Cogdell Spencer Inc.
Form 10-K
March 15, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2006**
	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 001-32649

COGDELL SPENCER INC.
(Exact name of registrant as specified in its charter)

Maryland *(State or other jurisdiction of incorporation or organization)*	**20-3126457** *(I.R.S. Employer Identification No.)*
4401 Barclay Downs Drive, Suite 300 **Charlotte, North Carolina** *(Address of principal executive offices)*	**28209** *(Zip code)*

Registrant s telephone number, including area code:
(704) 940-2900

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, $0.01 par value	**New York Stock Exchange, Inc.**

Securities Registered Pursuant to Section 12(g) of the Act:
None

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

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 o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 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 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 of this Form 10-K. o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer 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

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed fiscal quarter. $138,009,425

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 7,999,574 shares of common stock, par value $0.01 per share, outstanding as of February 28, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the registrant s 2007 Annual Meeting, to be filed within 120 days after the registrant s fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

COGDELL SPENCER INC.

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Explanatory Note

Note that the financial statements covered in this report for the period from January 1, 2005 to October 31, 2005 and for the year ended December 31, 2004, contain the results of operations and financial condition of Cogdell Spencer Inc. Predecessor, which is not a legal entity, but represents a combination of certain real estate entities based on common management by Cogdell Spencer Advisors, Inc. In addition, the financial statements covered in this report contain the results of operations and financial condition of Cogdell Spencer Inc. for the year ended December 31, 2006 and for the period from November 1, 2005 to December 31, 2005. Due to the timing of the initial public offering and the formation transactions, Cogdell Spencer Inc. (the Company) does not believe that the results of operations set forth in 2005 and 2004 in this document are necessarily indicative of the Company s future operating results as a publicly-held company.

Statements Regarding Forward-Looking Information

When used in this discussion and elsewhere in this Annual Report on Form 10-K, the words believes,   anticipates,   projects,   should,   estimates,   expects, and similar expressions are intended to identify forward-looking statements wi the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and in Section 21F of the Securities and Exchange Act of 1934, as amended. Actual results may differ materially due to uncertainties including:

- the Company s business strategy;
- the Company s ability to obtain future financing arrangements;
- estimates relating to the Company s future distributions;
- the Company s understanding of the Company s competition;
- the Company s ability to renew the Company s ground leases;
- changes in the reimbursement available to the Company s tenants by government or private payors;
- the Company s tenants ability to make rent payments;
- defaults by tenants;
- market trends; and
- projected capital expenditures.

Forward-looking statements are based on estimates as of the date of this report. The Company disclaims any obligation to publicly release the results of any revisions to these forward-looking statements reflecting new estimates, events or circumstances after the date of this report.

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PART I

Item 1. *Business*

The Company

Cogdell Spencer Inc. (the Company), incorporated in Maryland in 2005, is a fully-integrated, self-administered and self-managed real estate investment trust (REIT) that invests in specialty office buildings for the medical profession, including medical offices, ambulatory surgery and diagnostic centers, in the United States of America. The Company focuses on the ownership, development, redevelopment, acquisition and management of strategically located medical office buildings and other healthcare related facilities. The Company has been built around understanding and addressing the specialized real estate needs of the healthcare industry. The Company s management team has developed long-term and extensive relationships through developing and maintaining modern, customized medical office buildings and healthcare related facilities. The Company has been able to maintain occupancy above market levels and secure strategic hospital campus locations. The Company operates its business through Cogdell Spencer LP, its operating partnership subsidiary (the Operating Partnership), and its subsidiaries.

The Company derives a significant portion of its revenues from rents received from tenants under existing leases in medical office buildings and other healthcare related facilities. The Company s portfolio is stable with an occupancy rate of 94.2% as of December 31, 2006, and favorable leases generally with consumer price index, or CPI, increases and cost pass throughs to the tenants. The Company derives a lesser portion of its revenues from fees that are paid for managing and developing medical office buildings and other healthcare related facilities for third parties. The Company s management believes a strong internal property management capability is a vital component of the Company s business, both for the properties the Company owns and for those that the Company manages. Strong internal property management allows the Company to control costs, increase tenant satisfaction, and reduce tenant turnover, which reduces capital costs.

The Company s management team has developed long-term and extensive relationships through developing and maintaining modern, customized medical office buildings and healthcare related facilities. Approximately 79% of the net rentable square feet of the Company s wholly-owned properties are situated on hospital campuses. As such, the Company believes that its assets occupy a premier franchise location in relation to local hospitals, providing its properties with a distinct competitive advantage over alternative medical office space in an area. The Company believes that its property locations and relationships with hospitals will allow the Company to capitalize on the increasing healthcare trend of outpatient procedures.

The Company s growth strategy includes leveraging strategic relationships for new developments and off-market acquisitions. The Company will also continue to enter into development joint ventures with hospitals and physicians. The Company is active in seeking new client relationships in new markets. During 2006, the Company acquired properties totaling $100.4 million.

As of December 31, 2006, the Company s portfolio consisted of 112 medical office buildings and healthcare related facilities, serving 27 hospital systems in ten states. The Company s aggregate portfolio was comprised of:

- 50 wholly-owned properties;
- four joint venture properties; and

58 properties owned by third parties.

At December 31, 2006, the Company s aggregate portfolio contains approximately 5.3 million net rentable square feet, consisting of approximately 2.6 million net rentable square feet from wholly-owned properties, approximately 0.2 million net rentable square feet from joint venture properties, and approximately 2.5 million net rental square feet from properties owned by third parties and managed by the Company. As of December 31, 2006, the Company s wholly-owned properties were approximately 94.2% occupied, with a weighted average remaining lease term of 3.8 years.

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The Company s Management Companies

The Company elected to be taxed as a REIT for federal income tax purposes. In order to qualify as a REIT, a specified percentage of the Company s gross income must be derived from real property sources, which would generally exclude the Company s income from providing development and management services to third parties. In order to avoid realizing such income in a manner that would adversely affect the Company s ability to qualify as a REIT, some services are provided through the Company s management company, Cogdell Spencer Advisors, LLC (CSA, LLC), electing, together with the Company, to be treated as a taxable REIT subsidiary or TRS. CSA, LLC is wholly-owned and controlled by the Operating Partnership.

During 2006, the Company acquired Consera Healthcare Real Estate, LLC (Consera). Consera provides property management services to third parties and Consera, together with the Company, has elected Consera to be treated as a TRS.

Management

The Company s senior management team has an average of more than 11 years of healthcare real estate experience and has been involved in the development, redevelopment and acquisition of a broad array of medical office space. The Company s Chairman and founder, James W. Cogdell, has been in the healthcare real estate business for more than 34 years, and Frank C. Spencer, Chief Executive Officer, President and a member of the Board of Directors (the Board of Directors), has more than 11 years of experience in the industry. Three members of the senior management team have entered into employment agreements with the Company. At December 31, 2006, the Company s senior management team owned approximately 23.3% of the Operating Partnership units and Company common stock on a fully diluted basis.

Business and Growth Strategies

The Company s primary business objective is to develop and maintain client relationships in order to maximize cash flow available for distribution to the Company s stockholders.

Operating Strategy

The Company s operating strategy consists of the following principal elements:

Strong Relationships with Physicians and Hospitals.

Healthcare is fundamentally a local business. The Company believes it has developed a reputation based on trust and reliability among physicians and hospitals and believes that these relationships position the Company to secure new development projects and new property acquisition opportunities with both new and existing parties. Many of the Company s healthcare system clients have collaborated with the Company on multiple projects, including the Company s five largest healthcare system clients, with whom the Company has an average relationship lasting more than 23 years. The Company s strategy is to continue to grow its portfolio by leveraging these relationships to acquire existing properties and to selectively develop new medical office buildings and healthcare related facilities in communities in need of additional facilities to support the delivery of medical services. The Company believes that physicians particularly value renting space from a trusted and reliable property owner that consistently delivers an office environment that meets their specialized needs.

Active Management of the Company s Properties.

The Company has developed a comprehensive approach to property and operational management to maximize the operating performance of its medical office buildings and healthcare related facilities, leading to high levels of tenant satisfaction. This fully-integrated property and operating management allows the Company to provide high quality seamless services to its tenants on a cost-effective basis. The Company believes that its operating efficiencies, which consistently exceed industry standards, will allow the Company to control costs for its tenants. The Company intends to maximize the Company s stockholders return on their investment and to achieve long-term functionality and appreciation in its medical office

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buildings and healthcare related facilities through continuing its practice of active management of its properties. The Company manages its properties with a view toward creating an environment that supports successful medical practices. The properties are clean and kept in a condition that is conducive to the delivery of top-quality medical care to patients. The Company understands that in order to maximize the value of its investments, its tenants must prosper as well. Therefore, the Company is committed to maintaining its properties at the highest possible level.

Key On-Campus Locations.

At December 31, 2006, approximately 79% of the net rentable square feet of the wholly-owned properties are situated on hospital campuses. On-campus properties provide the Company s physician-lessees and their patients with a convenient location so that they can move between medical offices and hospitals with ease, which drives revenues for the Company s physician-lessees. Many of these properties occupy a premier franchise location in relation to the local hospital, providing the Company s properties with a distinct competitive advantage over alternative medical office space in the area. The Company has found that the factors most important to physician-lessees when choosing a medical office building or healthcare related facility in which to locate their offices are convenience to a hospital campus, clean and attractive common areas, state-of-the-art amenities and tenant improvements tailored to each practice.

Loyal and Diverse Tenant Base.

The Company s focus on maintaining the Company s physician-lessees loyalty is a key component of the Company s marketing and operating strategy. A focus on physician-lessee loyalty and the involvement of the physician-tenants and hospitals as investors in the Company s properties results in one of the more stable and diversified tenant bases of any medical office company in the United States. As of December 31, 2006, the Company s properties had an average occupancy rate of approximately 94.2%. The Company s tenants are diversified by type of medical practice, medical specialty and sub-specialty. As of December 31, 2006, no single tenant accounted for more than 7.0% of the annualized base rental revenue at the wholly-owned properties. None of the tenants are in default.

Unique Focus.

The Company focuses exclusively on the ownership, development, redevelopment, acquisition and management of medical office buildings and healthcare related facilities in the United States. The focus on medical office buildings and healthcare related facilities allows the Company to own, develop, redevelop, manage and acquire medical office buildings and healthcare related facilities more effectively and profitably than its competition. Unlike many other public companies that simply engage in sale/leaseback arrangements in the healthcare real estate sector, the Company operates its properties. The Company believes that this focus may position the Company to achieve additional cash flow growth.

Acquisition and Development Strategy

The Company s acquisition and development strategy consists of the following principal elements:

Development Expertise.

The Company s development activities are focused on the design, construction and financing of medical office buildings and healthcare related facilities. The Company and Cogdell Spencer Inc. Predecessor (the Predecessor) has completed the development of more than 70 medical office properties, many of which represent repeat business with its clients. The Company has built strong relationships with leading for-profit and non-profit medical institutions who look to it to provide real estate solutions that will support the growth of a medical community built around their hospitals and regional medical centers. The Company focuses exclusively on medical office buildings and healthcare related facilities and believes that its understanding of real estate and healthcare gives it a competitive advantage over less specialized developers. Further, the Company s regional focus has provided extensive local industry knowledge and insight. The Company believes the network of relationships that have been developed in both the real estate and healthcare

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industries over the past 34 years provides access to a large volume of potential development and acquisition opportunities.

Selective Development and Acquisitions.

The Company s intends to leverage its strong development and acquisition track record to continue to grow its portfolio of medical office buildings and healthcare related facilities by selectively acquiring existing medical office buildings and by developing new projects in communities in need of additional facilities to support the delivery of medical services.

Develop and Maintain Strategic Relationships.

The Company intends to build upon its key strategic relationships with physicians, hospitals, not-for-profit agencies and religious entities that sponsor healthcare services to further enhance the Company s franchise. Historically, the Predecessor financed real property acquisitions through joint ventures in which the physician-lessees, and in some cases local hospitals or regional medical centers, provided the equity capital. The Company expects to continue entering into joint ventures with individual physicians, physician groups and hospitals. These joint ventures have been, and the Company believes will continue to be, a source of development and acquisition opportunities. Of the 54 healthcare properties the management team developed or acquired over the past 11 years, 36 of them represent repeat transactions with an existing client institution. The Company anticipates that it will also continue to offer potential physician-lessees the opportunity to invest in the Company in order that they may continue to feel a strong sense of attachment to the property in which they practice. The Company intends to continue to work closely with its tenants in order to cultivate long-term working relationships and to maximize new business opportunities. From time to time, the Company may make investments or agree to terms that support the objectives of clients without necessarily maximizing the Company s short-term financial return. The Company believes that this philosophy allows the Company to build long-term relationships and obtain franchise locations otherwise unavailable to the Company s competition.

Investment Criteria and Funding.

The Company intends to expand in its existing markets and enter into markets that research indicates will meet its investment strategy in the future. The Company generally will seek to select clients and assets in locations that the Company believes will complement its existing portfolio. The Company may also selectively pursue portfolio opportunities outside of its existing markets that will not only add incremental value, but will also add diversification and economies of scale to the existing portfolio.

In assessing a potential development or acquisition opportunity, the Company focuses on the economics of the medical community and the strength of local hospitals. The analysis focuses on trying to place the project on a hospital campus or in a strategic growth corridor based on demographics.

As an incentive for future development deals, the Company intends to establish a program whereby units of limited partnership interests or common stock can be offered to potential development partners to help finance a project. Historically, the Company has financed real property acquisitions through joint ventures in which the physicians who lease space at the properties, and in some cases, local hospitals or regional medical centers, provided the equity capital. The Company expects to continue this practice of entering into joint ventures with individual physicians, physician groups and hospitals.

On November 1, 2005, the Company, as guarantor, and the Operating Partnership entered into a $100.0 million unsecured revolving credit facility (the Credit Facility). In August 2006, the Credit Facility s borrowing capability increased from $100.0 million to $130.0 million. As of December 31, 2006, the Credit Facility had approximately $50.1 million of available borrowings, which the Company can use to finance development and acquisition opportunities. The Company plans to finance future acquisitions through a combination of borrowings under the Credit Facility, traditional secured mortgage financing, and equity offerings.

Regulation

The following discussion describes certain material U.S. federal healthcare laws and regulations that may affect the Company s operations and those of the Company s tenants. However, the discussion does not address state healthcare laws and regulations, except as otherwise indicated. These state laws and regulations, like the U.S. federal healthcare laws and regulations, could affect the Company s operations and those of the Company s tenants.

The regulatory environment remains stringent for healthcare providers. Fraud and abuse statutes that regulate hospital and physician relationships continue to broaden the industry s awareness of the need for experienced real estate management.

New requirements for Medicare coding, physician recruitment and referrals, outlier charges to commercial and government payors, and corporate governance have created a difficult operating environment for some hospitals.

Generally, healthcare real estate properties are subject to various laws, ordinances and regulations. Changes in any of these laws or regulations, such as the Comprehensive Environmental Response and Compensation Liability Act, increase the potential liability for environmental conditions or circumstances existing or created by tenants or others on properties. In addition, laws affecting development, construction, operation, upkeep, safety and taxation requirements may result in significant unanticipated expenditures, loss of healthcare real estate property sites or other impairments to operations, which would adversely affect the Company s cash flows from operating activities.

As the Company s properties and entities are not healthcare providers, the healthcare regulatory restrictions that apply to physician investment in healthcare providers are not applicable to the ownership interests held by physicians in the Company s properties. For example, the Stark II law, which prohibits physicians from referring patients to any entity if they have a financial relationship with or ownership interest in the entity and the entity provides certain designated health services, does not apply to physician ownership in the Company s entities because these entities do not own or operate hospitals, nor do they provide any designated health services. In addition, the Federal Anti-Kickback Statute, which generally prohibits payment or solicitation of remuneration in exchange for referrals for items and services covered by federal health care programs to persons in a position to refer such business, also does not apply to ownership in the existing properties as these entities do not provide or bill for medical services of any kind. Similar state laws that prohibit physician self referrals or kickbacks also do not apply for the same reasons. Notwithstanding the foregoing, the Company cannot assure you that regulatory authorities will agree with the Company s interpretation of these laws.

Under the Americans with Disabilities Act of 1990, or the ADA, all places of public accommodation are required to meet certain U.S. federal requirements related to access and use by disabled persons. A number of additional U.S. federal, state and local laws also exist that may require modifications to properties, or restrict certain further renovations thereof, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, and in substantial capital expenditures. To the extent the Company s properties are not in compliance, the Company may incur additional costs to comply with the ADA.

Property management activities are often subject to state real estate brokerage laws and regulations as determined by the particular real estate commission for each state.

In addition, state and local laws regulate expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction of healthcare related facilities, by requiring a certificate of need, which is issued by the applicable state health planning agency only after that agency makes a determination that a need exists in a particular area for a particular service or facility, or other similar approval. New laws and regulations, changes in existing laws and regulations or changes in the interpretation of such laws or regulations could negatively affect the financial condition of the Company s lessees. These changes, in some cases, could apply retroactively. The enactment, timing or effect of legislative or regulatory changes cannot be predicted. In addition, certain of the Company s medical office buildings and healthcare related facilities and their lessees may require licenses or certificates of need to operate. Failure to obtain a license or certificate of need, or loss of a required license would prevent a facility from operating in the manner intended by the lessee.

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Environmental Matters

Pursuant to U.S. federal, state and local environmental laws and regulations, a current or previous owner or operator of real property may be required to investigate, remove and/or remediate a release of hazardous substances or other regulated materials at or emanating from such property. Further, under certain circumstances, such owners or operators of real property may be held liable for property damage, personal injury and/or natural resource damage resulting from or arising in connection with such releases. Certain of these laws have been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. The failure to properly remediate the property may also adversely affect the owner s ability to lease, sell or rent the property or to borrow funds using the property as collateral.

In connection with the ownership, operation and management of the Company s current or past properties and any properties that the Company may acquire and/or manage in the future, the Company could be legally responsible for environmental liabilities or costs relating to a release of hazardous substances or other regulated materials at or emanating from such property. In order to assess the potential for such liability, the Company conducts an environmental assessment of each property prior to acquisition and manages the Company s properties in accordance with environmental laws while the Company owns or operates them. All of the Company s leases contain a comprehensive environmental provision that requires tenants to conduct all activities in compliance with environmental laws and to indemnify the owner for any harm caused by the failure to do so. In addition, the Company has engaged qualified, reputable and adequately insured environmental consulting firms to perform environmental site assessments of all of the Company s properties and is not aware of any environmental issues that are expected to have materially impacted the operations of any property.

Insurance

The Company believes that its properties are covered by adequate fire, flood, earthquake, wind (as deemed necessary or as required by the Company s lenders) and property insurance, as well as commercial liability insurance, provided by reputable companies and with commercially reasonable deductibles and limits. Furthermore, the Company believes that its businesses and assets are likewise adequately insured against casualty loss and third party liabilities. The Company engages a risk management consultant. Changes in the insurance market since September 11, 2001 have caused increases in insurance costs and deductibles, and have led to more active management of the insurance component of the Company s budget for each project; however, most of the Company s leases provide that insurance premiums are considered part of the operating expenses of the respective property, and the tenants are therefore responsible for any increases in the Company s premiums.

Competition

The Company competes in developing and acquiring medical office buildings and healthcare related facilities with financial institutions, institutional pension funds, real estate developers, other REITs, other public and private real estate companies and private real estate investors.

Depending on the characteristics of a specific market, the Company may also face competition in leasing available medical office buildings and healthcare related facilities to prospective tenants. However, the Company believes that it brings a depth of knowledge and experience in working with physicians, hospitals, not-for-profit agencies and religious entities that sponsor healthcare services that makes the Company an attractive real estate partner for both development projects and acquisitions.

Employees

As of December 31, 2006, the Company has 118 employees. The Company s employees perform various property management, maintenance, acquisition, renovation and management functions. The Company believes that the Company s relationships with the Company s employees are good. None of the Company s employees are represented by a union.

Offices

The Company s corporate headquarters are located at 4401 Barclay Downs Drive, Suite 300, Charlotte, North Carolina 28209-4670. The Company has 29 offices located in California, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, Pennsylvania, South Carolina, and Virginia. The Company believes that its current offices are adequate for its present and future operations, although it may add regional offices depending on the volume and nature of future acquisition and development projects.

Available Information

The Company files its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports with the Securities and Exchange Commission (the SEC). You may obtain copies of these documents by visiting the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC s Web site at www.sec.gov. The Company s Web site is www.cogdellspencer.com. Its reports on Forms 10-K, 10-Q, and 8-K, and all amendments to those reports are posted on the Company s Web site as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. The contents of the Company s Web site are not incorporated by reference.

Item 1A. ***Risk Factors***

Risks Related to the Company s Properties and Operations

The Company s real estate investments are concentrated in medical office buildings and healthcare related facilities, making the Company more vulnerable economically than if the Company s investments were diversified.

As a REIT, the Company invests primarily in real estate. Within the real estate industry, the Company selectively owns, develops, redevelops, acquires and manages medical office buildings and healthcare related facilities. The Company is subject to risks inherent in concentrating investments in real estate. The risks resulting from a lack of diversification become even greater as a result of the Company s business strategy to invest primarily in medical office buildings and healthcare related facilities. A downturn in the medical office building industry or in the commercial real estate industry generally, could significantly adversely affect the value of the Company s properties. A downturn in the healthcare industry could negatively affect the Company s tenants ability to make rent payments to the Company, which may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock. These adverse effects could be more pronounced than if the Company diversified the Company s investments outside of real estate or outside of medical office buildings and healthcare related properties.

The Company depends on significant tenants.

As of December 31, 2006, the Company s five largest tenants represented $12.6 million, or 23.2%, of the annualized rent generated by the Company s properties. The Company s five largest tenants based on annualized rents are Palmetto Health Alliance, NorthEast Medical Center, University Hospital (Augusta, GA), Carolinas HealthCare System, and Gaston Memorial Hospital. The Company s tenants may experience a downturn in their businesses, which may weaken their financial condition and result in their failure to make timely rental payments or their default under their leases. In the event of any tenant default, the Company may experience delays in enforcing the Company s rights as landlord and may incur substantial costs in protecting the Company s investment.

The bankruptcy or insolvency of the Company s tenants under the Company s leases could seriously harm the Company s operating results and financial condition.

The Company will receive substantially all of the Company s income as rent payments under leases of space in the Company s properties. The Company has no control over the success or failure of the Company s tenants businesses and, at any time, any of the Company s tenants may experience a downturn in its business that may weaken its financial condition. As a result, the Company s tenants may delay lease commencement or renewal, fail to make rent payments when due or declare bankruptcy. Any leasing delays, lessee failures to make rent payments when due or tenant bankruptcies could result in the termination of the tenant s lease and, particularly in the case of a large tenant, may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

If tenants are unable to comply with the terms of the Company s leases, the Company may be forced to modify lease terms in ways that are unfavorable to the Company. Alternatively, the failure of a tenant to perform under a lease or to extend a lease upon expiration of its term could require the Company to declare a default, repossess the property, find a suitable replacement tenant, operate the property or sell the property. There is no assurance that the Company will be able to lease the property on substantially equivalent or better terms than the prior lease, or at all, find another tenant, successfully reposition the property for other uses, successfully operate the property or sell the property on terms that are favorable to the Company.

If any lease expires or is terminated, the Company will be responsible for all of the operating expenses for that vacant space until it is re-let. If the Company experiences high levels of vacant space, the Company s operating expenses may increase significantly. Any significant increase in the Company s operating costs may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

Any bankruptcy filings by or relating to one of the Company s tenants could bar all efforts by the Company to collect pre-bankruptcy debts from that lessee or seize its property, unless the Company receives an order permitting the Company to do so from the bankruptcy court, which the Company may be unable to obtain. A tenant bankruptcy could also delay the Company s efforts to collect past due balances under the relevant leases and could ultimately preclude full collection of these sums. If a tenant assumes the lease while in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to the Company in full. However, if a tenant rejects the lease while in bankruptcy, the Company would have only a general unsecured claim for pre-petition damages. Any unsecured claim the Company holds may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims. It is possible that the Company may recover substantially less than the full value of any unsecured claims the Company holds, if any, which may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock. Furthermore, dealing with a tenant bankruptcy or other default may divert management s attention and cause the Company to incur substantial legal and other costs.

Adverse economic or other conditions in the markets in which the Company does business could negatively affect the Company s occupancy levels and rental rates and therefore the Company s operating results.

The Company s operating results are dependent upon its ability to maximize occupancy levels and rental rates in the Company s portfolio. Adverse economic or other conditions in the markets in which the Company operates may lower the Company s occupancy levels and limit the Company s ability to increase rents or require the Company to offer rental discounts. The following factors are primary among those which may adversely affect the operating performance of the Company s properties:

- the national economic climate in which the Company operates, which may be adversely impacted by, among other factors, industry slowdowns, relocation of businesses and changing demographics;

- periods of economic slowdown or recession, rising interest rates or declining demand for medical office buildings and healthcare related facilities, or the public perception that any of these events may occur, could result in a general decline in rental rates or an increase in tenant defaults;

- local or regional real estate market conditions such as the oversupply of medical office buildings and healthcare related facilities or a reduction in demand for medical office buildings and healthcare related facilities in a particular area;

negative perceptions by prospective tenants of the safety, convenience and attractiveness of the Company s properties and the neighborhoods in which they are located;

earthquakes and other natural disasters, terrorist acts, civil disturbances or acts of war which may result in uninsured or underinsured losses; and changes in the tax, real estate and zoning laws.

The failure of the Company s properties to generate revenues sufficient to meet the Company s cash requirements, including operating and other expenses, debt service and capital expenditures, may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

All of the Company s wholly-owned properties are located in California, Georgia, Indiana, Kentucky, Louisiana, North Carolina, South Carolina, and Virginia, and changes in these markets may materially adversely affect the Company.

The Company s wholly-owned properties located in California, Georgia, Indiana, Kentucky, Louisiana, North Carolina, South Carolina, and Virginia provide approximately 5.4%, 10.0%, 6.7%, 3.4%, 6.0%, 30.1%, 35.6%, and 2.8%, respectively, of the Company s total annualized rent as of December 31, 2006. As a result of the geographic concentration of properties in these markets, the Company is particularly exposed to downturns in these local economies or other changes in local real estate market conditions. In the event of negative economic changes in these markets, the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock may be materially and adversely affected.

The Company may not be successful in identifying and consummating suitable acquisitions or investment opportunities, which may impede the Company s growth and negatively affect the Company s results of operations.

The Company s ability to expand through acquisitions is integral to its business strategy and requires the Company to identify suitable acquisition candidates or investment opportunities that meet its criteria and are compatible with its growth strategy. The Company may not be successful in identifying suitable properties or other assets that meet the Company s acquisition criteria or in consummating acquisitions or investments on satisfactory terms or at all. Failure to identify or consummate acquisitions or investment opportunities will slow the Company s growth, which could in turn adversely affect the Company s stock price.

The Company s ability to acquire properties on favorable terms and successfully integrate and operate them may be constrained by the following significant risks:

- competition from other real estate investors with significant capital, including other publicly-traded REITs and institutional investment funds;
- competition from other potential acquirers may significantly increase the purchase price for an acquisition property, which could reduce the Company s profitability;
- unsatisfactory results of the Company s due diligence investigations or failure to meet other customary closing conditions;
- failure to finance an acquisition on favorable terms or at all;
- the Company may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired properties; and
- the Company may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental

contamination, claims by persons in respect of events transpiring or conditions existing before the Company acquired the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

If any of these risks are realized, the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock may be materially and adversely affected.

If the Company is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than expected or if the Company is required to undertake significant capital expenditures to attract new tenants, then the Company s business and results of operations would be adversely affected.

Virtually all of the Company s leases are on a multiple year basis. As of December 31, 2006, leases representing 17.5% of the Company s net rentable square feet will expire in 2007, 13.8% in 2008 and 14.3% in 2009. These expirations would account for 17.8%, 12.8% and 15.0% of the Company s annualized rent, respectively. Approximately 74% of the square feet of the Company s properties and 60% of the number of the Company s properties are subject to certain restrictions. These restrictions include limits on the Company s ability to re-let these properties to tenants not affiliated with the healthcare system that own the underlying property, rights of first offer on sales of the property and limits on the types of medical procedures that may be performed. In addition, lower than expected rental rates upon re-letting could impede the Company s growth. The Company cannot assure you that it will be able to re-let space on terms that are favorable to the Company or at all. Further, the Company may be required to make significant capital expenditures to renovate or reconfigure space to attract new tenants. If it is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than expected or if the Company is required to undertake significant capital expenditures in connection with re-letting units, the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock may be materially and adversely affected.

Certain of the Company s properties may not have efficient alternative uses.

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

The Company faces increasing competition for the acquisition of medical office buildings and healthcare related facilities, which may impede the Company s ability to make future acquisitions or may increase the cost of these acquisitions.

The Company competes with many other entities engaged in real estate investment activities for acquisitions of medical office buildings and healthcare related facilities, including national, regional and local operators, acquirers and developers of healthcare real estate properties. The competition for healthcare real estate properties may significantly increase the price the Company must pay for medical office buildings and healthcare related facilities or other assets the Company seeks to acquire and the Company s competitors may succeed in acquiring those properties or assets themselves. In addition, the Company s potential acquisition targets may find the Company s competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger healthcare REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition will result in increased demand for these assets and therefore increased prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, the Company may pay higher prices if the Company purchases single properties in comparison with portfolio acquisitions. If the Company pays higher prices for medical office buildings and healthcare related facilities or other assets, the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock may be materially and adversely affected.

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The Company may not be successful in integrating and operating acquired properties.

The Company expects to make future acquisitions of medical office buildings and healthcare related facilities. If the Company acquires medical office buildings and healthcare related facilities, the Company will be required to integrate them into the Company s existing portfolio. The acquired properties may turn out to be less compatible with the Company s growth strategy than originally anticipated, may cause disruptions in the Company s operations or may divert management s attention away from day-to-day operations, any or all of which may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

The Company s medical office buildings and healthcare related facilities, their associated hospitals and the Company s tenants may be unable to compete successfully.

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

Similarly, the Company s tenants face competition from other medical practices in nearby hospitals and other medical facilities. The Company s tenants failure to compete successfully with these other practices could adversely affect their ability to make rental payments, which could adversely affect the Company s rental revenues. Further, from time to time and for reasons beyond the Company s control, referral sources, including physicians and managed care organizations, may change their lists of hospitals or physicians to which they refer patients. This could adversely affect the Company s tenants ability to make rental payments, which could adversely affect the Company s rental revenues.

Any reduction in rental revenues resulting from the inability of the Company s medical office buildings and healthcare related facilities, their associated hospitals and the Company s tenants to compete successfully may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

The Company s investments in development and redevelopment projects may not yield anticipated returns, which would harm the Company s operating results and reduce the amount of funds available for distributions.

A key component of the Company s growth strategy is exploring new-asset development and redevelopment opportunities through strategic joint ventures. To the extent that the Company engages in these development and redevelopment activities, they will be subject to the following risks normally associated with these projects:

the Company may be unable to obtain financing for these projects on favorable terms or at all;

the Company may not complete development projects on schedule or within budgeted amounts;

the Company may encounter delays or refusals in obtaining all necessary zoning, land use, building, occupancy and other required governmental permits and authorizations;

occupancy rates and rents at newly developed or redeveloped properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in the Company s investment not being profitable; and start-up costs may be higher than anticipated.

In deciding whether to develop or redevelop a particular property, the Company makes certain assumptions regarding the expected future performance of that property. The Company may underestimate the costs necessary to bring the property up to the standards established for its intended market position or the Company may be unable to increase occupancy at a newly acquired property as quickly as expected or at all. Any substantial unanticipated delays or expenses could adversely affect the investment returns from these development or redevelopment projects and have a material adverse effect on the Company s business, financial condition and results of operations, the

Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

The Company may in the future develop medical office buildings and healthcare related facilities in geographic regions where the Company does not currently have a significant presence and where the Company does not possess the same level of familiarity, which could adversely affect the Company s ability to develop such properties successfully or at all or to achieve expected performance.

The Company relies to a large extent on the investments of the Company s joint venture partners for the funding of the Company s development and redevelopment projects. If the Company s reputation in the healthcare real estate industry changes or the number of investors considering the Company as an attractive strategic partner is otherwise reduced, the Company s ability to develop or redevelop properties could be affected, which would limit the Company s growth.

If the Company s investments in development and redevelopment projects do not yield anticipated returns for any reason, including those set forth above, the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock may be materially and adversely affected.

Uninsured losses or losses in excess of the Company insurance coverage could adversely affect the Company s financial condition and the Company s cash flow.

The Company maintains comprehensive liability, fire, flood, earthquake, wind (as deemed necessary or as required by the Company s lenders), extended coverage and rental loss insurance with respect to the Company s properties with policy specifications, limits and deductibles customarily carried for similar properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, riots, acts of war or terrorism. Should an uninsured loss occur, the Company could lose both the Company s investment in and anticipated profits and cash flow from a property. If any such loss is insured, the Company may be required to pay a significant deductible on any claim for recovery of such a loss prior to the Company s insurer being obligated to reimburse the Company for the loss, or the amount of the loss may exceed the Company s coverage for the loss. In addition, future lenders may require such insurance, and the Company s failure to obtain such insurance could constitute a default under loan agreements. As a result, the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock may be materially and adversely affected.

The Company s mortgage agreements and ground leases contain certain provisions that may limit the Company s ability to sell certain of the Company s medical office buildings and healthcare related facilities.

In order to assign or transfer the Company s rights and obligations under certain of the Company s mortgage agreements, the Company generally must:

- obtain the consent of the lender;
- pay a fee equal to a fixed percentage of the outstanding loan balance; and
- pay any costs incurred by the lender in connection with any such assignment or transfer.

In addition, ground leases on certain of the Company s properties contain restrictions on transfer such as limiting the assignment or subleasing of the facility only to practicing physicians or physicians in good standing with an affiliated hospital. These provisions of the Company s mortgage agreements and ground leases may limit the Company s ability to sell certain of the Company s medical office buildings and healthcare related facilities which, in turn, could adversely impact the price realized from any such sale.

22 of the Company s wholly-owned properties are subject to ground leases that expose the Company to the loss of such properties upon breach or termination of the ground leases.

The Company has 22 wholly-owned properties that are subject to leasehold interests in the land underlying the buildings and the Company may acquire additional buildings in the future that are subject to similar ground leases. These 22 wholly-owned properties represent 57% of the Company s total net rentable square feet. As lessee under a ground lease, the Company is exposed to the possibility of losing the property upon termination, or an earlier breach by the Company, of the ground lease, which may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

Environmental compliance costs and liabilities associated with operating the Company s properties may affect the Company s results of operations.

Under various U.S. federal, state and local laws, ordinances and regulations, owners and operators of real estate may be liable for the costs of investigating and remediating certain hazardous substances or other regulated materials on or in such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such substances or materials. The presence of such substances or materials, or the failure to properly remediate such substances, may adversely affect the owner s or operator s ability to lease, sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous substances or other regulated materials may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials.

Certain environmental laws also impose liability, without regard to knowledge or fault, for removal or remediation of hazardous substances or other regulated materials upon owners and operators of contaminated property even after they no longer own or operate the property. Moreover, the past or present owner or operator from which a release emanates could be liable for any personal injuries or property damages that may result from such releases, as well as any damages to natural resources that may arise from such releases.

Certain environmental laws impose compliance obligations on owners and operators of real property with respect to the management of hazardous materials and other regulated substances. For example, environmental laws govern the management of asbestos-containing materials and lead-based paint. Failure to comply with these laws can result in penalties or other sanctions.

No assurances can be given that existing environmental studies with respect to any of the Company s properties reveal all environmental liabilities, that any prior owner or operator of the Company s properties did not create any material environmental condition not known to the Company, or that a material environmental condition does not otherwise exist as to any one or more of the Company s properties. There also exists the risk that material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future. Finally, future laws, ordinances or regulations and future interpretations of existing laws, ordinances or regulations may impose additional material environmental liability.

The realization of any or all of these risks may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses.

Under the Americans with Disabilities Act of 1990, or the ADA, all places of public accommodation are required to meet certain U.S. federal requirements related to access and use by disabled persons. A number of additional U.S. federal, state and local laws may also require modifications to the Company s properties, or restrict certain further renovations of the properties, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and/or an order to correct any non-complying feature, which could result in substantial capital expenditures. The Company has not conducted an audit or investigation of all of the Company s properties to determine the Company s compliance and the Company cannot predict the ultimate cost of compliance with the ADA or other legislation. If one or more of the Company s properties is not in compliance with the ADA or other related legislation, then the Company would be required to incur additional costs to bring the facility into compliance. If the Company incurs substantial costs to comply with the ADA or other related legislation, the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock may be materially and adversely affected.

Risks Related to the Healthcare Industry

Adverse trends in healthcare provider operations may negatively affect the Company s lease revenues and the Company s ability to make distributions to the Company s stockholders.

The healthcare industry is currently experiencing:

- changes in the demand for and methods of delivering healthcare services;
- changes in third party reimbursement policies;
- substantial competition for patients among healthcare providers;
- continued pressure by private and governmental payors to reduce payments to providers of services; and increased scrutiny of billing, referral and other practices by U.S. federal and state authorities.

These factors may adversely affect the economic performance of some or all of the Company s tenants and, in turn, the Company s lease revenues, which may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

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

Sources of revenue for the Company s tenants may include the U.S. federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Healthcare providers continue to face increased government and private payor pressure to control or reduce costs. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of the Company s tenants. In addition, the failure of any of the Company s tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid and other government sponsored payment programs. A reduction in reimbursements to the Company s tenants from third party payors for any reason could adversely affect the Company s tenants ability to make rent payments to the Company, which may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

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

The healthcare industry is heavily regulated by U.S. federal, state and local governmental bodies. The Company s tenants generally will be subject to laws and regulations covering, among other things, licensure, certification for participation in government programs and relationships with physicians and other referral sources.

In addition, state and local laws regulate expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction of healthcare related facilities, by requiring a certificate of need, which is issued by the applicable state health planning agency only after that agency makes a determination that a need exists in a particular area for a particular service or facility, or other similar approval. New laws and regulations, changes in existing laws and regulations or changes in the interpretation of such laws or regulations could negatively affect the financial condition of the Company s tenants. These changes, in some cases, could apply retroactively. The enactment, timing or effect of legislative or regulatory changes cannot be predicted. In addition, certain of the Company s medical office buildings and healthcare related facilities and their tenants may require licenses or certificates of need to operate. Failure to obtain a license or certificate of need, or loss of a required license would prevent a facility from operating in the manner intended by the tenant.

These events could adversely affect the Company s tenants ability to make rent payments to the Company, which may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

The Company s tenants are subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant s ability to make rent payments to the Company.

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

These laws include:

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

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

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

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

Each of these laws includes criminal and/or civil penalties for violations that range from punitive sanctions, damage assessments, penalties, imprisonment, denial of Medicare and Medicaid payments and/or exclusion from the Medicare and Medicaid programs. Additionally, certain laws, such as the False Claims Act, allow for individuals to bring whistleblower actions on behalf of the government for violations thereof. Imposition of any of these penalties upon one of the Company s tenants or associated hospitals could jeopardize that tenant s ability to operate or to make rent payments or affect the level of occupancy in the Company s medical office buildings or healthcare related facilities associated with that hospital, which may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

Risks Related to the Real Estate Industry

Illiquidity of real estate investments could significantly impede the Company s ability to respond to adverse changes in the performance of the Company s properties.

Because real estate investments are relatively illiquid, the Company s ability to promptly sell one or more properties in the Company s portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond the Company s control. The Company cannot predict whether the Company will be able to sell any property for the price or on the terms set by the Company or whether any price or other terms offered by a prospective purchaser would be acceptable to the Company. The Company also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

The Company may be required to expend funds to correct defects or to make improvements before a property can be sold. The Company cannot assure you that it will have funds available to correct those defects or to make those improvements. In acquiring a property, the Company may agree to transfer restrictions that materially restrict it from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede the Company s ability to sell a property even if the Company deems it necessary or appropriate. These facts and any others that would impede the Company s ability to respond to adverse changes in the performance of its properties may have a material adverse effect on its business, financial condition, results of operations, or ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

Any investments in unimproved real property may take significantly longer to yield income-producing returns, if at all, and may result in additional costs to the Company to comply with re-zoning restrictions or environmental regulations.

The Company has in the past, and may in the future, invest in unimproved real property. Unimproved properties generally take longer to yield income-producing returns based on the typical time required for development. Any development of unimproved real property may also expose the Company to the risks and uncertainties associated with re-zoning the land for a higher use or development and environmental concerns of governmental entities and/or community groups. Any unsuccessful investments or delays in realizing an income-producing return or increased costs to develop unimproved real property could restrict the Company s ability to earn its targeted rate of return on an investment or adversely affect the Company s ability to pay operating expenses, which may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

Risks Related to the Company s Debt Financings

Required payments of principal and interest on borrowings may leave the Company with insufficient cash to operate the Company s properties or to pay the distributions currently contemplated or necessary to qualify as a REIT and may expose the Company to the risk of default under the Company s debt obligations.

At December 31, 2006, the Company has approximately $261.5 million of outstanding indebtedness, $184.0 million of which is secured. Approximately $62.0 million and $105.0 million of the Company s outstanding indebtedness will mature in 2007 and 2008, respectively. The Company expects to incur additional debt in connection with future acquisitions. The Company may borrow under its Credit Facility, or borrow new funds to acquire these future properties. Additionally, the Company does not anticipate that the Company s internally generated cash flow will be adequate to repay the Company s existing indebtedness upon maturity and, therefore, the Company expects to repay the Company s indebtedness through refinancings and future offerings of equity and/or debt.

If the Company is required to utilize the Company s Credit Facility for purposes other than acquisition activity, this will reduce the amount available for acquisitions and could slow the Company s growth. Therefore, the Company s level of debt and the limitations imposed on the Company by the Company s debt agreements could have adverse consequences, including the following:

- the Company s cash flow may be insufficient to meet the Company s required principal and interest payments;

the Company may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions;

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the Company may be unable to refinance the Company s indebtedness at maturity or the refinancing terms may be less favorable than the terms of the Company s original indebtedness;

because a portion of the Company s debt bears interest at variable rates, an increase in interest rates could materially increase the Company s interest expense;

the Company may be forced to dispose of one or more of the Company s properties, possibly on disadvantageous terms;

after debt service, the amount available for distributions to the Company s stockholders is reduced;

the Company s debt level could place the Company at a competitive disadvantage compared to the Company s competitors with less debt;

the Company may experience increased vulnerability to economic and industry downturns, reducing the Company s ability to respond to changing business and economic conditions;

the Company may default on the Company s obligations and the lenders or mortgagees may foreclose on the Company s properties that secure their loans and receive an assignment of rents and leases;

the Company may violate financial covenants which would cause a default on the Company s obligations;

the Company may inadvertently violate non-financial restrictive covenants in the Company s loan documents, such as covenants that require the Company to maintain the existence of entities, maintain insurance policies and provide financial statements, which would entitle the lenders to accelerate the Company s debt obligations; and

the Company defaults under any one of the Company s mortgage loans with cross-default or cross-collateralization provisions could result in default on other indebtedness or result in the foreclosures of other properties.

The realization of any or all of these risks may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

The Company s ability to pay distributions is dependent on a number of factors and is not assured.

The Company s ability to make distributions depends upon a variety of factors, including efficient management of the Company s properties and the successful implementation by the Company of a variety of the Company s growth initiatives, and may be adversely affected by the risks described elsewhere in this Annual Report of Form 10-K. All distributions will be made at the discretion of the Board of Directors and depend on the Company earnings, the Company s financial condition, the REIT distribution requirements and other factors that the Board of Directors may consider from time to time. The Company cannot assure you that the level of the Company s distributions will increase over time or that the Company will be able to maintain the Company s future distributions at levels that equal or exceed the Company s historical distributions. The Company may be required to fund future distributions either from borrowings under the Company s Credit Facility, with the proceeds from equity offerings, which could be dilutive, or from property sales, which could be at a loss, or reduce such distributions.

The Company could become highly leveraged in the future because the Company s organizational documents contain no limitations on the amount of debt the Company may incur.

The Company s organizational documents contain no limitations on the amount of indebtedness that the Company or the Operating Partnership may incur. The Company could alter the balance between the Company s total outstanding indebtedness and the value of the Company s wholly-owned properties at any time. If the Company becomes more highly leveraged, the resulting increase in debt service could adversely affect the Company s ability to make payments on the Company s outstanding indebtedness and to pay the Company s anticipated distributions and/or the distributions required to qualify as a REIT, and may materially and adversely affect the Company s business, financial condition, results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

Increases in interest rates may increase the Company s interest expense and adversely affect the Company s cash flow and the Company s ability to service the Company s indebtedness and make distributions to the Company s stockholders.

As of December 31, 2006, the Company has approximately $261.5 million of outstanding indebtedness, of which approximately $115.4 million, or 44.1%, is subject to variable interest rates (excluding debt subject to variable to fixed interest rate swap agreements). This variable rate debt had a weighted average interest rate of approximately 6.68% per year as of December 31, 2006. Increases in interest rates on this variable rate debt would increase the Company s interest expense, which could adversely affect the Company s cash flow and the Company s ability to pay distributions. For example, if market rates of interest on this variable rate debt increased by 100 basis points, the increase in interest expense would decrease future earnings and cash flows by approximately $1.2 million annually.

Failure to hedge effectively against interest rate changes may adversely affect the Company s results of operations.

In certain cases, the Company may seek to manage the Company s exposure to interest rate volatility by using interest rate hedging arrangements. Hedging involves risks, such as the risk that the counterparty may fail to honor its obligations under an arrangement, that the arrangements may not be effective in reducing the Company s exposure to interest rate changes and that a court could rule that such an agreement is not legally enforceable. In addition, the Company may be limited in the type and amount of hedging transactions the Company may use in the future by the Company s need to satisfy the REIT income tests under the Code. Failure to hedge effectively against interest rate changes may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

The Company s Credit Facility contains financial covenants that could limit the Company s operations and the Company s ability to make distributions to the Company s stockholders.

The Company s Credit Facility contains financial and operating covenants, including net worth requirements, fixed charge coverage and debt ratios and other limitations on the Company s ability to make distributions or other payments to the Company s stockholders (other than those required by the Code), sell all or substantially all of the Company s assets and engage in mergers, consolidations and certain acquisitions.

The Credit Facility contains customary terms and conditions for credit facilities of this type, including: (1) limitations on the Company s ability to (A) incur additional indebtedness, (B) make distributions to the Company s stockholders, subject to complying with REIT requirements, and (C) make certain investments; (2) maintenance of a pool of unencumbered assets subject to certain minimum valuations thereof; and (3) requirements for the Company to maintain certain financial coverage ratios. These customary financial coverage ratios and other conditions include a maximum leverage ratio (65%, with flexibility for one two quarter increase to not more than 75%), minimum fixed charge coverage ratio (150%), maximum combined secured indebtedness (50%), maximum recourse indebtedness (15%), maximum unsecured indebtedness (60%, with flexibility for one two quarter increase to not more than 75%), minimum unencumbered interest coverage ratio (175%, with the flexibility for one two quarter decrease to 150%) and minimum combined tangible net worth ($30 million plus 85% of net proceeds of equity issuances by the Company and its subsidiaries after November 1, 2005). Failure to meet the Company s financial covenants could result from, among other things, changes in the Company s results of operations, the incurrence of debt or changes in general economic conditions. Advances under the Company s Credit Facility may be subject to borrowing base requirements on the Company s unencumbered medical office buildings or healthcare related facilities. These covenants may restrict the Company s ability to engage in transactions that the Company believes would otherwise be in the best interests of the Company s stockholders. Failure to comply with any of the covenants in the Company s Credit Facility could result in a default under one or more of the Company s debt instruments. This could cause one or more of the Company s lenders to accelerate the timing of payments and may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

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Risks Related to the Company s Organization and Structure

The Company s management has limited experience operating a REIT or a public Company and therefore may have difficulty in successfully and profitably operating the Company s business, or complying with regulatory requirements, including the Sarbanes-Oxley Act of 2002.

Prior to November 1, 2005, the Company s management had limited experience operating a REIT or a public company, or complying with regulatory requirements, including the Sarbanes-Oxley Act of 2002. As a result, the Company cannot assure you that it will be able to successfully operate as a REIT, execute the Company s business strategies as a public Company, or comply with regulatory requirements applicable to public companies, and you should be especially cautious in drawing conclusions about the ability of the Company s management team to execute the Company s business plan.

The Company s two largest stockholders, Mr. Cogdell, the Company s Chairman, and Mr. Spencer, the Company s Chief Executive Officer, President and a member of the Board of Directors, and their respective affiliates owned 17.8% and 3.8%, respectively, as of December 31, 2006 of the Company s outstanding common stock and units of limited partnership interest in the Operating Partnership (OP units) on a fully-diluted basis and therefore have the ability to exercise significant influence over the Company and any matter presented to the Company s stockholders.

The Company s two largest stockholders, Mr. Cogdell, the Company s Chairman, and Mr. Spencer, the Company s Chief Executive Officer, President and a member of the Board of Directors, and their respective affiliates owned approximately 17.8%, and 3.8%, respectively, as of December 31, 2006 of the Company s outstanding common stock and OP units on a fully-diluted basis. Consequently, those stockholders, individually or, to the extent their interests are aligned, collectively, may be able to influence the outcome of matters submitted for stockholder action, including the election of the Board of Directors and approval of significant corporate transactions, including business combinations, consolidations and mergers and the determination of the Company s day-to-day corporate and management policies. Therefore, these stockholders have substantial influence over the Company and could exercise their influence in a manner that is not in the best interests of the Company s other stockholders.

The Company s business could be harmed if key personnel terminate their employment with the Company.

The Company s success depends, to a significant extent, on the continued services of Mr. Cogdell, the Company s Chairman, Mr. Spencer, the Company s Chief Executive Officer, President and a member of the Board of Directors, and the other members of the Company s senior management team. The Company s senior management team has an average of 11 years of experience in the healthcare real estate industry. In addition, the Company s ability to continue to acquire and develop properties depends on the significant relationships the Company s senior management team has developed. There is no guarantee that any of them will remain employed by the Company. The Company does not maintain key person life insurance on any of the Company s officers. The loss of services of one or more members of the Company s senior management team could harm the Company s business and the Company s prospects.

Tax indemnification obligations could limit the Company s operating flexibility by limiting the Company s ability to sell specified properties.

In connection with the formation transactions and certain other property acquisitions, the Company entered into a tax protection agreement with the former owners of each contributed medical office building or healthcare related facility who received OP units.

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Pursuant to these agreements, the Company will not sell, transfer or otherwise dispose of any of the medical office buildings or healthcare related facilities (each a protected asset) or any interest in a protected asset prior to the eighth anniversary of the closing of the offering unless:

1. a majority-in-interest of the holders of interests in the existing entities (or their successors, which may include the Company to the extent any OP units have been redeemed or exchanged) with respect to such protected asset consent to the sale, transfer or other disposition; provided, however, with respect to three of the existing entities, Cabarrus POB, LLC, Medical Investors I, LLC and Medical Investors III, LLC, the required consent shall be a majority-in-interest of the beneficial owners of interests in the existing entities other than Messrs. Cogdell and Spencer and their affiliates; or

2. the Operating Partnership delivers to each such holder of interests, a cash payment intended to approximate the holder s tax liability related to the recognition of such holder s built-in gain resulting from the sale of such protected asset; or

3. the sale, transfer or other disposition would not result in the recognition of any built-in gain by any such holder of interests.

Protected assets represent approximately 79% of the Company s total net rentable square feet. If the Company were to sell all of these protected assets and the Company undertook such sale without obtaining the requisite consent of the contributing holders, then the Company would be required to make material payments to these holders. The prospect of making payments under the tax protection agreements could impede the Company s ability to respond to changing economic, financial and investment conditions. For example, it may not be economical for the Company to raise cash quickly through a sale of one or more of the Company s protected assets or dispose of a poorly performing protected asset until the expiration of the eight-year protection period.

Tax indemnification obligations may require the Operating Partnership to maintain certain debt levels.

The Company s tax protection agreements also provide that during the period from the closing of the Offering through the twelfth anniversary thereof, the Operating Partnership will offer each holder who continues to hold at least 50% of the OP units received in respect of the consolidation transaction the opportunity to: (1) guarantee debt or (2) enter into a deficit restoration obligation. If the Company fails to offer such opportunities, the Company will be required to deliver to each holder a cash payment intended to approximate the holder s tax liability resulting from the Company s failure to make such opportunities available to that holder. The Company agreed to these provisions in order to assist such holders in deferring the recognition of taxable gain as a result of and after the consolidation transaction. These obligations may require the Company to maintain more or different indebtedness than the Company would otherwise require for the Company s business.

The Company may pursue less vigorous enforcement of terms of contribution and other agreements because of conflicts of interest with certain of the Company s officers.

Mr. Cogdell, the Company s Chairman, Mr. Spencer, the Company s Chief Executive Officer, President and a member of the Board of Directors, Charles M. Handy, the Company s Chief Financial Officer, Senior Vice President and Secretary, and other members of the Company s management team, have direct or indirect ownership interests in certain properties contributed to the Operating Partnership in the Formation Transactions. The Company, under the agreements relating to the contribution of such interests, is entitled to indemnification and damages in the event of breaches of representations or warranties made by the contributors. The Company may choose not to enforce, or to enforce less vigorously, the Company s rights under these agreements because of the Company s desire to maintain the

Company s ongoing relationships with the individual s party to these agreements. In addition, the Company is party to employment agreements with Messrs. Cogdell, Spencer and Handy, which provide for additional severance following termination of employment if the Company elects to subject the executive officer to certain non-competition, confidentiality and non-solicitation provisions. Although their employment agreements require that they devote substantially all of their full business time and attention to the Company, if the executive officer forgoes the additional severance, he will not be subject to such non-competition provisions, which would allow him to compete with the Company. None of these agreements were negotiated on an arm s-length basis.

Conflicts of interest could arise as a result of the Company UPREIT structure.

Conflicts of interest could arise in the future as a result of the relationships between the Company and the Company s affiliates, on the one hand, and the Operating Partnership or any partner thereof, on the other. The Company s directors and officers have duties to the Company under applicable Maryland law in connection with their management of the Company. At the same time, the Company, through the Company s wholly-owned subsidiary, has fiduciary duties, as a general partner, to the Operating Partnership and to the limited partners under Delaware law in connection with the management of the Operating Partnership. The Company s duties, through the Company s wholly-owned subsidiary, as a general partner to the Operating Partnership and its partners may come into conflict with the duties of the Company s directors and officers. The partnership agreement of the Operating Partnership does not require the Company to resolve such conflicts in favor of either the Company s stockholders or the limited partners in the Operating Partnership.

Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

Additionally, the partnership agreement expressly limits the Company s liability by providing that neither the Company, nor the Company s wholly-owned Maryland business trust subsidiary, as the general partner of the Operating Partnership, nor any of the Company or its trustees, directors or officers, will be liable or accountable in damages to the Operating Partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if the general partner or such trustee, director or officer, acted in good faith. In addition, the Operating Partnership is required to indemnify the Company, the Company s affiliates and each of the Company s respective trustees, officers, directors, employees and agents to the fullest extent permitted by applicable law against any and all losses, claims, damages, liabilities (whether joint or several), expenses (including, without limitation, attorneys fees and other legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Operating Partnership, provided that the Operating Partnership will not indemnify any such person for (1) willful misconduct or a knowing violation of the law, (2) any transaction for which such person received an improper personal benefit in violation or breach of any provision of the partnership agreement, or (3) in the case of a criminal proceeding, the person had reasonable cause to believe the act or omission was unlawful.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and the Company has not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict the Company s fiduciary duties that would be in effect under common law were it not for the partnership agreement.

Certain provisions of the Company s organizational documents, including the stock ownership limit imposed by the Company s charter, could prevent or delay a change in control transaction.

The Company s charter, subject to certain exceptions, authorizes the Company s directors to take such actions as are necessary and desirable to preserve the Company s qualification as a REIT and to limit any person to actual or constructive ownership of 7.75% (by value or by number of shares, whichever is more restrictive) of the Company s outstanding common stock or 7.75% (by value or by number of shares, whichever is more restrictive) of the Company s outstanding capital stock. The Board of Directors, in its sole discretion, may exempt additional persons from the ownership limit. However, the Board of Directors may not grant an exemption from the ownership limit to any proposed transferee whose ownership could jeopardize the Company s qualification as a REIT. These restrictions on ownership will not apply if the Board of Directors determines that it is no longer in the Company s best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for the Company s common stock or otherwise be in the best interests of the Company s stockholders. Different ownership limits apply to Mr. Cogdell, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing, and Mr. Spencer, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing.

These ownership limits, which the Board of Directors has determined will not jeopardize the Company REIT qualification, allow Mr. Cogdell, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing, as an excepted holder, to hold up to 18.0% (by value or by number of shares, whichever is more restrictive) of the Company s common stock or up to 18.0% (by value or by number of shares, whichever is more restrictive) of the Company s outstanding capital stock.

Certain provisions of Maryland law may limit the ability of a third party to acquire control of the Company.

Certain provisions of the Maryland General Corporation Law, or the MGCL, may have the effect of delaying, deferring or preventing a transaction or a change in control of the Company that might involve a premium price for holders of the Company s common stock or otherwise be in their best interests, including:

- business combination provisions that, subject to certain limitations, prohibit certain business combinations between the Company and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of the Company s shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special minimum price provisions and special stockholder voting requirements on these combinations; and

- control share provisions that provide that control shares of the Company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares) have no voting rights except to the extent approved by the Company s stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

These provisions of the MGCL relating to business combinations do not apply, however, to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, the Board of Directors has by resolution exempted Mr. Cogdell, his affiliates and associates and all persons acting in concert with the foregoing, and Mr. Spencer, his affiliates and associates and all persons acting in concert with the foregoing, from these provisions of the MGCL and, consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations between the Company and these persons. As a result, these persons may be able to enter into business combinations with the Company that may not be in the best interests of the Company s stockholders without compliance by the Company with the supermajority vote requirements and the other provisions of the statute. In addition, the Company s by-laws contain a provision exempting from the provisions of the MGCL relating to control share acquisitions any and all acquisitions by any person of the Company s common stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits the Board of Directors, without stockholder approval and regardless of what is currently provided in the Company s charter or bylaws, to take certain actions that may have the effect of delaying, deferring or preventing a transaction or a change in control of the Company that might involve a premium to the market price of the Company s common stock or otherwise be in the Company s stockholders best interests.

The Board of Directors has the power to cause the Company to issue additional shares of the Company s stock and the general partner has the power to issue additional OP units without stockholder approval.

The Company s charter authorizes the Board of Directors to cause the Company to issue additional authorized but unissued shares of common stock, or preferred stock and to amend the Company s charter to increase the aggregate number of authorized shares or the authorized number of shares of any class or series without stockholder approval. The general partner will be given the authority to issue additional OP units. In addition, the Board of Directors may classify or reclassify any unissued shares of common stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. The Board of Directors could cause the Company to issue additional shares of the Company s common stock or establish a series of preferred stock that could have the

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effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for the Company s common stock or otherwise be in the best interests of the Company s stockholders.

The Company s rights and the rights of the Company s stockholders to take action to recover money damages from the Company s directors and officers are limited.

The Company s charter eliminates the Company s directors and officers liability to the Company and the Company s stockholders for money damages, except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. The Company s charter authorizes the Company, and the Company s bylaws require the Company, to indemnify the Company s directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. In addition, the Company may be obligated to fund the defense costs incurred by the Company s directors and officers.

You will have limited ability as a stockholder to prevent the Company from making any changes to the Company policies that you believe could harm the Company s business, prospects, operating results or share price.

The Board of Directors will adopt policies with respect to certain activities, such as investments, dispositions, financing, lending, the Company s equity capital, conflicts of interest and reporting. These policies may be amended or revised from time to time at the discretion of the Board of Directors without a vote of the Company s stockholders. This means that the Company s stockholders will have limited control over changes in the Company s policies. Such changes in the Company s policies intended to improve, expand or diversify the Company s business may not have the anticipated effects and consequently may have a material adverse effect on the Company s business, financial condition and results of operations, the Company s ability to make distributions to the Company s stockholders and the trading price of the Company s common stock.

To the extent the Company s distributions represent a return of capital for tax purposes you could recognize an increased capital gain upon a subsequent sale by you of the Company s common stock.

Distributions in excess of the Company s current and accumulated earnings and profits and not treated by the Company as a dividend will not be taxable to a U.S. stockholder to the extent those distributions do not exceed the stockholder s adjusted tax basis in its common stock, but instead will constitute a return of capital and will reduce the stockholder s adjusted tax basis in its common stock. If distributions result in a reduction of a stockholder s adjusted basis in such holder s common stock, subsequent sales of such holder s common stock potentially will result in recognition of an increased capital gain or reduced capital loss due to the reduction in such adjusted basis.

Risks Related to Qualification and Operation as a REIT

The Company s failure to qualify or remain qualified as a REIT would have significant adverse consequences to the Company and the value of the Company s common stock.

The Company intends to operate in a manner that will allow the Company to qualify as a REIT for U.S. federal income tax purposes under the Code. The Company has not requested and does not plan to request a ruling from the IRS that the Company qualifies as a REIT, and the statements in the Company s prospectus and other filings are not binding on the IRS or any court. If the Company fails to qualify or loses the Company s qualification as a REIT, the Company will face serious Company tax consequences that would substantially reduce the funds available for distribution to the Company s stockholders for each of the years involved because:

the Company would not be allowed a deduction for distributions to stockholders in computing the Company s taxable income and the Company would be subject to U.S. federal income tax at regular corporate rates;

the Company also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and unless the Company is entitled to relief under applicable statutory provisions, the Company could not elect to be taxed as a REIT for four taxable years following a year during which the Company was disqualified.

In addition, if the Company loses its qualification as a REIT, the Company will not be required to make distributions to stockholders, and all distributions to the Company s stockholders will be subject to tax as regular corporate dividends to the extent of the Company s current and accumulated earnings and profits. This means that the Company s U.S. individual stockholders would be taxed on the Company s dividends at a maximum U.S. federal income tax rate of 15% (through 2010), and the Company s corporate stockholders generally would be entitled to the dividends received deduction with respect to such dividends, subject, in each case, to applicable limitations under the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions and regulations promulgated thereunder for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable U.S. Treasury Department regulations, or Treasury Regulations, that have been promulgated under the Code is greater in the case of a REIT that, like the Company, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within the Company s control may affect the Company s ability to qualify as a REIT. In order to qualify as a REIT, the Company must satisfy a number of requirements, including requirements regarding the composition of the Company s assets and sources of the Company s gross income. Also, the Company must make distributions to stockholders aggregating annually at least 90% of the Company s net taxable income, excluding capital gains.

As a result of these factors, the Company s loss of its qualifications as a REIT also could impair the Company s ability to expand the Company s business and raise capital, and would adversely affect the value of the Company s common stock.

To maintain the Company REIT qualification, the Company may be forced to borrow funds during unfavorable market conditions.

To qualify as a REIT, the Company generally must distribute to the Company s stockholders at least 90% of the Company s net taxable income each year, excluding net capital gains, and the Company will be subject to regular corporate income taxes to the extent that the Company distributes less than 100% of the Company s net taxable income each year. In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by the Company in any calendar year are less than the sum of 85% of the Company s ordinary income, 95% of the Company s capital gain net income and 100% of the Company s undistributed income from prior years. In order to qualify as a REIT and avoid the payment of income and excise taxes, the Company may need to borrow funds on a short-term basis, or possibly on a long-term basis, to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, a difference in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes, the effect of non-deductible capital expenditures, the creation of reserves or required debt amortization payments.

Dividends payable by REITs generally do not qualify for reduced tax rates.

The maximum tax rate for dividends payable by domestic corporations to individual U.S. stockholders (as such term is defined under U.S. Federal Income Tax Considerations below), is 15% (through 2010). Dividends payable by REITs, however, are generally not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including the Company s common stock.

In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to corporate dividends, which could negatively affect the value of the Company s properties.

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Possible legislative or other actions affecting REITs could adversely affect the Company and the Company s stockholders.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect the Company or the Company s stockholders. The Company cannot predict whether, when, in what forms, or with what effective dates, the tax laws applicable to the Company or the Company s stockholders will be changed.

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

To qualify as a REIT for U.S. federal income tax purposes, the Company must continually satisfy tests concerning, among other things, the sources of the Company s income, the nature and diversification of the Company s assets, the amounts the Company distribute to the Company s stockholders and the ownership of the Company s stock. In order to meet these tests, the Company may be required to forego attractive business or investment opportunities. Thus, compliance with the REIT requirements may adversely affect the Company s ability to operate solely to maximize profits.

The Company will pay some taxes.

Even if the Company qualifies as a REIT for U.S. federal income tax purposes, the Company will be required to pay some U.S. federal, state and local taxes on the Company s income and property. In addition, the Company s taxable REIT subsidiaries, CSA, LLC and Consera Healthcare Real Estate LLC, (the TRSs) are fully taxable corporations that will be subject to taxes on their income, including their management fee income, and that may be limited in their ability to deduct interest payments made to the Company or the Operating Partnership. The Company also will be subject to a 100% penalty tax on certain amounts if the economic arrangements among the Company s tenants, the Company s TRSs and the Company are not comparable to similar arrangements among unrelated parties or if the Company receives payments for inventory or property held for sale to customers in the ordinary course of business.
To the extent that the Company or the Company s taxable REIT subsidiaries are required to pay U.S. federal, state or local taxes, the Company will have less cash available for distribution to the Company s stockholders.

The ability of the Board of Directors to revoke the Company REIT election without stockholder approval may cause adverse consequences to the Company s stockholders.

The Company s charter provides that the Board of Directors may revoke or otherwise terminate the Company REIT election, without the approval of the Company s stockholders, if it determines that it is no longer in the Company s best interests to continue to qualify as a REIT. If the Company ceases to qualify as a REIT, the Company would become subject to U.S. federal income tax on the Company s taxable income and the Company would no longer be required to distribute most of the Company s taxable income to the Company s stockholders, which may have adverse consequences on the total return to the Company s stockholders.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

As of December 31, 2006, the Company owns and/or manages 112 medical office buildings and healthcare related facilities, 50 of which are wholly-owned, four of which are jointly owned with unaffiliated third parties and managed through a TRS, 58 of which are managed for third parties through a TRS. Medical office buildings typically contain suites for physicians and physician practice groups and also may include facilities that provide hospitals with ancillary and outpatient services, such as ambulatory surgery centers, imaging and diagnostic centers (offering diagnostic services not typically provided in physician offices or clinics), rehabilitation centers, kidney dialysis centers and cancer treatment centers. The Company s aggregate portfolio contains an aggregate of approximately 5.4 million net rentable square feet of as of December 31, 2006. As of December 31, 2006, the

Company s wholly-owned properties were approximately 94.2% occupied, with a weighted average remaining lease term of approximately 5.49 years, and accounted for 94.1% of total revenues for the year ended December 31, 2006 and 94.3% of total revenues for the year ended December 31, 2005.

At December 31, 2006, 79% of the Company s wholly-owned properties are located on hospital campuses and 6% are located off-campus but in which a hospital is the sole or anchor tenant.

The following table contains additional information about the Company s wholly-owned properties as of December 31, 2006.

Wholly-Owned Property	City	Year Built(1)	Net Rentable Square Feet(2)	Occupancy Rate	Annualized Rent(3)	Annualized Rent per Leased Square Foot(4)(5)	Associated Health Care System
California:							
Verdugo Professional Building I(6)	Glendale	1974	63,887	88.4%	$ 1,717,659	$ 30.41	Verdugo Hills Hospital
Verdugo Professional Building II(6)	Glendale	1984	42,906	88.2	1,240,676	32.78	Verdugo Hills Hospital
Total California			106,793	88.3	2,958,335	31.36	
Georgia:							
Augusta POB I(6)(7)	Augusta	1978	99,494	99.5	1,202,288	12.14	University Health Services
Augusta POB II(6)(7)	Augusta	1987	125,634	93.2	2,603,054	22.23	University Health Services
Augusta POB III(6)(7)	Augusta	1994	47,034	90.0	761,623	17.99	University Health Services
Augusta POB IV(6)(7)	Augusta	1995	55,134	85.2	887,602	18.90	University Health Services
Total Georgia			327,296	93.3	5,454,567	17.86	
Indiana:							
Methodist Professional Center One(6)(8)(16)	Indianapolis	1984	174,114	95.4	3,658,887	22.02	Methodist Hospital
Kentucky:							
Our Lady of Bellefonte(6)(8)(9)	Ashland	1997	46,907	100.0	1,108,305	23.63	Our Lady of Bellefonte Hospital
Adjacent Parking Deck		1997			771,593		
Total Kentucky			46,907	100.0	1,879,898	23.63(10)	
Louisiana:							
East Jefferson Medical Office Building(6)(8)(9)	Metairie	1985	119,921	100.0	2,338,867	19.50	East Jefferson General Hospital
East Jefferson Medical Specialty	Metairie	1985	10,809	100.0	966,359	89.40	East Jefferson General Hospital

Building(6)(8)(9)(11)							
Total Louisiana			130,730	100.0	3,305,226	25.28	
North Carolina:							
Barclay Downs	Charlotte	1987	38,395	100.0	785,462	20.46	
Birkdale Medical Village(9)(12)	Huntersville	1997	64,669	100.0	1,350,759	20.89	NorthEast Medical Center
Birkdale Retail(9)	Huntersville	2001	8,269	100.0	205,860	24.90	
Cabarrus POB(6)(8)(9)	Concord	1997	84,972	96.6	1,697,889	20.69	NorthEast Medical Center
Copperfield Medical Mall(12)	Concord	1989	26,000	100.0	569,920	21.92	NorthEast Medical Center
Copperfield MOB(6)(8)(9)	Concord	2005	61,789	82.7	1,102,971	21.58	NorthEast Medical Center
East Rocky Mount Kidney Center(9)(13)	Rocky Mount	2000	8,043	100.0	167,033	20.77	
Gaston Professional Center(6)(8)(9)	Gastonia	1997	114,956	100.0	2,551,072	22.19	Caramont Health System
Adjacent Parking Deck		1997			610,008		
Harrisburg Family Physicians Building(12)	Harrisburg	1996	8,202	100.0	206,049	25.12	Carolinas HealthCare System
Harrisburg Medical Mall(9)(12)	Harrisburg	1997	18,360	100.0	446,699	24.33	NorthEast Medical Center
Lincoln/ Lakemont Family Practice Center(12)	Lincolnton	1998	16,500	100.0	391,338	23.72	Carolinas HealthCare System
Mallard Crossing Medical Park(9)	Charlotte	1997	52,540	89.5	1,127,549	23.98	
Midland Medical Mall(9)(12)	Midland	1998	14,610	92.1	360,528	26.79	NorthEast Medical Center
Mulberry Medical Park(6)(8)(9)	Lenoir	1982	24,992	94.8	406,137	17.14	Caldwell Memorial Hospital, Inc.

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olly-Owned Property	City	Year Built(1)	Net Rentable Square Feet(2)	Occupancy Rate	Annualized Rent(3)	Annualized Rent per Leased Square Foot(4)(5)	Associated Health Care System
thcross Family Medical ctice Building(12)	Charlotte	1993	8,018	100.0	214,428	26.74	Carolinas HealthC System
adolph Medical Park(9)	Charlotte	1973	84,131	94.6	1,705,029	21.42	
cky Mount Kidney ter(9)	Rocky Mount	1990	10,105	100.0	198,765	19.67	
cky Mount Medical k(9)	Rocky Mount	1991	96,993	95.8	1,811,022	19.49	
wan Outpatient Surgery ter(6)(7)(13)	Salisbury	2003	19,464	100.0	404,073	20.76	Rowan Regiona Medical Center
ddington Internal & iatric Medicine(12)	Concord	2000	7,750	100.0	175,228	22.61	NorthEast Medic Center
al North Carolina			768,758	96.1	16,487,819	21.50(14)	
th Carolina:							
Andrews(6)(8)	Greenville	1994	22,898	100.0	419,992	18.34	Bon Secours St Francis Health System
tist Northwest(9)	Columbia	1986	38,703	100.0	736,311	19.02	
ufort Medical za(6)(8)(9)	Beaufort	1999	59,340	100.0	1,178,424	19.86	Beaufort Memori Hospital
y Black Westside(6)(8)(9)	Spartanburg	1991	37,455	100.0	754,082	20.13	Mary Black Hosp
dical Arts Center of ngeburg(7)(9)	Orangeburg	1984	49,324	100.0	867,515	17.59	The Regional Med Center of Orangeburg and Calhoun Countie
Pleasant MOB(3)(6)(9)	Mt. Pleasant	2001	38,735	77.4	721,878	24.08	Roper St. Franci Healthcare
e Medical Park OB(6)(8)(9)	Columbia	1984	69,840	100.0	1,547,263	22.15	Palmetto Health Alliance
kridge MOB(6)(8)	Columbia	2003	89,451	94.6	1,881,026	22.23	
vidence MOB I(6)(8)(9)	Columbia	1979	48,500	100.0	961,970	19.83	Sisters of Charit Providence Hospit
vidence MOB II(6)(8)(9)	Columbia	1985	23,280	100.0	431,534	18.54	Sisters of Charit Providence Hospit
vidence MOB III(6)(7)(9)	Columbia	1991	54,417	94.1	1,025,273	20.02	Sisters of Charit Providence Hospit
er Hills Medical za(9)(12)	Little River	1999	27,566	100.0	812,298	29.47	Grand Strand Regional
er MOB(6)(8)(9)	Charleston	1990	122,785	90.7	2,143,058	19.24	Roper St. Franci Healthcare
Francis Community dical Office	Greenville	2001	45,140	100.0	1,086,299	24.07	Bon Secours St Francis

lding(6)(8)(9)							Health System
Francis MOB(6)(8)(9)	Greenville	1984	49,767	95.6	885,677	18.62	Bon Secours St Francis Health System
Francis Medical za(6)(8)(9)	Greenville	1998	62,724	53.1	649,684	19.51	Bon Secours St Francis Health System
Francis Women s ter(6)(8)(9)	Greenville	1991	57,590	65.2	763,617	20.34	Bon Secours St Francis Health System
ee Medical Park(6)(8)(9)	Columbia	1988	88,755	100.0	1,926,733	21.71	Palmetto Health Alliance
st Medical I(6)(8)(9)	Charleston	2003	28,734	100.0	719,438	25.04	Roper St. Franci Healthcare
al South Carolina			1,015,004	92.1	19,512,072	20.87	
ginia:							
nover MOB(6)(7)	Mechanicsville	1993	56,610	100.0	1,507,190	26.62	Bon Secours Hea System
al			2,626,212	94.2%	$ 54,763,994	$ 21.58(15)	

(1) Represents the year in which the property was placed in service.

(2) Net rentable square feet represents the current square feet at a building under lease as specified in the lease agreements plus management s estimate of space available for lease. Net rentable square feet includes tenants proportional share of common areas.

(3) Annualized rent represents the annualized monthly contracted rent under existing leases as of December 31, 2006.

(4) Annualized rent per leased square foot represents annualized rent, excluding revenues attributable to parking, divided by the net rentable square feet divided by occupancy rate.

(5) Unless otherwise indicated, annualized rent per leased square foot includes reimbursement to the Company for the payment for property operating expenses, real estate taxes and insurance with respect to such property.

(6) On-campus facility.

(7) Subject to a restrictive deed on the property.

(8) Property is a tenant under a long-term ground lease on the property with an unrelated third party.

(9) The Company developed this property.

(10) Excludes annualized rent of adjacent parking deck to Our Lady of Bellefonte from calculation.

(11) East Jefferson Medical Specialty Building is recorded as a sales-type capital lease in the Company s consolidated financial statements. As such, the annualized rent related to the minimum lease payments is not reflected as rental revenue in the statement of operations. However amortization of unearned income is recorded in interest income.

(12) Off-campus facility hospital anchored.

(13) The annualized rent per leased square foot does not include any payments to the Company for payment of property operating expenses, real estate taxes and insurance with respect to such property. The tenant is responsible for payment of these expenses.

(14) Excludes annualized rent of adjacent parking deck to Gaston Professional Center from calculation.

(15) Excludes annualized rent of adjacent parking decks to Our Lady of Bellefonte and Gaston Professional Center from calculation.

(16) Parking revenue from an adjacent parking deck is approximately $880,000 per year.

Joint Venture Properties

As of December 31, 2006, the Company manages and jointly owns four properties with unaffiliated third parties. The Company s ownership interest in these properties ranges from 1.1% to 34.5%.

The following table provides additional information about the Company s joint venture properties as of December 31, 2006.

	Year	**Net Rentable Square**	**Occupancy**	**Annualized**	**Annualized Rent per Leased Square**	**Ownership**	**Debt**	**Associated Healthcare**

roperty	City, State	Built	Feet	Rate	Rent	Foot	Percentage	Balance(1)	System
cLeod MOB ast(2)	Florence, SC	1993	127,458	97.4%	1,964,759	15.83	1.1%	13,068,020	McLeod Regional MedicalCenter
cLeod ee Dee ledical ark(2)	Florence, SC	1982	33,756	99.5	509,742	15.18	1.1	13,068,020	McLeod Regional Medical Center
cLeod IOB Vest(2)	Florence, SC	1986	52,574	96.7	692,928	13.63	1.1	13,068,020	McLeod Regional Medical Center
ocky lount IOB	Rocky Mt., NC	2002	35,393	89.6	768,941	24.25	34.5	4,245,316	
otal			249,181		$ 3,936,370			$ 17,313,336	

(1) Amounts are for the entity, not just the Company s interest in the real estate joint venture.

(2) Total debt of $13.1 million is secured by all three properties listed.

The Company has a 2.0% ownership in Shannon Health/MOB Limited Partnership No. 1 and a 2.0% ownership in BSB Health/MOB Limited Partnership No. 2. These ownership interests were assumed as part of the Consera acquisition (See Note 4 to the accompanying financial statements). The partnership agreements and tenant leases of the limited partners are designed to give preferential treatment to the limited partners as to the operating cash flows from the partnerships. The Company, as the general partner, does not generally participate in the operating cash flows from these entities other than to receive property management fees. The limited partners can remove the Company as the property manager and as the general partner. Due to the structures of the partnership

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agreements and tenant lease agreements, the Company reports the properties owned by these two joint ventures as fee managed properties owned by third parties.

Item 3. ***Legal Proceedings***

The Company is, from time to time, involved in routine litigation arising out of the ordinary course of business or which is expected to be covered by insurance and which is not expected to harm the Company s business, financial condition or results of operations. The Company is not, however, involved in any material litigation nor, to its knowledge, is any material litigation pending or threatened against the Company.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote by security holders during the fourth quarter of 2006.

PART II

Item 5. ***Market for Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities***

Market Information

The Company s common stock trades on the New York Stock Exchange (NYSE) under the symbol CSA . The following table sets forth, for the period indicated, the high and low sales price for the Company s common stock as reported by the NYSE and the per share dividends declared:

Period	High	Low	Dividends Declared
2005			
October 27, 2005 to December 31, 2005	$ 17.29	$ 15.98	$ 0.2333(1)
2006			
First Quarter	$ 21.51	$ 17.30	$ 0.35
Second Quarter	$ 21.13	$ 18.08	$ 0.35
Third Quarter	$ 21.29	$ 18.20	$ 0.35
Fourth Quarter	$ 22.89	$ 19.71	$ 0.35

(1) Pro-rata quarterly dividend is for the period November 1, 2005 through December 31, 2005 and is based on a dividend of $0.35 per share for a full quarter.

On February 28, 2007, the closing price of the Company s common stock (Common Stock) as reported by the NYSE was $21.92. At February 28, 2007, the Company had 101 holders of record of its Common Stock.

Holders of shares of Common Stock are entitled to receive distributions when declared by the Board of Directors out of any assets legally available for that purpose. As a REIT, the Company is required to distribute at least 90% of its REIT taxable income, which, as defined by the relevant tax status and regulations, is generally equivalent to net taxable ordinary income, to shareholders annually in order to maintain the Company s REIT status for federal income tax purposes. The Company s Credit Facility includes limitations on the Company s ability to make distributions to its stockholders, subject to complying with REIT requirements.

The Company s dividend is restricted by its Credit Facility. The Company can pay dividends of the greater of (A) 100% of Funds from Operations per quarter or (B) $0.35 per share per quarter.

The Company has reserved 1,000,000 shares of its common stock for issuance under its 2005 long-term incentive plan.

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Stockholder Return Performance

Prior to October 27, 2005, the Company was not publicly traded and there was no public market for the Company s securities. The following graph compares the cumulative total return on the Company s Common Stock with that of the Standard and Poor s 500 Stock Index (S&P 500 Index) and the National Association of Real Estate Investment Trusts Equity Index (NAREIT Equity Index) from October 27, 2005 (the date that the Company s Common Stock began to trade publicly) through December 31, 2006. The stock price performance graph assumes that an investor invested $100.00 in each of the Company and to the indices, and the reinvestment of any dividends. The comparisons in the graph are provided in accordance with the SEC disclosure requirements and are not intended to forecast or be indicative of the future performance of the Company s shares of Common Stock.

Except to the extent that we specifically incorporate this information by reference, the foregoing Stockholder Return Performance information shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on form 10-K into any filing under the Securities Act of 1933, as amended (the Securities Act), or under the Securities Exchange Act of 1934, as amended. This information shall not otherwise be deemed filed under such acts.

Unregistered Sales of Equity Securities and Use of Proceeds

On September 28, 2006, the Operating Partnership issued an aggregate of 289,197 OP units, having an aggregate value of $6.0 million. These OP units were issued in exchange for ownership interest in limited liability companies as part of private placement transactions under Section 4(2) of the Securities Act and the rules and regulations promulgated thereunder. In light of the manner of sale and information obtained by the Operating Partnership from persons receiving OP units in connection with these transactions, the Operating Partnership believes it may rely on this exemption. OP units are redeemable for the cash equivalent thereof at a time one year after the date of issuance, or, at the option of the Company and Operating Partnership, exchangeable into shares of common stock in the Company on a one-for-one basis. No underwriters were used in connection with such issuance.

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Issuer Purchases of Equity Securities

Below is a summary of equity repurchases by month for the quarter ended December 31, 2006:

For the Month Ended	Total Number of Equity Securities Purchased	Average Price Paid Per Equity Security	Total Number of Equity Securities Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Equity Securities that May Yet Be Purchased Under the Plan
October 1 - October 31, 2006	0	N/A	N/A	N/A
November 1 - November 30, 2006	64,336	$ 21.98	N/A	N/A
December 1 - December 31, 2006	5,568	$ 21.35	N/A	N/A
Total	69,904	$ 21.93	N/A	N/A

These figures only relate to repurchases of Operating Partnership units. The Company did not repurchase shares of Common Stock during the quarter ended December 31, 2006.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	N/A(1)	N/A	596,107
Equity compensation plans not approved by security holders			

Total	N/A(1)	N/A	596,107

(1) These amounts include information related to the Company s 2005 Long-Term Incentive Plan. As of December 31, 2006, the Company issued 58,100 shares of restricted stock and 345,793 LTIP units.

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Item 6. ***Selected Financial Data***

The following table sets forth selected consolidated financial and operating data on an historical basis for the Company and a combined historical basis for the Predecessor. The Predecessor is not a legal entity, but represents a combination of certain real estate entities based on common management by Cogdell Spencer Advisors, Inc. No historical information for the Company is presented prior to the consummation of the Company s Initial Public Offering on October 27, 2005 (the Offering) because the Company did have any corporate activity until the completion of the Offering other than the issuance of shares of Common Stock in connection with the initial capitalization of the Company.

The following table should be read in conjunction with the Financial Statements and notes thereto included in Item 8, Financial Statements and Supplementary Data and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K.

	Company		Predecessor			
	For the Year Ended December 31, 2006	November 1, 2005 - December 31, 2005	January 1, 2005 - October 31, 2005	For the year ended December 31, 2004	2003	2002
Revenues:						
Rental	$ 52,614	$ 7,006	$ 35,794	$ 40,440	$ 38,783	$ 37,470
Management fee revenue	1,304	136	770	1,230	1,182	1,540
Expense reimbursements	773	94	565	840	806	875
Development fee revenue	158	85	680	1,134	179	331
Interest and other income	928	127	879	843	849	842
Total revenues	55,777	7,448	38,688	44,487	41,799	41,058
Expenses:						
Property operating and management	19,848	2,583	13,058	14,756	14,032	13,259
General and administrative	6,368	7,791	5,129	3,075	2,928	2,845
Depreciation and amortization	30,273	4,125	8,444	9,561	11,381	15,656
Interest	14,199	1,500	8,222	9,024	9,760	9,524
Loss from early extinguishment of debt	37	103				
Total expenses	70,725	16,102	34,853	36,416	38,101	41,284
Income (loss) from continuing operations before equity in earnings (loss) of unconsolidated real estate partnerships, gain from sale of real estate partnerships,	(14,948)	(8,654)	3,835	8,071	3,698	(226)

minority interests in real estate partnership, and minority interests in operating partnership						
Equity in earnings (loss) of unconsolidated real estate partnerships	4	3	(47)	(60)	(74)	(136)
Gain from sale of real estate partnerships	484					27
Minority interests	5,087	3,054				
Income (loss) from continuing operations	(9,373)	(5,597)	3,788	8,011	3,624	(335)
Discontinued operations:						
Income (loss) from discontinued operations	(9)	(4)	36	33	47	121

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	Company			Predecessor		
	For the Year Ended December 31, 2006	November 1, 2005 - December 31, 2005	January 1, 2005 - October 31, 2005	For the year ended December 31, 2004	2003	2002
Gain from sale of real estate properties	435					613
Minority interests in operating partnership	(150)	1				
Total discontinued operations	276	(3)	36	33	47	734
Net income (loss)	$ (9,097)	$ (5,600)	$ 3,824	$ 8,044	$ 3,671	$ 399
Per Share:						
Declared dividend	$ 1.40	$ 0.2333				
Loss from continuing operations basic and diluted	$ (1.17)	$ (0.70)				
Net loss basic and diluted	$ (1.14)	$ (0.70)				
Weighted average shares basic and diluted	7,975	7,972				
Weighted average shares and units basic	12,590	12,197				
Weighted average shares and units diluted	12,612	12,225				
Selected Balance Sheet Data:						
Assets:						
Real estate properties, net	$ 351,172	$ 257,144		$ 155,376	$ 148,439	$ 147,544
Other assets, net	41,886	49,808		21,915	16,411	17,942
Other assets held for sale		1,530		1,134	1,149	1,184
Total assets	$ 393,058	$ 308,482		$ 178,425	$ 165,999	$ 166,670
Liabilities and owners equity (deficit):						
Mortgages and line of credit	$ 262,031	$ 158,974		$ 213,536	$ 201,133	$ 197,126
Other liabilities, net	17,351	7,750		10,016	10,532	11,789
Other liabilities held for sale		1,272		1,300	1,421	1,444
Minority interests	54,001	62,018				
Owners equity (deficit)	59,675	78,468		(46,427)	(47,087)	(43,689)
	$ 393,058	$ 308,482		$ 178,425	$ 165,999	$ 166,670

Total liabilities and owners equity (deficit)												
Cash Flow Data:												
Net cash provided by operating activities	$	15,900	$	1,635	$	10,312	$	16,089	$	12,738	$	13,326
Net cash used in investing activities	$	(103,587)	$	(27,462)	$	(5,939)	$	(13,767)	$	(7,523)	$	(8,584)