interests	(6,689,000)	(532,000)
Minority interests	79,000	
Net loss	$ (6,610,000)	$ (532,000)
Net loss per share basic and diluted	$ (0.27)	$ (0.73)
Weighted average number of shares outstanding basic and diluted	24,266,342	730,986
Distributions declared per common share	$ 0.18	$ 0.16

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 Three Months Ended March 31, 2008
(Unaudited)

	Common Stock					
	Number of Shares	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	5,757,170	58,000	57,473,000			57,531,000
Offering costs			(6,318,000)			(6,318,000)
Amortization of nonvested common stock compensation			19,000			19,000
Issuance of common stock under the DRIP	199,746	2,000	1,896,000			1,898,000
Repurchase of common stock	(12,270)		(123,000)			(123,000)
Distributions					(4,415,000)	(4,415,000)
Net loss					(6,610,000)	(6,610,000)
BALANCE March 31, 2008	27,394,097	$ 274,000	$ 243,481,000	$	$ (26,183,000)	$ 217,572,000

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 Three Months Ended March 31, 2008 and 2007
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (6,610,000)	$ (532,000)
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 and lease inducements)	5,871,000	355,000
Stock based compensation, net of forfeitures	19,000	10,000
Bad debt expense	58,000	
Change in fair value of derivative financial instruments	3,536,000	
Minority interests	(79,000)	
Changes in operating assets and liabilities:		
Accounts and other receivables	(1,327,000)	(190,000)
Accounts receivable due from affiliates		(36,000)
Other assets	(202,000)	(38,000)
Accounts payable and accrued liabilities	256,000	354,000
Accounts payable due to affiliates, net	452,000	130,000
Prepaid rent	612,000	(19,000)
Net cash provided by operating activities	2,586,000	34,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate operating properties	(107,609,000)	(18,364,000)
Capital expenditures	(775,000)	(4,000)
Restricted cash	654,000	(1,697,000)
Net cash used in investing activities	(107,730,000)	(20,065,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on mortgage loan payables	53,100,000	
Borrowings on unsecured note payables to affiliate		8,500,000
Borrowings under the line of credit, net	6,899,000	
Payments on mortgage loan payables	(252,000)	
Payments on unsecured note payables to affiliate		(8,500,000)
Proceeds from issuance of common stock	58,404,000	26,516,000
Security deposits	(14,000)	
Deferred financing costs	(700,000)	
Repurchase of common stock	(123,000)	
Payment of offering costs	(6,053,000)	(1,937,000)
Distributions	(2,169,000)	(23,000)

Net cash provided by financing activities		109,092,000		24,556,000
NET CHANGE IN CASH AND CASH EQUIVALENTS		3,948,000		4,525,000
CASH AND CASH EQUIVALENTS Beginning of period		5,467,000		202,000
CASH AND CASH EQUIVALENTS End of period	$	9,415,000	$	4,727,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	$	3,629,000	$	178,000
Income taxes	$		$	1,000
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:				
Investing Activities:				
Capital expenditures	$	843,000	$	
The following represents the increase in certain assets and liabilities in connection with our acquisitions of operating properties:				
Accounts receivable due from affiliates	$	26,000	$	45,000
Other assets	$	19,000	$	25,000
Mortgage loan payables, net	$		$	31,410,000
Accounts payable and accrued liabilities	$	946,000	$	575,000
Accounts payable due to affiliates	$	3,000	$	40,000
Security deposits, prepaid rent and other liabilities	$	393,000	$	167,000
Financing Activities:				
Accrued deferred financing costs due to affiliates	$		$	390,000
Issuance of common stock under the DRIP	$	1,898,000	$	17,000
Distributions declared but not paid	$	1,603,000	$	97,000
Accrued offering costs	$	1,376,000	$	1,041,000
Receivable from transfer agent for issuance of common stock	$		$	36,000
Payable for issuance of common stock	$	764,000	$	

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

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Grubb & Ellis Healthcare REIT, Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three Months Ended March 31, 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. (formerly known as NNN Healthcare/Office 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 for our taxable year ended December 31, 2007 when we file our fiscal year 2007 tax return.

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 April 30, 2008, we had received and accepted subscriptions in our offering for 30,869,339 shares of our common stock, or $308,342,000, 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. (formerly known as NNN Healthcare/Office REIT Holdings, L.P.), or our operating partnership. We are externally advised by Grubb & Ellis Healthcare REIT Advisor, LLC (formerly known as NNN Healthcare/Office 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 (formerly known as Triple Net Properties, LLC), or Grubb & Ellis Realty Investors, who is the managing member of our advisor. The Advisory Agreement had a one year term that expired on September 19, 2007 and was subject to successive one year renewals upon the mutual consent of the parties. On September 18, 2007, our board of directors extended the Advisory Agreement on a month-to-month basis. On October 24, 2007, our board of directors authorized the renewal of our Advisory Agreement for a term of one year ending on October 24, 2008. Our advisor supervises and manages our day-to-day operations and selects the properties and securities we acquire, subject to the oversight 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, 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.

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Grubb & Ellis Healthcare REIT, Inc.

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

As of March 31, 2008, we had purchased 27 properties comprising 2,762,000 square feet of gross leasable area, or GLA.

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 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 March 31, 2008 and December 31, 2007, we owned a 99.99% general partnership interest therein. Our advisor is a limited partner of our operating partnership and as of March 31, 2008 and December 31, 2007, owned a 0.01% limited partnership interest therein. 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.

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

Grubb & Ellis Healthcare REIT, Inc.

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

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 three months ended March 31, 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. These two new standards 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 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

Grubb & Ellis Healthcare REIT, Inc.

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

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. It also provides more information about an entity s liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, it 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. 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 intends to improve the consistency between the useful life of recognized intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets,* 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. It 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. The adoption of FSP SFAS 142-3 is not expected to have a material impact on our consolidated financial statements.

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Grubb & Ellis Healthcare REIT, Inc.

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

3. Real Estate Investments

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

	March 31, 2008	December 31, 2007
Land	$ 64,563,000	$ 52,428,000
Building and improvements	385,921,000	305,150,000
Furniture and equipment	8,000	5,000
	450,492,000	357,583,000
Less: accumulated depreciation	(7,839,000)	(4,589,000)
	$ 442,653,000	$ 352,994,000

Depreciation expense for the three months ended March 31, 2008 and 2007 was $3,351,000 and $120,000, respectively.

Acquisitions in 2008

Unaffiliated Third Party Acquisitions

Medical Portfolio 1 Overland, Kansas and Largo, Brandon and Lakeland, Florida

On February 1, 2008, we acquired Medical Portfolio 1, located in Overland, Kansas and Largo, Brandon and Lakeland, Florida, or the Medical Portfolio 1 property, for a total purchase price of $36,950,000, plus closing costs, from an unaffiliated third party. We financed the purchase price of the Medical Portfolio 1 property with a secured loan of $22,000,000 from Wachovia Bank, National Association, or Wachovia, and $16,000,000 in borrowings under 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. We paid an acquisition fee of $1,109,000, or 3.0% of the purchase price, to our advisor and its affiliate.

Fort Road Medical Building St. Paul, Minnesota

On March 6, 2008, we acquired Fort Road Medical Building, located in St. Paul, Minnesota, or the Fort Road property, for a purchase price of $8,650,000, plus closing costs, from an unaffiliated third party. We financed the purchase price of the Fort Road property with a secured loan of $5,800,000 from LaSalle, $3,000,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and funds raised through our offering. We paid an acquisition fee of $260,000, or 3.0% of the purchase price, to our advisor and its affiliate.

Liberty Falls Medical Plaza — Liberty Township, Ohio

On March 19, 2008, we acquired Liberty Falls Medical Plaza, located in Liberty Township, Ohio, or the Liberty Falls property, for a purchase price of $8,150,000, plus closing costs, from an unaffiliated third party. In connection with the purchase, we received a tenant improvement credit of $800,000 from the seller. We financed the purchase price of the Liberty Falls property with $7,600,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. We paid an acquisition fee of $245,000, or 3.0% of the purchase price, to our advisor and its affiliate.

Grubb & Ellis Healthcare REIT, Inc.

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

Epler Parke Building B Indianapolis, Indiana

On March 24, 2008, we acquired Epler Parke Building B, located in Indianapolis, Indiana for a purchase price of $5,850,000, plus closing costs, from an unaffiliated third party. We financed the purchase price of Epler Parke Building B with $6,100,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. We paid an acquisition fee of $176,000, or 3.0% of the purchase price, to our advisor and its affiliate.

Cypress Station Medical Office Building Houston, Texas

On March 25, 2008, we acquired Cypress Station Medical Office Building, located in Houston, Texas, or the Cypress property, for a purchase price of $11,200,000, plus closing costs, from an unaffiliated third party. We financed the purchase price of the Cypress property with a secured loan of $7,300,000 from National City Bank and $4,500,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. We paid an acquisition fee of $336,000, or 3.0% of the purchase price, to our advisor and its affiliate.

Vista Professional Center Lakeland, Florida

On March 27, 2008, we acquired Vista Professional Center, located in Lakeland, Florida, or the Vista Professional property, for a purchase price of $5,250,000, plus closing costs, from an unaffiliated third party. We financed the purchase price of the Vista Professional property with $5,300,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank and the remaining balance from funds raised through our offering. We paid an acquisition fee of $158,000, or 3.0% of the purchase price, to our advisor and its affiliate.

Senior Care Portfolio 1 Arlington, Galveston, Port Arthur and Texas City, Texas

Senior Care Portfolio 1 consists of a total of six properties, four of which are located in Texas, and two of which are located in California. On March 31, 2008, we acquired the Arlington, Galveston, Port Arthur and Texas City, Texas properties of Senior Care Portfolio 1, or the SCP 1 TX property, for a total purchase price of $29,900,000, plus closing costs, from an unaffiliated third party. We financed the purchase price of the SCP 1 TX property with a secured loan of $18,000,000 from Red Mortgage Capital, Inc. and $14,800,000 in borrowings under our secured revolving line of credit with LaSalle and KeyBank. We paid an acquisition fee of $897,000, or 3.0% of the purchase price, to our advisor and its affiliate.

Probable Unaffiliated Third Party Acquisition

Senior Care Portfolio 1 Lomita and El Monte, California

On March 10, 2008, our board of directors approved the acquisition of the Senior Care Portfolio 1, as described above. We anticipate purchasing the Lomita and El Monte, California properties of Senior Care Portfolio 1, or the SCP 1 CA property, for a purchase price of $9,700,000, plus closing costs, from an unaffiliated third party. We intend to finance the purchase through debt financing. We expect to pay our advisor and its affiliate an acquisition fee of $291,000, or 3.0% of the purchase price, in connection with the acquisition. We anticipate that the closing will occur in the second 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 acquisition of the SCP 1 CA property. On April 2, 2008, we paid a real estate deposit of

$300,000 to be held in escrow and applied towards the purchase of the SCP 1 CA property.

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

4. Identified Intangible Assets

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

	March 31, 2008		December 31, 2007	
In place leases, net of accumulated amortization of $5,159,000 and $3,326,000 as of March 31, 2008 and December 31, 2007, respectively, (with a weighted average life of 81 months and 79 months as of March 31, 2008 and December 31, 2007, respectively)	$	31,253,000	$	25,540,000
Above market leases, net of accumulated amortization of $441,000 and $265,000 as of March 31, 2008 and December 31, 2007, respectively, (with a weighted average life of 110 months and 119 months as of March 31, 2008 and December 31, 2007, respectively)		4,529,000		3,083,000
Tenant relationships, net of accumulated amortization of $2,414,000 and $1,527,000 as of March 31, 2008 and December 31, 2007, respectively, (with a weighted average life of 143 months and 140 months as of March 31, 2008 and December 31, 2007, respectively)		37,362,000		31,184,000
Leasehold interests, net of accumulated amortization of $12,000 and $3,000 as of March 31, 2008 and December 31, 2007, respectively, (with a weighted average life of 1,068 months and 1,071 months as of March 31, 2008 and December 31, 2007, respectively)		3,105,000		3,114,000
Master lease, net of accumulated amortization of $0 as of March 31, 2008 (with a weighted average life of 14 months as of March 31, 2008)		349,000		
	$	76,598,000	$	62,921,000

Amortization expense recorded on the identified intangible assets for the three months ended March 31, 2008 and 2007 was $3,077,000 and $229,000, respectively, which included $176,000 and $7,000, respectively, of amortization recorded against rental income for above market leases and $9,000 and $0, respectively, of amortization recorded against rental expenses for leasehold interests.

5. Other Assets

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

	March 31, 2008	December 31, 2007
Deferred financing costs, net of accumulated amortization of $358,000 and $170,000 as of March 31, 2008 and December 31, 2007, respectively	$ 2,854,000	$ 2,334,000
Lease commissions, net of accumulated amortization of $17,000 and $7,000 as of March 31, 2008 and December 31, 2007, respectively	371,000	275,000
Lease inducements, net of accumulated amortization of $40,000 and $19,000 as of March 31, 2008 and December 31, 2007, respectively	775,000	773,000
Deferred rent receivable	1,110,000	534,000
Prepaid expenses and deposits	562,000	476,000
	$ 5,672,000	$ 4,392,000

Amortization expense recorded on deferred financing costs, lease commissions and lease inducements for the three months ended March 31, 2008 and 2007 was $219,000 and $4,000, respectively, of which $188,000 and $4,000, respectively, of amortization was recorded against interest expense for deferred financing costs and $21,000 and $0, respectively, of amortization was recorded against rental income for lease inducements.

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

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

Mortgage Loan Payables

Mortgage loan payables were $238,747,000 ($238,653,000, net of discount) and $185,899,000 ($185,801,000, net of discount) as of March 31, 2008 and December 31, 2007, respectively. As of March 31, 2008, we had fixed and variable rate mortgage loans with effective interest rates ranging from 3.91% to 6.12% per annum and a weighted average effective interest rate of 4.84% per annum. We had $90,857,000 ($90,763,000, net of discount), or 38.1%, of fixed rate debt at a weighted average interest rate of 5.79% per annum and $147,890,000, or 61.9%, of variable rate debt at a weighted average interest rate of 4.26% 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. 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 and rent coverage ratios and reporting requirements. As of March 31, 2008 and December 31, 2007, we were in compliance with all such covenants and requirements.

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

Property	Interest Rate	Maturity Date	March 31, 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
Yorktown Medical Center and Shakerag Medical Center	5.52%	05/11/17	13,530,000	13,530,000
Thunderbird Medical Plaza	5.67%	06/11/17	14,000,000	14,000,000
Gwinnett Professional Center	5.88%	01/01/14	5,671,000	5,699,000
St. Mary Physicians Center	5.80%	09/04/09	8,280,000	8,280,000
Northmeadow Medical Center	5.99%	12/01/14	7,966,000	8,000,000
			90,857,000	90,919,000
Variable Rate Debt:				
1 and 4 Market Exchange	Variable	09/28/10	14,500,000*	14,500,000**
East Florida Senior Care Portfolio	Variable	11/01/10	30,267,000*	30,384,000**
Kokomo Medical Office Park	Variable	11/30/10	8,300,000*	8,300,000**
Park Place Office Park	Variable	12/31/10	10,943,000*	10,943,000**

Highlands Ranch Medical Plaza	Variable	12/31/10		8,853,000*		8,853,000**
Chesterfield Rehabilitation Center	Variable	12/30/10		22,000,000*		22,000,000**
Medical Portfolio 1	Variable	02/28/11		21,927,000*		
Fort Road Medical Building	Variable	03/06/11		5,800,000*		
Cypress Station Medical Office Building	Variable	09/01/11		7,300,000		
Senior Care Portfolio 1 Texas	Variable	03/31/10		18,000,000		
				147,890,000		94,980,000
	Total fixed and variable debt			238,747,000		185,899,000
	Less: discount			(94,000)		(98,000)
	Mortgage loan payables		$	238,653,000	$	185,801,000

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Grubb & Ellis Healthcare REIT, Inc.

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

* As of March 31, 2008, we had variable rate mortgage loans with effective interest rates ranging from 3.91% to 4.73% per annum and a weighted average effective interest rate of 4.26% per annum. However, as of March 31, 2008, we had fixed rate interest rate swaps, ranging from 4.70% to 6.02%, on eight of our variable rate mortgage loan payables, thereby effectively fixing our interest rate on those mortgage loan payables.

** As of December 31, 2007, we had variable rate mortgage loans with effective interest rates ranging from 6.15% to 6.78% per annum and a weighted average effective interest rate of 6.35% per annum. However, as of December 31, 2007, we had fixed rate interest rate swaps, ranging from 5.52% to 6.02%, on all of our variable rate mortgage loan payables, thereby effectively fixing our interest rate on those mortgage loan payables.

The principal payments due on our mortgage loan payables as of March 31, 2008 for the nine months ended December 31, 2008 and for each of the next four years ending December 31 and thereafter, is as follows:

Year	Amount
2008	$ 1,235,000
2009	$ 10,217,000
2010	$ 113,801,000
2011	$ 33,936,000
2012	$ 1,357,000
Thereafter	$ 78,201,000

Unsecured Note Payables to Affiliate

As of March 31, 2008 and December 31, 2007, we had no outstanding balances under unsecured note payables to affiliate. Further, we did not borrow any amounts under unsecured note payables to affiliate for the three months ended March 31, 2008.

7. Derivative Financial Instruments

The following table lists our derivative financial instruments held by us as of March 31, 2008:

Notional Amount	Index	Rate	Fair Value	Instrument	Maturity
$ 14,500,000	LIBOR	5.97%	$ (747,000)	SWAP	09/28/10
$ 8,300,000	LIBOR	5.86%	$ (423,000)	SWAP	11/30/10
$ 8,853,000	LIBOR	5.52%	$ (319,000)	SWAP	12/31/10
$ 10,943,000	LIBOR	5.52%	$ (421,000)	SWAP	12/31/10
$ 22,000,000	LIBOR	5.59%	$ (804,000)	SWAP	12/30/10
$ 30,267,000	LIBOR	6.02%	$ (1,557,000)	SWAP	10/01/10
$ 21,927,000	LIBOR	5.26%	$ (580,000)	SWAP	01/31/11

$	5,800,000	LIBOR	4.70%	$	(62,000)	SWAP	03/06/11

Grubb & Ellis Healthcare REIT, Inc.

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

The following table lists our derivative financial instruments held by us as of December 31, 2007:

Notional Amount	Index	Rate	Fair Value	Instrument	Maturity
$ 14,500,000	LIBOR	5.97%	$ (306,000)	SWAP	09/28/10
$ 8,300,000	LIBOR	5.86%	$ (164,000)	SWAP	11/30/10
$ 8,853,000	LIBOR	5.52%	$ (23,000)	SWAP	12/31/10
$ 10,943,000	LIBOR	5.52%	$ (65,000)	SWAP	12/31/10
$ 22,000,000	LIBOR	5.59%	$ (117,000)	SWAP	12/30/10
$ 30,383,000	LIBOR	6.02%	$ (702,000)	SWAP	10/01/10

As of March 31, 2008 and December 31, 2007, the fair value of our derivative financial instruments was $(4,913,000) and $(1,377,000), respectively.

For the three months ended March 31, 2008 and 2007, we recorded $3,536,000 and $0, respectively, as additional interest expense related to the change in the fair value of our derivative financial instruments.

Fair Value Measurements

In accordance with the provisions of FSP SFAS No. 157-2, we have partially applied the provisions of SFAS No. 157 only to our financial assets and liabilities recorded at fair value, which consist of interest rate swaps. SFAS No. 157 establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. Level 1 inputs, the highest priority, are quoted prices in active markets for identical assets or liabilities. Level 2 inputs reflect other than quoted prices included in Level 1 that are either observable directly or through corroboration with observable market data. Level 3 inputs are unobservable inputs, due to little or no market activity for the asset or liability, such as internally-developed valuation models.

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2008 were as follows:

Liabilities	Observable Inputs Level 1	Other Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Derivative financial instruments	$	$ (4,913,000)	$	$ (4,913,000)