

CapitalSource Healthcare REIT
Form S-11/A
September 29, 2008

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As filed with the Securities and Exchange Commission on September 29, 2008

Registration No. 333-152825

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**AMENDMENT NO. 1
TO
FORM S-11**

FOR REGISTRATION UNDER THE SECURITIES ACT OF 1933
OF SECURITIES OF CERTAIN REAL ESTATE COMPANIES

CapitalSource Healthcare REIT

(Exact name of registrant as specified in its declaration of trust)

MARYLAND

(State or other jurisdiction of
incorporation or organization)

26-2730129

(I.R.S. Employer Identification)

**30699 Russell Ranch Road
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Westlake Village, CA 91362
(800) 370-9431**

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
		(Do not check if a smaller reporting company)	

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may change. The selling shareholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell the securities, nor is it a solicitation of an offer to buy the securities in any jurisdiction where an offer or sale is not permitted.

PROSPECTUS SUBJECT TO COMPLETION, DATED SEPTEMBER 29, 2008

Shares

Common Shares of Beneficial Interest

CapitalSource Healthcare REIT is a newly organized real estate investment trust, or REIT, formed principally to invest in healthcare-related real estate assets. We are managed and advised by a wholly owned subsidiary of CapitalSource Inc. (NYSE: CSE), or CapitalSource. Upon completion of this offering and its contribution to us of our initial assets as described in this prospectus, CapitalSource will own approximately % of our outstanding common shares of beneficial interest, or common shares.

We intend to qualify as a REIT for federal income tax purposes. Our common shares are subject to ownership limitations that are intended to assist us in qualifying and maintaining our qualification as a REIT. Our board of trustees intends to grant a limited exemption from these ownership limits to CapitalSource.

This is our initial public offering and no public market currently exists for our common shares. CapitalSource is offering all of the common shares to be sold in this offering. We will not receive any proceeds from the sale of common shares by CapitalSource. We anticipate that the initial public offering price of these common shares will be between \$ and \$ per share. After this offering, the market price for our common shares may be outside this range. We have applied to list our common shares on the New York Stock Exchange under the symbol "CHR."

Investing in our common shares involves a high degree of risk. See "Risk Factors" beginning on page 17.

	Per Share	Total
Offering price	\$	\$
Discounts and commissions to underwriters	\$	\$
Offering proceeds to CapitalSource, before expenses	\$	\$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

CapitalSource has granted the underwriters an option to purchase up to additional common shares on the same terms and conditions as set forth above if the underwriters sell more than common shares in this offering. The underwriters can exercise this right at any time and from time to time, in whole or in part, within 30 days after the offering. The underwriters expect to deliver the common shares to investors on or about , 2008.

Banc of America Securities LLC Citi Deutsche Bank Securities

The date of this prospectus is , 2008.

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You should rely only on the information contained in this prospectus. We and CapitalSource have not, and the underwriters have not, authorized anyone to provide you with different information. CapitalSource is not making an offer of these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate as of the date on the front of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

Information contained in our web site does not constitute part of this prospectus.

CapitalSource Healthcare REIT and other trademarks mentioned in this prospectus are the property of their respective owners.

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This prospectus includes market share, industry data and forecasts that we obtained from various U.S. government agencies, including the U.S. Census Bureau and the Centers for Medicare and Medicaid Services. In this prospectus, we also refer to additional information regarding market data obtained from internal sources, market research, and publicly available information.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It is not complete and may not contain all of the information that you should consider before investing in our common shares. You should read this entire prospectus, including the information set forth under "Risk Factors" and our historical combined financial statements and related notes appearing elsewhere in this prospectus, before deciding to invest in our common shares.

In this prospectus, unless the context otherwise requires or indicates, references to "we," "our company," "our," and "us" refer to CapitalSource Healthcare REIT and its subsidiaries. Unless the context otherwise requires or indicates, references to "CapitalSource" are to CapitalSource Inc. and its consolidated subsidiaries, including CapitalSource Finance LLC, the wholly owned subsidiary that will serve as our manager, and CSE Mortgage LLC, the wholly owned subsidiary that will sell all of the shares offered hereby. References to CapitalSource do not include us. All references in this prospectus to information about our assets, financial condition and results of operations are on a pro forma basis and reflect the contribution to us of all assets immediately prior to the closing of this offering, including those that may be transferred post-closing due to consent requirements. See "Other Arrangements Between Capital Source and Us Master Transaction Agreement The Contribution."

OVERVIEW OF OUR COMPANY

We are a newly organized Maryland real estate investment trust, or REIT, investing in income producing healthcare-related facilities, principally skilled nursing facilities, or SNFs, located in the United States. Upon consummation of this offering, we believe we will own one of the largest portfolios of SNFs in the United States. As of June 30, 2008, our portfolio of properties consisted of 186 facilities located in 23 states and operated by 41 third-party operator groups. Approximately 98% of these facilities are SNFs, with the remainder being either long-term acute care facilities or assisted living facilities, or ALFs. In addition to these properties, we will hold a \$150 million interest in a \$375 million, five-year mezzanine loan made by CapitalSource in 2007. In this prospectus, we refer to this loan as the Genesis mezzanine loan.

We are managed by CapitalSource Finance LLC, a wholly owned subsidiary of CapitalSource Inc., a NYSE-listed, middle market commercial finance company which will own % of our outstanding common shares following this offering. CapitalSource has been a significant lender to middle market healthcare companies since its inception in 2000. CapitalSource commenced its healthcare net lease business in January 2006 and, through June 30, 2008 made approximately \$1.1 billion of direct real estate investments, all of which will be contributed to us. We believe that CapitalSource's expertise, knowledge and relationships will enable us to originate, manage and enhance our healthcare-related investments. In addition, we believe that, along with our sale leaseback product, CapitalSource's commercial lending business allows us to offer a broader array of healthcare financing solutions to facility operators than other healthcare REITs. As a result, we expect to see a wider range of quality investment opportunities.

We expect to continue to invest primarily in SNFs. These properties fill an important and growing need in the healthcare industry by offering restorative, rehabilitative and custodial nursing care to seniors and other people not requiring the more extensive treatment available at hospitals. SNFs provide services to residents beyond room and board, including occupational, physical, speech, respiratory and intravenous therapy, wound care, and orthopedic therapy as well as sales of pharmaceutical products and other services, which are generally not available in other forms of senior housing such as ALFs or independent living facilities, or ILFs. We believe that SNFs represent a highly attractive investment opportunity due to the aging of the United States population, the declining number of nursing homes, barriers to entry for new SNF construction and CapitalSource's in-depth knowledge of the healthcare reimbursement system.

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We generate most of our revenues from our ownership of healthcare facilities through long-term triple-net leases with qualified operators. Under a typical triple-net lease, an operator agrees to pay a base monthly operating lease payment, subject to annual escalations, and all facility operating expenses, including real estate taxes and insurance, as well as make capital improvements. We also generate interest and fee income from our interest in the Genesis mezzanine loan. For the year ended December 31, 2007 and for the six months ended June 30, 2008, on a pro forma basis, we generated total revenues of \$125.6 million and \$63.7 million, net income of \$46.4 million and \$28.8 million, funds from operations, or FFO, of \$82.5 million and \$46.7 million, and funds available for distribution, or FAD, of \$75.8 million and \$42.6 million, respectively. FFO and FAD are not financial measures recognized under generally accepted accounting principles in the United States, or GAAP, and therefore, should not be considered a measure of liquidity, an alternative to net income or an indicator of any other performance measure determined in accordance with GAAP. Like many other REITs, we use FFO and FAD as supplemental measures of operating performance, as historical cost accounting for real estate assets assumes that the value of these assets diminishes predictably over time as evidenced by the provision for depreciation. Since real estate values have historically risen or fallen with market conditions, we believe that FFO and FAD should be examined in conjunction with net income to facilitate a clear understanding of our combined historical results. For more information with respect to FFO and FAD and a reconciliation of FFO and FAD to GAAP net income, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

OUR MANAGER

We have a long-term management agreement with a wholly owned subsidiary of CapitalSource, a commercial finance, investment and asset management company focused on the middle market. CapitalSource provides senior and subordinate commercial loans, invests in real estate and residential mortgage assets, and engages in asset management and servicing activities. CapitalSource has approximately 95 professionals dedicated to the healthcare industry, including 14 employees focused on healthcare real estate investment origination and 18 portfolio management employees, whose primary focus is healthcare real estate. In addition, our relationship with CapitalSource offers us access to CapitalSource's proprietary asset management database, its unique systems and its disciplined processes for underwriting and monitoring operators' asset performance. Our officers, who are employees of CapitalSource, have extensive experience investing in healthcare-related assets at CapitalSource and with other healthcare finance companies. Although our officers will not be dedicating all of their time to us, we believe the equity incentives expected to be granted to them in connection with this offering will ensure that their interests are aligned with those of our shareholders.

Under our management agreement, our manager is responsible for administering our business activities and day-to-day operations, including sourcing originations, providing underwriting services and processing approvals for all real estate investments. Our manager also provides administrative, servicing and portfolio management functions with respect to our business and assets. Our manager's well-established operations and services benefit us in each of these areas.

In exchange for these services, we have agreed to pay our manager a management fee monthly in arrears in an amount equal to one-twelfth of 0.50% of the average daily value of our gross invested assets for that month. For these purposes, our gross invested assets constitute the sum of our net real estate investments plus accumulated depreciation plus our loan receivables. Our manager will use the proceeds from this fee in part to pay compensation to its employees providing services to us who, notwithstanding that certain of them also are our officers, will receive no cash compensation directly from us.

Pursuant to the management agreement, we will pay all our operating expenses, except those specifically required to be borne by our manager or its affiliates, including our manager's and its affiliates' insurance costs, overhead expenses, information technology costs and the expenses incurred in

connection with this offering. Our manager is also responsible for the employment expenses (including, without limitation, salary, benefits, employment taxes, other wages, bonus and equity incentive plans of it and its affiliates) of its and its affiliates' employees, including our officers and any trustees who are also employees of our manager and its affiliates but excluding equity incentive compensation provided by us.

Assuming we had held all of our pro forma assets commencing January 1, 2007, we would have paid CapitalSource management fees of approximately \$3.0 million for the six months ended June 30, 2008 and approximately \$6.1 million for the year ended December 31, 2007.

We have established a policy designed to minimize potential conflicts of interests with CapitalSource and to allocate investment opportunities between us. Under that policy, we will have the first right to invest in all types of healthcare-related real property that are originated by or presented to CapitalSource through direct acquisitions of healthcare-related real property or equity investments in entities owning healthcare-related real property, and CapitalSource will have the first right to provide mortgage and other debt financing to healthcare-related companies through its commercial finance business. Our conflicts of interest policy also provides that all pari passu co-investments we make with CapitalSource must be on terms at least as favorable to us as to CapitalSource. All of our investments, regardless of whether originated or sourced by CapitalSource, will require approval of our independent trustees pursuant to our management agreement. For more information on these matters, see "Conflicts of Interest in Our Relationship with CapitalSource."

OUR COMPETITIVE STRENGTHS

We believe several characteristics distinguish us from our competitors, including:

Significant Benefits from Our Affiliation with CapitalSource. We believe our relationship with CapitalSource provides us with several significant benefits:

Extensive Experience in the Healthcare Real Estate Industry. CapitalSource provides us with a team of professionals with extensive experience in the healthcare real estate sector. Since its inception in 2000, CapitalSource has originated approximately \$3.7 billion of healthcare real estate and mortgage investments. We believe that CapitalSource's sophisticated platform and infrastructure provide us with operating efficiencies and capabilities that differentiate us from our competitors.

Sizable Network of Relationships. Our agreement with CapitalSource provides us with access to a significant number of acquisition opportunities through the large number of relationships CapitalSource has cultivated and currently maintains with SNF operators. These relationships include our existing network of 41 operator groups and CapitalSource's past, current and prospective clients. CapitalSource's pre-existing relationships led to ten of our thirteen acquisitions, having a total purchase price of \$512 million. The remaining three acquisitions, having a total purchase price of \$542 million, were originated by our senior leadership team through their relationships with the prior owners of the properties.

Strong Brand Identity. We believe that CapitalSource has established a reputation in the healthcare finance industry as a source of capital for middle market operators. As an entity that is managed by CapitalSource and bears the CapitalSource name, we believe that we benefit from this widely recognized reputation.

Multiple Product Offerings. We believe CapitalSource's ability to offer SNF operators first mortgage, mezzanine, cash flow and asset-based revolving credit facilities makes CapitalSource a key source of financing for healthcare industry participants. We believe this helps to expand the universe of acquisition opportunities available to us.

Attractive Existing Portfolio. Our portfolio of properties as of June 30, 2008 included 186 long-term care facilities containing 22,179 beds. In addition to these properties, we hold a \$150 million interest in the Genesis mezzanine loan made in 2007.

Diverse Portfolio with Large Number of Operators. Our facilities have 41 different operator groups and are located in 23 states. Only three operator groups produced more than 10% of our contractual rental income, with the largest operator group contributing only 13% for the six months ended June 30, 2008. The substantial majority of our operator groups each contributed less than 5% of our contractual rental income for that period.

Defensible Market Niche. Substantially all of the income generated from our facilities for the six months ended June 30, 2008 was derived from facilities in states that require approval for development and expansion of healthcare facilities. These states, as well as the remaining states in which we own properties, require Medicaid contracts for operators to accept residents reliant on Medicaid reimbursement. We believe that these barriers limit competition for our operators and enhance the value of our properties and the stability of our earnings.

Significant Presence in Attractive Markets. For the six months ended June 30, 2008, approximately 37% and 16% of our portfolio, measured by contractual rental income, consisted of assets located in Florida and Texas, respectively. We believe that Florida and Texas are attractive markets in which to invest. Both states have a large and growing elderly population, a large number of quality operators, and have recently passed tort reform legislation, which we believe makes the operating environments in these states more favorable.

Stable and Predictable Cash Flow. As of June 30, 2008, approximately 86% of our leases, measured by contractual rental income, had primary terms that expire in 2013 or later and average remaining lease terms of 8.4 years. Substantially all of our leases provide for minimum annual rents that are subject to annual increases based upon increases in the Consumer Price Index, or CPI, or a fixed minimum percentage of between 2% and 3%. We regularly monitor our credit risk under our lease agreements with our operators by, among other things, evaluating two key metrics that we believe best portray each operator's ability to pay rent to us. Using financial information reported to us, we monitor for each lease the ratios of facilities' annualized net operating income, or NOI, before and after management fees to annualized contractual rental income. For the six months ended June 30, 2008, the ratios of NOI before and after management fees were 2.2 and 1.5, respectively.

Proven Ability to Acquire Assets at Attractive Terms. CapitalSource commenced its healthcare net lease business in 2006. During 2006, we acquired 128 properties, which increased our net real estate investments to \$721.0 million as of December 31, 2006. During 2007, we acquired another 59 properties, increasing our net real estate investments by approximately 39% to \$1.0 billion as of December 31, 2007. As of June 30, 2008, our average asset acquisition cost per bed was \$47,102. Since acquiring our first healthcare net lease assets in January 2006 through June 30, 2008, we have collected over 99% of the rents billed.

Attractive Capital Structure with Significant Availability. Following completion of this offering, we will have a ratio of total debt to total assets of 28.6%, which we believe compares favorably to most public healthcare REITs. In addition, we expect to have \$ million of committed, undrawn available credit, which provides us with significant capacity to fund future investments.

Strong Senior Leadership. John K. Delaney, the chairman of our board of trustees, is the co-founder, chairman and chief executive officer of CapitalSource, a position he has held since inception in 2000. James J. Pieczynski, our president and chief executive officer, is co-president

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of the healthcare and finance business of CapitalSource. Messrs. Delaney and Pieczynski have an average of 15 years experience in the healthcare finance and real estate industries.

Strong Alignment of Interests with CapitalSource and Management. We believe that we have a mutually beneficial relationship with CapitalSource, which provides us with a strong alignment of interests. We believe that our sale leaseback product presents an attractive financing alternative for CapitalSource's existing and prospective clients, and provides CapitalSource with a broader array of products to market to healthcare industry participants. Following completion of this offering, CapitalSource will own approximately % of our outstanding common shares. In addition, we intend to grant to our executive officers equity incentives in connection with this offering. We believe that CapitalSource's significant equity ownership in us and the equity incentives expected to be granted to our officers will ensure that the interests of CapitalSource, our officers and our other shareholders are aligned.

OUR ASSETS

Our Portfolio of Properties

As of June 30, 2008, our healthcare net lease portfolio consisted of 186 facilities with 22,179 beds in 23 states leased to 41 third-party operator groups. These facilities, which are principally SNFs, are subject to long-term, triple-net leases. We may lease an individual property to a single operator as part of an individual lease or we may lease multiple properties to a single operator as part of a master lease. We may also enter into multiple leases with a single operator. In addition, certain of our individual operators may be different subsidiaries of a common parent company or may have received guarantees from a common guarantor. As such, for determining concentrations of risk, we aggregate properties into operator groups based upon (1) related acquired properties under leases that share the same operator or guarantor or (2) a single entity that may be held liable for the rental payments on two or more properties as either operator or guarantor (through cross-collateralization or cross-default provisions). As of June 30, 2008, 156 of our 186 properties were subject to master leases or were cross-defaulted, providing additional credit support for the performance of these 156 properties.

The following tables summarize information about these properties as of and for the six months ended June 30, 2008:

Operator Diversification

Operator Group	Facilities	Beds	Percentage of Contractual Rental Income
Delta Health Group	17	2,186	13.3%
Florida Institute for Long Term Care, LLC	18	2,439	12.4%
New Bell Facilities Services, L.P.	36	4,216	11.1%
TenInOne Acquisition Group, LLC	10	1,574	7.7%
Signature Holdings II, LLC	10	937	6.0%
Other (36 operator groups)	95	10,827	49.5%
Total	186	22,179	100.0%

Geographic Diversification

State	Facilities	Beds	Percentage of Contractual Rental Income
Florida	59	7,302	37.1%
Texas	46	5,517	16.2%
Tennessee	10	1,589	9.7%
Indiana	14	1,392	6.4%
Mississippi	6	634	3.9%
Other (18 states)	51	5,745	26.7%
Total	186	22,179	100.0%

Our Loan Asset

Our loan asset is a \$150 million interest in the Genesis mezzanine loan, a \$375 million, five-year mezzanine loan made to FC-Gen Acquisition, Inc., a subsidiary of the entity that acquired the assets formerly owned by Genesis. The Genesis mezzanine loan matures in July 2012 and bears interest at a rate of 30-day LIBOR plus 7.5%. Interest on the loan is payable monthly in arrears. There is also a \$3.75 million termination fee due at the time of repayment of the loan, of which we are entitled to \$1.5 million. In addition, there is an additional termination fee that accrues monthly at the rate of 1% per annum on the outstanding principal balance of the loan and is payable at the time of the repayment of the loan. As of June 30, 2008, Genesis operated 137 owned properties (16,633 beds), 43 leased properties (5,261 beds), and 28 joint venture or managed facilities (3,830 beds). Of these facilities, 184 are SNFs and 24 are ALFs. In addition, as of June 30, 2008, Genesis operated an ancillary division that provides rehabilitation therapy services to providers. CapitalSource holds a \$175 million interest in the Genesis mezzanine loan and holds a \$50 million interest in the \$1.3 billion first mortgage loan made to the property owning entities of the facilities and their ultimate parent. The remaining \$50 million interest in the Genesis mezzanine loan is held by an affiliate of Citigroup Global Markets Inc., one of the underwriters in this offering.

Recent Developments

In September 2008, CapitalSource entered into a letter of intent with one of our operators to sell all four of our facilities in Nevada and one of our facilities in Kansas for aggregate proceeds of \$26 million. We will acquire and hold these assets subject to the terms of this proposed sale transaction, and we will retain the proceeds from the sale. The proposed transaction remains subject to completion of due diligence and other customary closing conditions. If this transaction is consummated, our portfolio of properties will be reduced to 181 facilities with 21,685 beds. We intend to use the proceeds from this sale for general corporate purposes.

OUR INDUSTRY AND MARKET OPPORTUNITY

Healthcare is one of the largest industries in the United States and has strong growth characteristics. According to the 2007 National Health Expenditures forecast published by the Centers for Medicare and Medicaid Services, or CMS, healthcare spending in the United States is projected to grow at a compound annual growth rate, or CAGR, of approximately 6.7% through 2017. As a percentage of gross domestic product, or GDP, healthcare spending is projected to increase by over 3% to 19.5% of GDP in 2017 with an expected spending level of over \$4.3 trillion. CMS projects that national nursing home expenditures will grow from \$124.9 billion in 2006 to \$217.5 billion in 2017, representing a 5.2% CAGR.

A primary reason for the rapid expected growth in healthcare spending and a primary growth driver for long-term care facilities is the aging of the U.S. population and increasing life expectancies. According to a 2008 report by the Federal Interagency Forum on Aging-Related Statistics, in 2006, there were approximately 37 million people aged 65 or older, comprising just over 12% of the total U.S. population. The number of Americans aged 65 or older is expected to climb from approximately 37 million in 2006 to approximately 48 million in 2017, representing a CAGR of 2.5%, compared to a total U.S. population which is expected to grow at a CAGR of 0.8% over the same period. In 2030, the population of this age category is expected to be twice as large as in 2006, growing from 37 million to 71.5 million and representing nearly 20% of the total U.S. population. In addition, CMS projects that the number of Americans aged 85 or older is expected to increase 13% by 2010 and 27% by 2020. We believe these statistics validate our investment thesis, as there is a direct correlation between increased usage of SNFs and increases in age. In 2005, there were 30 SNF stays per 1,000 Medicare enrollees aged 65-74, compared with 228 stays per 1,000 Medicare enrollees age 85 and over. Overall, for Medicare enrollees aged 65 and over, SNF stays increased significantly from 28 per 1,000 Medicare enrollees in 1992 to 79 per 1,000 Medicare enrollees in 2005.

In addition to positive demographic trends, the demand for services provided by operators of SNFs is expected to increase substantially during the next decade primarily due to the impact of cost containment measures by government and private-pay sources. We expect payors to continue to transfer higher acuity patients from hospitals to less expensive care settings, such as SNFs.

According to CMS, in 2007 there were approximately 15,800 nursing homes with approximately 1.7 million beds and an average occupancy rate of 89%. We believe that the demand for these properties will continue to increase over time as a result of the aging population and limited new construction, coupled with a slight reduction in the number of nursing homes over the past several years. In addition to the typical zoning concerns and construction costs that generally limit all new construction projects, there are two other reasons why we expect new SNF construction to be limited. First, in many states it is a condition precedent to construction and operation of a new SNF that the operator obtain a certificate of need, or CON, from appropriate state regulators. Typically, state regulators grant CONs only if there is a clearly demonstrated need for additional facilities, which generally requires the operator/applicant to show that all other facilities in the targeted area are operating at or above 95% occupancy levels. This regulatory hurdle creates a considerable barrier to entry for new facility construction. Second, although private pay options and Medicare reimbursement represent the high margin portion of the nursing home industry, CMS notes that approximately 65% of the occupants of SNFs receive Medicaid benefits. As a result, facility operators must obtain and maintain long-term Medicaid contracts to provide them with suitable assurances that they will be able to operate with stable revenue streams. As with CONs, Medicaid contracts must be entered into with state agencies that are the payors of Medicaid reimbursement. These agencies operate within budgets and typically approve new reimbursement contracts only if there is a clearly demonstrated need. Again, this barrier to entry puts owners of existing facilities at a competitive advantage as compared to prospective new entrants into the SNF market.

OUR STRATEGY

Our strategy is to capitalize on CapitalSource's platform to identify, evaluate and invest in properties that will provide us with strong, stable cash flow and capital appreciation. We expect to expand and further diversify our portfolio over time as follows:

Utilize the CapitalSource Platform to Source New Investments

As a provider of financing alternatives to SNF operators and other middle market healthcare companies, CapitalSource has developed a platform to source potential healthcare real estate investments. CapitalSource has many significant relationships within the healthcare real estate industry

and a team of dedicated employees who are responsible for identifying, evaluating, acquiring and monitoring new healthcare investments. We believe that CapitalSource's broad network of industry relationships and extensive resources will provide us with access to a strong pipeline of future acquisition opportunities.

Capitalize on Current Attractive Industry Conditions

We believe that our industry is characterized by several attractive attributes that increase the number and the quality of investment opportunities available to us, including:

Growing demand for SNF services due to an aging population;

Cost containment measures by the government and private payors, which we believe will result in increased demand for our properties;

Highly fragmented industry with numerous small and mid-size operators who may prefer a sale-leaseback transaction as a financing option in order to lock in their cost of real estate and minimize their own equity investment in real estate;

Significant regulatory restrictions for new SNFs;

Need for new capital in existing facilities due to aging of physical infrastructure;

Stability of the current healthcare reimbursement system relative to that of the past;

Current credit conditions reducing the number of financing options available to operators, making our triple-net financing product more attractive; and

We believe other healthcare REITs have reduced their focus on SNFs and are repositioning their portfolio to a higher private pay mix and, consequently, are less willing to commit new capital to the SNF industry.

Identify Attractive Investment Opportunities with New and Existing Operators

We intend to focus our business and investment efforts on locating established, creditworthy, small owners and regional chains with operators that meet our standards for high quality and managerial experience. Our past, current and prospective clients and the clients of CapitalSource provide us with the foundation for an attractive investment strategy. We intend to pursue acquisitions that diversify our portfolio geographically and increase the number of our operators. We believe CapitalSource's underwriting experience allows it to accurately assess the quality of the operators with which we do business. CapitalSource has developed systems and personnel to evaluate potential investments to ensure we continue to invest in quality and profitable assets. Prior to making an investment, CapitalSource considers the facility's historical and forecasted cash flow and its ability to meet operational needs, including capital expenditures. In addition, CapitalSource considers qualitative factors such as the quality and experience of management, the creditworthiness of the operator of the facility, the physical condition and geographic location of the facility, the reimbursement environment, the occupancy and demand for similar healthcare facilities in the same or nearby communities, the payor mix and the overall general economic environment.

Opportunistically Expand into Additional Asset Classes

Pursuant to the terms of our management agreement, we will have the first right to make all direct acquisitions of real property or equity investments in entities owning healthcare-related real property originated by or presented to CapitalSource. We may expand our portfolio of properties opportunistically to include other types of healthcare properties such as ILFs and ALFs or add additional loans to qualified operators. We may also expand our investment strategy to include other net leased assets that we believe would benefit from CapitalSource's underwriting and servicing expertise.

OUR CORPORATE STRUCTURE

Immediately prior to the consummation of this offering, CapitalSource will contribute all of its healthcare net lease assets and a \$150 million interest in the Genesis mezzanine loan to us in exchange for common shares. CapitalSource will sell all of the shares to be sold in this offering. The following chart shows the structure of our organization following completion of this offering:

SUMMARY RISK FACTORS

An investment in our common shares involves significant risks. You should carefully consider the risks discussed in the section "Risk Factors" beginning on page 17 prior to deciding whether to invest in our common shares. These risks include, but are not limited to, the following:

We are highly dependent upon CapitalSource for our success and may not find a suitable replacement if the management agreement expires without being renewed or is terminated.

The terms of the management agreement and the agreement by which we will acquire our initial assets from CapitalSource were not negotiated on an arm's-length basis, and may not be as favorable to us as if these agreements had been negotiated with a third party.

CapitalSource will control more than a majority of our outstanding common shares following completion of this offering, enabling it to control the outcome of all matters submitted to our shareholders for approval and to cause us to take, or refrain from taking, actions that might be in the best interest of other shareholders.

The management fee is payable regardless of our performance.

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We have no history operating as a separate, stand-alone company and may have difficulty operating our business in compliance with the regulatory requirements applicable to REITs and to public companies.

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Our investments will be concentrated in SNFs and other healthcare facilities and related assets, making us vulnerable to negative trends in this industry, including any significant cost increases, reductions in reimbursement rates or other regulatory changes, that could negatively affect our operators' businesses and abilities to pay rent to us.

The value of our properties depends in large part on the success of our operators in running profitable businesses and maintaining positive reputations in their communities, and their failure to do so could have a material adverse effect on us successfully and profitably operating our business.

Our operators' failure to comply with the requirements of governmental reimbursement programs such as Medicare or Medicaid, licensing and certification requirements, fraud and abuse regulations or new legislative developments could result in our operators being unable to meet their obligations to us.

We have large concentrations of properties in Florida and Texas, making us vulnerable to economic downturns, regulatory changes or acts of nature in those states.

Our leverage could impair our results of operations, limit our ability to make distributions to shareholders and prevent us from making new acquisitions.

Our failure to qualify or remain qualified as a REIT would have significant adverse consequences to us and the value of our common shares.

OUR TAX STATUS

We intend to qualify as a REIT for federal income tax purposes under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, commencing with our taxable year ending December 31, 2008. As a REIT, we generally will not be subject to federal taxes on our taxable income to the extent that we distribute our taxable income to shareholders and maintain our qualification as a REIT. As a REIT, we are permitted to own up to 100% of a taxable REIT subsidiary, or TRS. We intend to form a TRS to hold a \$100 million portion of our interest in the Genesis mezzanine loan. To the extent that a TRS is formed and generates income, it would be taxable as a corporation and would pay federal, state and local income tax on its net income.

To maintain REIT status, we must meet, on a continuing basis, a number of organizational and operational requirements, including a requirement that we annually distribute at least 90% of our REIT taxable income to shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some federal, state, and local taxes on our income or property. See "Material U.S. Federal Income Tax Considerations."

DISTRIBUTION POLICY

We intend to distribute to our shareholders each year all or substantially all of our REIT taxable income. By making these distributions, we will not be required to pay corporate income tax or excise tax on our REIT income as we will be able to qualify for the tax benefits afforded to REITs under the Internal Revenue Code. While we expect to make distributions quarterly, the actual amount, timing and frequency of distributions will be determined by our board of trustees based upon those factors they deem relevant. See "Distribution Policy."

OWNERSHIP RESTRICTIONS

To assist us in complying with the limitations on the concentration of ownership of a REIT imposed by the Internal Revenue Code, our declaration of trust will generally prohibit any shareholder

from directly or indirectly owning (or being deemed to own by virtue of certain attribution provisions of the Internal Revenue Code) more than 5.0% or 9.9% in value or in number of shares, whichever is more restrictive, of our common shares or preferred shares, respectively. In addition, our declaration of trust will generally prohibit direct or indirect ownership (or deemed ownership by virtue of certain attribution provisions of the Internal Revenue Code) of our shares by any person that would cause us to own, actually or constructively (taking into account certain attribution provisions of the Internal Revenue Code), a 10% or greater interest in any of our operators. Our board of trustees intends to grant to CapitalSource a limited exemption from the ownership limitation applicable to our common shares. See "Description of Shares of Beneficial Interest Restrictions on Ownership and Transfer."

CORPORATE INFORMATION

We were organized in the State of Maryland on May 30, 2008. Our principal executive offices are located at 30699 Russell Ranch Road, Suite 200, Westlake Village, CA 91362 and our telephone number is (800) 370-9431. Our website address is www.cshealthcarereit.com. Information contained on our website is not part of this prospectus.

CapitalSource's principal executive offices are located at CapitalSource Inc., 4445 Willard Avenue, 12th Floor, Chevy Chase, MD 20815. Information contained on CapitalSource's website is not part of this prospectus.

The Offering

Common shares offered by CapitalSource	shares
Common shares to be outstanding immediately after this offering	shares
Use of Proceeds	We will not receive any proceeds from the common shares being offered for sale by CapitalSource.
Listing	We have applied to list our common shares on the NYSE under the symbol "CHR."

The number of common shares outstanding after this offering includes shares that we intend to grant to our trustees and officers and other employees of CapitalSource, and excludes common shares available for future grant under our equity incentive plan. Unless otherwise stated, all information in this prospectus assumes that the underwriters do not exercise their option to purchase additional common shares.

SUMMARY FINANCIAL AND PRO FORMA INFORMATION

We are newly organized and will not acquire our assets until completion of this offering. The financial statements included in this prospectus reflect the operations of the healthcare net lease segment of CapitalSource and a \$150 million interest in the Genesis mezzanine loan as if the CapitalSource healthcare net lease segment and \$150 million loan asset had been operated together in a single business as a separate, stand-alone company throughout all relevant periods. We refer to these operations as those of the "Carve-out Entity" in this prospectus. To facilitate an analysis of our financial condition and results of operations, we also present financial information in this prospectus on a pro forma basis.

The following summary historical combined financial, pro forma and other data should be read in connection with "Unaudited Pro Forma Combined Financial Statements," "Selected Combined Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical combined financial statements and related notes thereto of the Carve-out Entity included elsewhere in this prospectus.

The summary historical combined financial data as of December 31, 2007 and 2006 and for the years ended December 31, 2007 and 2006 have been derived from the Carve-out Entity's audited combined financial statements and notes thereto included elsewhere in this prospectus, which have been audited by Ernst & Young LLP, independent registered public accounting firm. The summary historical combined financial data as of June 30, 2008 and for the six months ended June 30, 2008 and 2007 have been derived from the Carve-out Entity's unaudited historical combined financial statements included elsewhere in this prospectus. The historical results are not necessarily indicative of the results to be expected in the future.

The unaudited pro forma combined statements of operations for the year ended December 31, 2007 and the six months ended June 30, 2008 and June 30, 2007 have been prepared as though the acquisition of the properties acquired by the Carve-out Entity in the year ended December 31, 2007 and the six months ended June 30, 2008, respectively, as well as the contribution to us of our initial assets and the related transactions, had occurred as of January 1, 2007. The unaudited pro forma combined balance sheet as of June 30, 2008 has been prepared as though the acquisition of properties acquired by the Carve-out Entity in the year ended December 31, 2007 and the six months ended June 30, 2008, respectively, as well as the contribution to us of our initial assets and the related transactions, had occurred on June 30, 2008.

Immediately prior to the consummation of this offering, CapitalSource will contribute all of its healthcare net lease assets and a \$150 million interest in the Genesis mezzanine loan to us in exchange for common shares. SEC Staff Accounting Bulletin No. 48 ("SAB 48") specifically states that transfers of non-monetary assets to a company by its promoters or by shareholders in exchange for stock prior to or at the time of the company's initial public offering normally should be recorded by the company at the transferor's historical cost basis. We plan to follow SAB 48 and record the healthcare net lease assets and the \$150 million interest in the Genesis mezzanine loan at CapitalSource's historical cost basis.

We intend to form a TRS to hold a \$100 million portion of our interest in the Genesis mezzanine loan. To the extent that a TRS is formed and generates income, it would be taxable as a corporation and would pay federal, state and local income tax on its net income. Revenues generated by our TRS may be offset in part by income expense it incurs on amounts borrowed from us.

The pro forma adjustments include the following items:

Repayment of debt owed to CapitalSource in connection with the contribution of our initial net assets in principal amount of approximately \$248 million as of June 30, 2008;

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Removal of the historical allocation of expenses attributed to our assets while within CapitalSource, and imposition of expenses related to the annual management fee of 0.50% of the average daily value of our gross invested assets plus other expenses we expect to bear as a public company;

Recognition of revenues and related expenses on properties acquired during 2007 and 2008, assuming those properties were acquired and operational as of January 1, 2007;

Recognition of share based compensation expense related to the anticipated issuance of awards under our equity incentive plan;

Recognition of income taxes on earnings generated by our TRS on the portion of the Genesis mezzanine loan held by our TRS; and

Elimination of noncontrolling interests reflecting the redemptions of interests formerly held by minority partners in a portion of our assets.

Our unaudited pro forma combined statements of operations do not give effect to the initial expenses directly attributable to this offering because these non-recurring charges will be incurred by CapitalSource. Additionally, we expect to obtain a secured revolving credit facility that will be used primarily to finance our future direct real estate investments and for general corporate use. We do not believe this facility will be drawn in the near future, other than to pay closing costs and related fees, and, therefore, we have not made any pro forma adjustments related to it.

	Year Ended December 31,			Six Months Ended June 30,		
	2006	2007	2007 Pro Forma (unaudited)	2007 (unaudited)	2008 (unaudited)	2008 Pro Forma (unaudited)
(\$ in thousands)						
Operating Information						
Revenues						
Operating lease income	\$ 30,380	\$ 95,191	\$ 105,612	\$ 41,454	\$ 54,150	\$ 54,257
Interest and fee income	194	10,805	19,982	333	9,418	9,418
Total revenues	30,574	105,996	125,594	41,787	63,568	63,675
Operating expenses						
Interest expense	13,373	46,262	26,820	20,806	20,921	10,304
Depreciation	11,464	31,955	36,212	14,127	17,959	17,984
General and administrative	3,809	10,460	11,760	5,017	5,046	5,202
Loss on impairment of assets		1,225	1,225			
Loss on debt extinguishment	2,497					
Total expenses	31,143	89,902	76,017	39,950	43,926	33,490
Income (loss) before gain on sale of real estate and noncontrolling interests expense						
	(569)	16,094	49,577	1,837	19,642	30,185
Gain on sale of real estate		156	156		105	105
Noncontrolling interests expense	(4,711)	(4,951)	(1,089)	(2,553)	(1,545)	(543)
Income (loss) before income taxes	(5,280)	11,299	48,644	(716)	18,202	29,747
Income tax expense			2,254			980

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Net income (loss)	\$ (5,280)	\$ 11,299	\$ 46,390	\$ (716)	\$ 18,202	\$ 28,767
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	As of June 30, 2008					
	Actual		Pro Forma			
	(unaudited)		(unaudited)			
(\$ in thousands)						
Balance Sheet Information						
Real estate investments, net	\$ 1,007,699		\$ 1,007,699			
Loan, net	151,875		151,875			
Total debt	600,731		352,988			
Total equity	543,060		795,291			
Total liabilities and equity	1,235,500		1,235,500			
	Year Ended December 31,			Six Months Ended June 30,		
	2006	2007	2007	2007	2008	2008
			Pro Forma	(unaudited)	(unaudited)	Pro Forma
			(unaudited)			(unaudited)
	(\$ in thousands)					
Cash Flows						
Provided by (used in)						
operating activities	\$ (10,139)	\$(103,484)		\$ 15,355	\$ 28,038	
Used in investing activities	(513,664)	(266,300)		(253,268)	1,720	
Provided by (used in)						
financing activities	530,311	379,364		244,607	(35,983)	
Other Information						
FFO	\$ 6,184	\$ 43,098	\$ 82,446	\$ 13,411	\$ 36,056	\$ 46,646
FAD	4,886	36,491	75,827	11,871	32,033	42,615

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Additionally, revenue generated from straight line rent and amortization of lease intangibles gives an incomplete picture that prevents an evaluation of the growth in contractual rental income and the growth in dividend potential. To overcome these problems, the Company considers FFO and FAD appropriate performance measures for an equity REIT. The Company uses the NAREIT definition of FFO. FFO, as defined by NAREIT, means net income, computed in accordance with GAAP, exclusive of gains (or losses) from sales of real estate, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FAD represents FFO excluding: (i) net straight-line rental adjustments; (ii) rental income related to above/below market leases; and (iii) amortization of deferred financing costs, and (iv) non cash compensation expense.

We believe that FFO and FAD as supplemental measures to (not as a replacement of) the GAAP measures contained in the Income Statement and Statement of Cash Flows provide additional information about our operating performance by eliminating certain GAAP components of net income. FFO and FAD as presented herein are not necessarily comparable to FFO and FAD presented by other real estate companies due to the fact that not all real estate companies use the same definition. However management believes that both FFO and FAD are similar to performance measures presented by other REITs, and provide a useful comparison to them to determine our performance relative to other REITs.

FFO and FAD should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our financial performance or as an alternative to cash flow provided by operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is FFO or FAD necessarily indicative of sufficient cash flow to fund all of our needs, including

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dividends. FFO and FAD are not financial measures recognized under GAAP and are unaudited for all periods presented. We believe that in order to facilitate a clear understanding of our combined historical operating results, FFO and FAD should be examined in conjunction with net income as presented in the combined financial statements and data included elsewhere in this prospectus.

The following table is a reconciliation of our net income (loss) to FFO and FAD:

	Year Ended December 31,			Six Months Ended June 30,		
	2006	2007	2007 Pro Forma (unaudited)	2007 (unaudited)	2008 (unaudited)	2008 Pro Forma (unaudited)
	(\$ in thousands)					
Net income (loss)	\$ (5,280)	\$ 11,299	\$ 46,390	\$ (716)	\$ 18,202	\$ 28,767
Adjustments:						
Depreciation on real estate assets	11,464	31,955	36,212	14,127	17,959	17,984
Gain on sale of real estate		(156)	(156)		(105)	(105)
FFO	\$ 6,184	\$ 43,098	\$ 82,446	\$ 13,411	\$ 36,056	\$ 46,646
Adjustments:						
Straight-lining of rent	(4,012)	(7,668)	(7,680)	(3,311)	(3,832)	(3,840)
Loss on extinguishment of debt	2,497					
Amortization related to above (below) market leases	185	472	472	1,197	(649)	(649)
Noncash compensation expense						
Amortization of deferred financing fees	32	589	589	574	458	458
FAD	\$ 4,886	\$ 36,491	\$ 75,827	\$ 11,871	\$ 32,033	\$ 42,615

RISK FACTORS

An investment in our common shares involves significant risk. You should carefully consider the material risks described below before making an investment decision. These risks are not the only ones that we may face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occurs, our business, financial condition or results of operations could be materially and adversely affected. If this were to happen, the price of our common shares could decline significantly and you could lose all or part of your investment.

RISKS RELATED TO CONFLICTS OF INTEREST AND OUR RELATIONSHIP WITH CAPITALSOURCE

We are highly dependent upon CapitalSource in the performance of its obligations under our management agreement, and we may not find a suitable replacement or be able to operate successfully as a stand-alone entity if CapitalSource is unable to perform or if our management agreement expires without being renewed or is terminated.

We do not, and do not expect to, have any employees. Our officers and all of the professionals at CapitalSource that are dedicated to the healthcare industry are employees of CapitalSource and are providing services to us under the management agreement. We do not have any separate facilities and rely completely on CapitalSource, which has significant discretion in implementing our operating policies and strategies. We depend on CapitalSource's diligence, skill and network of business contacts. CapitalSource will source, evaluate, negotiate, structure, close, service and monitor our investments. CapitalSource is currently, and from time to time may be, subject to various risks which could negatively impact or impair its business, operations or financial condition, including, without limitation, risks resulting from CapitalSource's recent formation and organization and future integration and operation of CapitalSource Bank, a wholly owned subsidiary of CapitalSource that is subject to regulation by the California Department of Financial Institutions and the Federal Deposit Insurance Corporation. Events or factors having a negative impact on CapitalSource's business or financial condition, or the industries in which it operates, may negatively impact CapitalSource's ability to provide us with essential services, which could harm our operations and performance.

We are also subject to the risk that our manager will not renew the management agreement and that no suitable replacement will be found. Upon the expiration of the initial three-year term of the management agreement, or upon the expiration of any automatic one-year renewal term, CapitalSource may elect not to renew the management agreement without cause and without penalty, on 180 days' prior written notice to us. We can offer no assurance that CapitalSource will remain our manager, that we will be able to find an adequate replacement for it should our manager elect not to renew the management agreement, or that we will continue to have access to CapitalSource's principals and professionals and their information or deal flow. We are highly dependent upon CapitalSource for our success, and we may not be able to operate successfully as a stand-alone entity.

Termination of our management agreement may be costly, which could adversely affect our business and results of operations.

We may not terminate the management agreement without cause during the initial three-year term or any renewal term without incurring a termination fee. If we elect to not renew the agreement upon expiration of the initial three-year term or any renewal term or choose to terminate it without cause during its term, we will be required to pay a termination fee, within 90 days of termination, equal to the average annual management fee earned during the two years immediately prior to termination, multiplied by two, unless, at the time of non-renewal or termination, CapitalSource owns less than 15% of our common shares, in which case it would not be multiplied by two. In addition, if a change in

control of our company occurs, the management agreement will terminate automatically and our manager will be entitled to receive a termination fee within 90 days of termination, equal to the average annual management fee earned during the two years immediately prior to termination, multiplied by three. Furthermore, if a change of control of our company occurs within one year after the management agreement has expired or been terminated, other than following a non-renewal by our manager or a termination for cause, we will be required to pay our manager an amount equal to the difference between any termination fee paid previously and the amount described in the preceding sentence. The termination fee will be calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. In addition, following any termination of the management agreement, we must pay our manager all compensation accruing to the date of the termination and reimburse our manager for any expenses incurred in connection with post-termination transition services. These provisions increase the cost of terminating the management agreement and may limit our ability to terminate the management agreement even if we believe CapitalSource's performance is not satisfactory.

We do not have the ability to choose the personnel performing the obligations of our manager and the management agreement does not limit the additional business activities in which CapitalSource, its affiliates or its personnel may engage, which could reduce the amount of time they dedicate to us.

The management agreement does not require CapitalSource to dedicate specific personnel to fulfilling its obligations to us or require personnel to dedicate a specific amount of time to our affairs. CapitalSource is free, at any time and without consulting us, to change the composition, responsibilities and tenure of its personnel, including those persons who are performing the functions of our key officers. We can offer no assurance that CapitalSource will not remove or significantly change the responsibilities of key personnel at any time or, if it does so, that CapitalSource will appoint or provide a suitable replacement. If CapitalSource elects to change the composition of the key personnel providing services under the management agreement (or such persons are no longer available or employed by CapitalSource), we are not entitled to terminate the management agreement, and any such change may have a material and adverse effect on our performance. In addition, the departure of a significant number of CapitalSource's professionals would have a material adverse effect on our performance. The ability of CapitalSource and its affiliates and employees to engage in other business activities could reduce the time and effort spent on the management of us.

Additionally, the management agreement contains non-solicitation provisions that prohibit us from hiring certain employees of CapitalSource, except under very limited circumstances. Furthermore, Messrs. Delaney, Pieczynski, and Gilleland are restricted by their respective employment agreements with CapitalSource and/or its affiliates from joining any entity that competes with CapitalSource, including us. These restrictions significantly reduce the number of qualified executive candidates that may comprise our management team if we were to elect to internalize our management functions.

The management agreement does not require CapitalSource to utilize any particular resources available to it and any failure by CapitalSource to utilize its resources for our benefit could have a negative impact on our performance.

CapitalSource has proprietary information systems and access to the skills of professionals with experience and expertise that it intends to apply in its approach to real estate origination and the underwriting approval process. See "Business Origination, Underwriting and Servicing." We can provide no assurance, however, that our manager will use these or any other particular resources available to it in its management of us, and the management agreement does not require that our manager utilize any of these resources in fulfilling its obligations to us. Furthermore, the failure of our manager to use any particular resources does not give us the right to terminate the management

agreement. Any failure by our manager to utilize these resources could have a negative impact on our performance.

Conflicts of interest may arise by virtue of some of our officers and trustees holding key positions with CapitalSource and advising CapitalSource on its own investment opportunities, while at the same time providing essential services to us.

All of our officers, as well as Mr. Delaney, our chairman, hold, and likely will continue to hold, key positions with CapitalSource and have responsibilities to advise CapitalSource in connection with investment opportunities. In addition, these persons are, and likely will continue to be, the beneficiaries of separate compensation and incentive plans from CapitalSource in addition to any compensation or incentives received from us, which may incentivize them to devote more of their time and efforts to CapitalSource and its business. The CapitalSource stock holdings of Mr. Delaney and our officers provide further incentives to them to focus their attention on CapitalSource and its business. Furthermore, the mortgage financing provided by CapitalSource is a competitive product to the long-term, triple-net leases that we structure with our operators. As a result, some of these people may have duties or otherwise have incentives to perform services for CapitalSource that are not in our best interest, thereby presenting conflicts of interest.

CapitalSource is a lender to some of our operators and may service these loans in a manner that favors their interests as a lender as opposed to our interests as a landlord.

Through its healthcare and specialty finance segment, CapitalSource regularly makes secured loans to operators of healthcare facilities, including certain operators of our facilities, who often turn to CapitalSource for revolving loans collateralized by their Medicare and Medicaid receivables and other assets. As of June 30, 2008, CapitalSource had outstanding 25 revolving lines of credit to 18 of our operators, which loans had an aggregate principal balance of \$422.8 million, bore interest at a weighted average rate of 6.8% per year and had a weighted average time to maturity of 1.1 years. In servicing each of these loans, CapitalSource frequently must assess the ability of our operators to repay principal and interest when due. Situations may arise where, in the course of its servicing activities, CapitalSource must decide whether to extend further credit to an operator, grant the operator a waiver from the terms of its loan documents or exercise remedies available to them. CapitalSource's interest as lender to some of our operators may result in its interests not being aligned to ours, as landlord to those operators. As a result, the decisions CapitalSource makes in this regard could have adverse consequences on our operators' ability to pay rent and otherwise comply with the terms of their leases with us. CapitalSource may act in its own interests, as opposed to ours, in these situations.

In addition, in connection with some of these revolving lines of credit, we and CapitalSource are parties to an intercreditor agreement. The terms of these agreements generally afford CapitalSource, as lender, first priority over the assets of the operator of the facility and prescribe procedures by which CapitalSource, as lender, may exercise remedies against the operator, which may include entry onto our properties for the purpose of repossessing such assets. We and CapitalSource may enter into more of these intercreditor agreements in the future. The terms of these agreements, therefore, may make it easier for CapitalSource to service its loans in a manner that is adverse to our interests.

The management agreement and the agreement by which we will acquire our initial assets was not negotiated on an arm's-length basis. As a result, the terms may not be as favorable to us as if it was negotiated with an unaffiliated third party.

The management agreement and the agreement by which we will acquire our initial assets was negotiated between related parties. As a result, we did not have the benefit of arm's-length negotiations of the type normally conducted with an unaffiliated third party and the terms may not be as favorable to us as if we did engage in negotiations with an unaffiliated third party, including the terms of the

contribution and the consideration paid in exchange for the initial assets under the agreement by which we will acquire our initial assets. We have not obtained any independent third-party appraisals of the initial assets to be contributed to us, and our manager will determine the fair market value of the initial assets upon the closing of this offering. CapitalSource will contribute our initial assets to us immediately prior to the completion of this offering and, in exchange, we will issue to CapitalSource common shares. As a result, the consideration that we will pay in exchange for the contribution of the assets upon the completion of this offering may exceed the fair market value of these assets.

In addition, we may choose not to enforce, or to enforce less vigorously, our rights under the management agreement or the agreement by which we will acquire our initial assets because of our desire to maintain our ongoing relationship with our manager and CapitalSource. In addition, under the agreement by which we will acquire our initial assets, we will release and discharge CapitalSource from substantially all liabilities relating to our assets and business (except certain income tax liabilities for tax periods (or portions of tax periods) ending on or before the closing of this offering) existing or arising on or before the contribution, including in connection with the contribution.

CapitalSource will source most of our investments, and we may also participate in investments in which CapitalSource is also participating, which could result in conflicts of interest.

CapitalSource will source most of our investments, and we may participate in real estate loan transactions in which CapitalSource is also participating. Our participation in transactions originated by, or in which we co-invest or participate with, CapitalSource will not be the result of arm's-length negotiations and may involve conflicts between our interests and the interests of CapitalSource in obtaining favorable terms and conditions. There is no assurance that our conflicts of interest policy that addresses some of the conflicts relating to our investments, which is described under "Conflicts of Interest In Our Relationship with CapitalSource," will be adequate to address all of the conflicts that may arise. In each case, some of the same officers will be determining the price and terms for the investments for both us and CapitalSource, and there can be no assurance that the procedural protections, such as obtaining market prices or other reliable indicators of fair market value, will be sufficient to ensure that the consideration we pay for these investments will not exceed the fair market value and that we would not have received more advantageous terms for an investment had we negotiated the purchase with an independent third-party. Additionally, CapitalSource may have administrative or management authority over such investments; for example, an affiliate of CapitalSource serves as the administrative agent for the Genesis mezzanine loan in which we hold a \$150 million interest and CapitalSource holds a \$175 million interest. We cannot provide any assurance that such investments will not be serviced in a manner that favors CapitalSource as opposed to us.

Further, CapitalSource will continue to offer mortgage financing to owners of SNFs and other healthcare facilities, and this mortgage financing might be viewed as a competitive product to the long-term, triple-net leases we structure with operators. Our conflicts of interest policy relating to these origination activities may not be adequate to address the conflicts that may arise.

Our manager will have broad discretion to invest our funds and may make investments that ultimately produce investment returns that are substantially below expectations or that result in losses.

Our manager is authorized to follow broad investment guidelines and has great latitude within those guidelines in determining the types of assets it may decide are proper investments for us. Our board of trustees will periodically review our investment guidelines and our investment portfolio and will review or approve each proposed investment but, in doing so will rely primarily on information provided to them by our manager in reviewing our investments and our assets. Furthermore, transactions, other than proposed investments, entered into by our manager on our behalf may be costly, difficult or impossible to unwind by the time they are reviewed by our board of trustees. Our manager's investment discretion could result in investment returns that are substantially below

expectations or that result in losses, which would materially and adversely affect our business and results of operations.

The management fee is payable regardless of our performance, which might reduce our manager's incentive to devote time and effort to us, which in turn could harm our business and results of operations.

Our manager is entitled to receive from us an annual base management fee monthly in arrears in an amount equal to one-twelfth of 0.50% of the average daily value of our gross invested assets, which constitutes the sum of our net real estate investments plus accumulated depreciation plus loan receivable, regardless of the performance of our portfolio. For example, we would pay our manager a management fee for a specific period even if we experienced a net loss during the same period. Our manager's entitlement to non-performance-based compensation might reduce its incentive to devote time and effort to successfully managing our business and seeking investments that provide attractive risk-adjusted returns for our portfolio. This in turn could hurt our business and results of operations. Furthermore, the obligation to pay a monthly fee regardless of performance could reduce the amount of cash we have available for distributions to our shareholders, thereby decreasing the market price of our common shares.

Future sales or other dispositions by CapitalSource of our common shares could require us to repay prior to maturity or default on a significant portion of our outstanding mortgage indebtedness.

The agreements providing for approximately \$276.6 million of our mortgage indebtedness as of June 30, 2008 require that CapitalSource retain, directly or indirectly, a 51% or greater interest in the borrowing entities. Although we are seeking lender consent to remove this restriction, we may not be successful in obtaining this consent. If lender consent cannot be obtained, to the extent future sales or other dispositions by CapitalSource, and/or future issuances by us of common shares, were to result in CapitalSource reducing its ownership interest in our common shares below this threshold, we would be required either to repay this indebtedness prior to its scheduled maturity or default on our obligations. Early repayment of this debt could have adverse consequences on our liquidity position, requiring us to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets, reduce or delay planned capital expenditure or delay or abandon desirable acquisitions. In addition, any such financing, refinancing or sale of assets might not be available on terms favorable to us.

Our business plan relies on the use of the CapitalSource name and other intellectual property as well as information and communications systems belonging to CapitalSource, the loss of which could limit our ability to market, operate and expand our business.

Our business plan relies on the use of the CapitalSource name and other intellectual property belonging to CapitalSource. We also will rely on CapitalSource to provide us with information and communications systems. Under the management agreement, CapitalSource will license these intellectual property rights to us on a non-exclusive basis, for no consideration beyond the management fee. Upon termination of the management agreement, we will lose rights to use the CapitalSource name and intellectual property and access to the information and communications systems. Because we believe that our relationship with CapitalSource and the ability to use its name and proprietary intellectual property afford us a competitive advantage, losing such rights and use of the information and communications systems could limit our ability to originate new investments and manage our existing properties and therefore have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

We have no operating history. Our historical financial information may not be representative of the results we would have achieved as a separate stand-alone company and may not be a reliable indicator of our future performance or results.

We were organized in May 2008 and have no operating history, and CapitalSource acquired its first healthcare net lease assets in January 2006. As a result, CapitalSource has held our initial assets for a limited time, which may not be a sufficient period to allow investors to evaluate the quality and performance of these assets and the viability of our business and investment strategy. Moreover, the historical financial information included in this prospectus has been derived from CapitalSource's accounting records and is limited to only two years of audited financial statements. CapitalSource did not separately account for our business, and we did not operate as a separate, stand-alone company for any of the historical periods presented. Therefore, our historical financial information may not reflect what our financial condition, results of operations or cash flows would have been had we been a separate, stand-alone company prior to the completion of this offering or what our results will be in the future. This is primarily a result of the following factors:

our historical financial results reflect allocations of corporate expenses from CapitalSource instead of the management fee and other general and administrative expenses we will incur as a public company;

our working capital requirements and capital for our general corporate purposes, including acquisitions and capital expenditures, historically have been satisfied as part of the corporate-wide cash management policies of CapitalSource. After this offering, CapitalSource will not be required, and does not intend, to provide us with funds to finance our working capital or other cash requirements, so we may in the future need to obtain additional financing from banks, through public offerings or private placements of debt or equity securities, strategic relationships or other arrangements; and

significant changes may occur in our cost structure, management, financing and business operations as a result of our operating as an independent public company. These changes could result in increased costs associated with reduced economies of scale, stand-alone costs for services currently provided by CapitalSource and the legal, accounting, compliance and other costs associated with being a public company with equity securities traded on the NYSE.

Our portfolio currently consists predominantly of SNFs; any significant cost increases, reductions in reimbursement rates or other regulatory changes could negatively affect our operators' businesses and their ability to meet their obligations to us.

Our initial assets are, and we expect a substantial majority of our future acquisitions to be, predominately comprised of SNFs. As a result of our focus on SNFs, any changes in governmental rules and regulations, particularly with respect to Medicare and Medicaid reimbursement, or any other changes negatively affecting SNFs, could have an adverse impact on our operators' revenues, costs and results of operations, which may affect their ability to meet their obligations to us.

Our failure to achieve our investment objectives and to manage future growth in an effective and efficient manner may have a negative impact on our business, financial condition and results of operations.

Our ability to achieve our investment objectives depends on our ability to grow, which depends, in turn, on our manager and its ability to identify assets for investment that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of our manager's investment process, its ability to provide competent, attentive and efficient services to us and our access to

financing on acceptable terms. Our ability to grow is also dependent upon our manager's ability to successfully hire, train, supervise, manage and retain its employees. Additionally, our ability to invest in assets that meet our investment criteria on favorable terms and successfully integrate and operate them may be constrained by the following factors:

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 facility, which could reduce our profitability;

unsatisfactory results of due diligence investigations or failure to meet other customary closing conditions;

failure to finance an acquisition on favorable terms or at all;

misallocation of the time and amounts budgeted to make necessary improvements or renovations to acquired assets;

acquisition of assets subject to liabilities without 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 we acquired the assets and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the assets; and

failure by our manager to employ appropriate management, administrative, accounting and operational systems, or hire and retain sufficient operational staff to manage our assets.

Any failure to achieve our investment objectives or to manage our growth effectively could have a material negative impact on our business, financial condition and results of operations.

We are subject to risks associated with debt financing, which could impair our results of operations and limit our ability to make distributions to our shareholders and prevent us from making new acquisitions.

On a pro forma basis, as of June 30, 2008, our initial assets were subject to approximately \$333.0 million of outstanding mortgage indebtedness and approximately \$20.0 million of non-recourse junior subordinated debt. Financing for future investments and our maturing commitments may be provided by borrowings under our proposed credit facility led by affiliates of the underwriters of this offering, private or public offerings of debt, the assumption of secured indebtedness, mortgage financings on a portion of our owned portfolio or through joint ventures. Our level of indebtedness could have important consequences to us and our shareholders. For example, it could:

limit our ability to pay distributions to our shareholders;

increase our vulnerability to general adverse economic and industry conditions;

limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business plan;

require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business plan;

require us to pledge substantially all of our assets as collateral;

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limit our ability to make material acquisitions or take advantage of business opportunities that may arise;

expose us to fluctuations in interest rates, to the extent our borrowings bear variable rates of interests;

limit our flexibility in planning for, or reacting to, changes in our business and industry; and

place us at a competitive disadvantage compared to our competitors that have less debt.

Our ability to make payments of principal and interest on our indebtedness depends on our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. If we are unable to generate sufficient cash flows from operations to service our debt, we may be required, among other things, to seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets, reduce or delay planned capital expenditure or delay or abandon desirable acquisitions. Such measures might not enable us to service our debt and any failure to make required payments on our debt or abandonment of our planned growth strategy would result in an adverse effect on our liquidity, future ability to generate revenue and sustain profitability. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms to us.

Further, our outstanding indebtedness contains restrictions and covenants that require us and, in one instance, CapitalSource, to maintain or satisfy specified net worth, financial ratios and coverage tests. With respect to approximately \$276.6 million of our mortgage indebtedness as of June 30, 2008, we are subject to financial covenants requiring that the rents and net cash flow received from, or produced by, the encumbered properties exceed the debt service required on that debt by specified amounts over specified measurement periods. If we are not in compliance with these specified financial covenants and coverage tests, our lenders are permitted to retain any proceeds generated by the assets encumbered by this mortgage debt that would otherwise be available for distribution. In addition, we have agreed in this same mortgage financing that we will, and we will act to ensure that our operators also will, conduct their businesses in material compliance with all applicable legal requirements, including applicable healthcare laws and regulations. Also in this financing, CapitalSource is the guarantor of certain of our obligations and is required to maintain a net worth of at least \$500 million.

In addition, we expect that the terms of our proposed credit facility will require us to comply with additional financial and other covenants, including covenants that:

require us to maintain minimum tangible net worth equal to 85% of the level we have at closing of this offering, plus 85% of the proceeds to us of any future equity offerings;

prevent us from employing leverage in excess of 60% of our total asset value;

require us to maintain a ratio of consolidated EBITDA to fixed charges of not less than 1.75 to 1.00;

prohibit us from making distributions to our shareholders in excess of 95% of our FFO over time, except for such distributions as may be required to enable us to maintain our qualification as a REIT for federal income tax purposes;

limit our ability to finance our operations with floating rate debt by prohibiting us from incurring floating rate debt (but generally excluding, for this purpose, debt under the proposed credit facility and our floating rate mortgage debt outstanding as of the date of this prospectus) in excess of 30% of our total indebtedness;

require us to maintain our existence and status as a REIT for federal income tax purposes; and

limit our ability, without lender consent, to:

grant other liens or incur additional indebtedness in respect of our assets securing the facility;

make certain investments;

engage in certain affiliated or extraordinary transactions; or

change our significant accounting policies or reporting practices, except as required by GAAP or applicable law.

These restrictions may interfere with our ability to obtain financing or to engage in other business activities, which may inhibit our ability to grow our business and increase revenues. If we or CapitalSource fail to comply with any of these requirements, then the related indebtedness, and any other debt containing cross-default or cross-acceleration rights for our respective lenders, could become immediately due and payable. We cannot assure you that we could pay all of our debt if it became due, or that we could continue in that instance to make distributions to our shareholders and maintain our REIT qualification.

Mortgage debt obligations expose us to increased risk of loss of property, which could harm our ability to generate future revenues and could have an adverse tax effect.

Our approximately \$333.0 million of mortgage debt as of June 30, 2008 increases our risk of loss because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could negatively impact our earnings. Further, our mortgage debt generally contains cross-default and cross-collateralization provisions and a default on one facility could affect our other facilities and financing arrangements.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations and our ability to make distributions to our shareholders.

Upon consummation of this offering, we expect to have approximately \$276.6 million in variable interest rate mortgage debt outstanding. We have purchased an interest rate cap in respect of this variable rate debt for the benefit of our lenders. These and other interest rate swap arrangements we may enter into in the future involve risk, including the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that these arrangements may result in higher interest rates than we would otherwise have. Moreover, no hedging activity can completely insulate us from the risks associated with changes in interest rates. Failure to hedge effectively against interest rate changes may materially adversely affect results of operations and our ability to pay dividends to our shareholders.

We may be limited in pursuing certain of our rights and remedies under our \$150 million interest in the Genesis mezzanine loan and similar mezzanine loans that we may make in the future, which could increase our risk of loss on these loans.

Upon consummation of this offering, we expect to acquire and hold as one of our initial assets a \$150 million interest in the Genesis mezzanine loan. Our interest in this loan comprised 12.3% of our total assets as of June 30, 2008. We may make, originate or participate in similar mezzanine loans in the future. Mezzanine loans often do not have the benefit of a lien against a borrower's collateral and

are junior to any lien holder both as to collateral and payment. As a result of the subordinate nature of these types of loans, we may be limited in our ability to enforce our rights to collect principal and interest or to recover any of the loan balance through our right to foreclose on the collateral. For example, we typically would not be contractually entitled to receive payments of principal on a subordinated loan until the senior loan is paid in full, and may only receive interest payments if the borrower is not in default under its senior loan. In many instances, we may also be prohibited from foreclosing on a mezzanine loan until the senior loan is paid in full. Moreover, any amounts that we might realize as a result of our collection efforts or in connection with a bankruptcy or insolvency proceeding under a mezzanine loan generally must be turned over to the senior lender until the senior lender has realized the full value of its own claims. In addition, if we acquire a direct or indirect ownership interest in the Genesis properties as a result of a foreclosure, we generally will have to engage an operator that qualifies as an independent contractor within the meaning of the REIT rules to operate those properties in order to maintain compliance with the REIT rules. These restrictions may materially and adversely affect our ability to recover any or all of the principal and the interest of any non-performing mezzanine loans that we hold.

Our failure to meet market expectations with respect to our business could depress the market price of our common shares and limit our ability to sell equity.

As with other publicly traded companies, the availability of equity capital to us will depend, in part, on the market price of our common shares which, in turn, will depend upon various market conditions and other factors that may change from time to time including:

the extent of investor interest;

the general reputation of REITs and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;

our financial performance and that of our operators;

the contents of analyst reports about us and the REIT and SNF industries overall;

general economic or market conditions, including changes in interest rates on fixed income securities, which may lead prospective purchasers of our shares to demand a higher dividend from us;

our failure to maintain or increase our dividend, which is primarily dependent on growth of FFO and FAD, which in turn depends upon increased revenues from additional investments and rental increases; and

other factors such as governmental regulatory action and changes in REIT tax laws.

The market value of the equity securities of a REIT is generally based upon the market's perception of the REIT's growth potential and its current and potential future earnings and cash distributions. Our failure to meet the market's expectation with regard to future earnings and cash distributions would likely depress the market price of our common shares.

The average age of our facilities is 34 years and in certain circumstances, we may become responsible for capital improvements. To the extent such capital improvements are not undertaken, our ability to lease these facilities on favorable terms may be affected, which in turn could affect our business and financial conditions.

The average age of our facilities is 34 years. Although under the triple-net lease structure our operators generally are responsible for capital improvement expenditures, it is possible that an operator may not be able to fulfill its obligations to keep its facility in good operating condition. Further, we may be responsible for capital improvement expenditure on such facilities after the terms of the

triple-net leases expire. To the extent capital improvements are not undertaken or deferred, the value of a property may decline, we may not be able to attract or retain our operators or the rent we charge for these properties may decline.

Our assets may be subject to impairment charges that could be significant.

We periodically evaluate our real estate investments and other related assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse affect on our results of operations and FFO in the period in which the write-off occurs. As part of our impairment evaluation, on December 31, 2007, we recorded a charge of approximately \$1.2 million.

Since real estate investments are illiquid, we may not be able to sell our properties, all of which are subject to various restrictions, when we desire which could adversely affect our liquidity and results of operations as well as our ability to service our debt.

Real estate investments generally cannot be sold quickly. We may not be able to alter the composition of our portfolio promptly in response to changes in the real estate market. This inability to respond to changes in the performance of our investments could adversely affect our ability to service our debt, our liquidity and results of operations. The real estate market is affected by many factors that are beyond our control, including:

changes in interest rates and in the availability, costs and terms of financing;

adverse changes in national and local economic and market conditions;

the ongoing need for capital improvements, particularly in older structures;

changes in governmental laws and regulations, fiscal policies and zoning and other ordinances and costs of compliance with laws and regulations;

changes in operating expenses; and

civil unrest, acts of war and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

In addition, all of our properties are considered "special purpose" properties that cannot be readily converted to general residential, retail or office use. Healthcare facilities that participate in Medicare or Medicaid must meet extensive program requirements, including physical plant and operational requirements, which are revised from time to time. Such requirements may include a duty to admit Medicare and Medicaid patients, limiting the ability of the facility to increase its private pay census beyond certain limits. Medicare and Medicaid facilities are regularly inspected to determine compliance and may be excluded from the programs, in some cases without a prior hearing, for failure to meet program requirements. Transfers of operations of SNFs and other healthcare-related facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of our properties becomes unprofitable due to competition, age of improvements or other factors such that our operator becomes unable to meet its obligations on the lease, the liquidation value of the property may be substantially less than would be the case if the property were readily adaptable to other uses. The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator with a new operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are

generally not reduced when circumstances cause a reduction in income from the investment. Should such events occur, our income and cash flows from operations would be harmed.

Moreover, we cannot predict how long it may take us to find a willing and suitable purchaser for any property and to close the sale of such property. We also cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. In addition, REIT tax rules intended to prevent us from holding property primarily for sale in the ordinary course of our business (rather than for investment) may cause us to forego or defer sales of assets that otherwise would be in our best interest. State laws mandate certain procedures for lease terminations, and in certain states, we would face a time consuming lease termination process, during which time the property could be subject to waste. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could have a material adverse effect on our operating results and financial condition.

As an owner of real property, we may be exposed to environmental liabilities and to the extent any such liabilities are not adequately covered by insurance, our business, financial condition, liquidity and results of operations would suffer.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real property may be liable in certain circumstances for the costs of investigation, removal or remediation of, or related releases of, certain hazardous or toxic substances, such as asbestos or petroleum products, at, under or disposed of, in connection with such property, as well as certain other potential costs relating to hazardous or toxic substances, including the cost of complying with environmental regulations, government fines for violations of those requirements and damages for injuries to persons and adjacent property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances and liability may be imposed on the owner in connection with the activities of an operator of the property. The cost of any required investigation, remediation, removal, compliance, fines or personal or property damages and the owner's liability therefore could exceed the value of the property and/or the assets of the owner and therefore be substantial. Although most of our leases require our operators to indemnify us for certain environmental liabilities, the scope of such obligations may be limited. For instance, most of our leases do not require an operator to indemnify us for environmental liabilities arising from conditions that existed before the operator took possession of the premises. Further, we cannot assure you that any such operator would be able to fulfill its indemnification obligations to us. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

Uninsured losses or losses in excess of our operators' insurance coverage could adversely affect our financial position and our cash flow.

Under the terms of our leases, our operators generally are required to maintain comprehensive general liability, fire, flood, earthquake, boiler and machinery, nursing home or long-term care professional liability and extended coverage insurance with respect to our properties with policy specifications, limits and deductibles set forth in the leases or other written agreements between us and the operator. However, our properties may be adversely affected by casualty losses which exceed insurance coverages and reserves. Should an uninsured loss occur, we could lose both our investment in, and anticipated profits and cash flows from, the property. Even if it were practicable to restore the damage caused by a major casualty, the operations of the affected property would likely be suspended for a considerable period of time. In the event of any substantial loss affecting a property, disputes over insurance claims could arise.

RISKS RELATED TO THE OPERATORS OF OUR FACILITIES

Our revenue and financial position could be weakened and our ability to fulfill our obligations under our indebtedness could be limited if any of our operators were unable to meet their obligations to us or failed to renew or extend their relationship with us as their lease terms expire, or if we were unable to lease or re-lease our facilities. These adverse developments could arise due to a number of factors, including those listed below.

The value of our facilities depends in large part on the success of our operators in running their businesses and their failure to do so could have a material adverse effect on our ability to successfully and profitably operate our business.

The value of our facilities is tied to a large extent to the skills of the operators who operate them. We depend on our operators to operate the properties we own in a manner which generates revenues sufficient to allow them to meet their obligations to us, including their obligations to pay rent, maintain certain insurance coverage, pay real estate taxes and maintain the properties in a manner so as not to jeopardize their operating licenses or regulatory status. The ability of our operators to fulfill their obligations under our leases may depend, in part, upon the overall profitability of their operations, including any other SNFs or other properties or businesses they may acquire or operate. Cash flow generated by certain properties may not be sufficient for an operator to meet its obligations to us. Our financial position could be weakened and our ability to fulfill our obligations under our indebtedness could be limited if any of our major operators were unable to meet their obligations to us or failed to renew or extend their relationship with us as their lease terms expire, or if we were unable to lease or re-lease our properties on economically favorable terms.

Some of our current operators have, and prospective operators may have, an option to purchase the facilities we lease to them, which could disrupt our operations.

Some of our current operators have, and some prospective operators will have, the option to purchase, or rights of first offer or first refusal for, the facilities we lease to them. We cannot assure you that the formulas we have developed for setting the purchase price of these facilities will yield a fair market value purchase price. Any purchase not at fair market value could be challenged by healthcare regulatory authorities and, if at less than full value, may prevent us from realizing full value on the sale.

If our operators and prospective operators determine to purchase the facilities they lease either during the lease term or after their expiration, the timing of those purchases will be outside of our control and we may not be able to re-invest the capital on as favorable terms, or at all. Our inability to effectively manage the turn-over of our facilities could materially adversely affect our ability to execute our business plan and our results of operations.

Some of our operators account for a significant percentage of our contractual rental income.

For the six months ended June 30, 2008, our contractual rental income was \$49.8 million, of which approximately \$6.6 million (13.3%) was from Delta Health Group, which operates 17 SNFs in Florida and Mississippi, \$6.2 million (12.4%) was from Florida Institute of Long Term Care, which operates 17 SNFs and one ALF in Florida, and \$5.6 million (11.1%) was from New Bell Facilities Services, L.P., which operates 35 SNFs in Texas and one in Pennsylvania. No other operator generated more than 8% of our contractual rental income for the six months ended June 30, 2008.

The failure or inability of any of these operators to meet their obligations to us could materially reduce our rental income and net income, which could in turn reduce the amount of dividends we pay and cause our share price to decline.

The geographic concentration of our investments could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas, resulting in a decrease in our revenues or otherwise negatively impacting our results of operations.

As of June 30, 2008, the states in which we had our highest concentration of investments, as measured by contractual rental income, were Florida (37%) and Texas (16%). As a result, the conditions of those states' economies and real estate markets, changes in governmental laws and regulations, particularly with respect to Medicaid, acts of nature, demographics and other factors that may result in a decrease in demand for long-term care services in these states could have an adverse effect on our operators' revenues, costs and results of operations, which may limit their ability to meet their obligations to us. In addition, since some of these investments are located in Florida and Texas, our operators are particularly susceptible to revenue loss, cost increase or damage caused by hurricanes or other severe weather conditions or natural disasters. Any significant loss due to a natural disaster may not be covered by insurance and may lead to an increase in the cost of insurance and expenses for our operators, or could limit the future availability of such insurance which could limit their ability to satisfy their obligations to us.

The bankruptcy, insolvency or financial deterioration of our operators could delay or prevent our ability to collect unpaid rents or require us to find new operators.

We receive most of our income as rent payments under leases of our properties. We have no control over the success or failure of our operators' businesses and, at any time, any of our operators may experience a downturn in its business that may weaken its financial condition. As a result, our operators may fail to make rent payments when due or declare bankruptcy. Any failure to make rent payments when due or bankruptcy could result in the termination of an operator's lease and could have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

If operators are unable to comply with the terms of the leases, we may be forced to modify the leases in ways that are unfavorable to us. Alternatively, the failure of an operator to perform under a lease could require us to declare a default, terminate the lease with respect to such operator and find a suitable replacement operator, or sell the property. There is no assurance that we would be able to lease a property on equal or better terms, if at all, or find another operator, successfully reposition the property for other uses or sell the property on favorable terms.

If any lease expires or is terminated, we could be responsible for all of the operating expenses for that property until it is re-leased or sold. If we experience a significant number of un-leased properties, our operating expenses could increase significantly. Any significant increase in our operating costs may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares.

Any bankruptcy filing by or relating to one of our operators could bar all efforts by us to collect pre-bankruptcy debts from that operator or seize its property. An operator bankruptcy could also delay our efforts to collect past due balances under the leases and could ultimately preclude collection of all or a portion of these sums. It is possible that we may recover substantially less than the full value of any unsecured claims we hold, if any, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our shareholders and the trading price of our common shares. Furthermore, dealing with an operator's bankruptcy or other default may divert management's attention and cause us to incur substantial legal and other costs.

If one or more of our operators files for bankruptcy relief, the Bankruptcy Code provides that a debtor has the option to assume or reject the unexpired lease within a certain period of time. However, our leases with operators that lease more than one of our properties are generally made pursuant to a single master lease covering all of that operator's properties leased from us, or are cross-defaulted with other leases, and consequently, it is possible that in bankruptcy the debtor-operator may be required to assume or reject the master lease or cross-defaulted leases as a whole, rather than making the decision on a property-by-property basis, thereby preventing the debtor-operator from assuming the better performing properties and terminating the master lease or cross-defaulted leases with respect to the poorer performing properties. The Bankruptcy Code generally requires that a debtor must assume or reject a contract in its entirety. Thus, a debtor cannot choose to keep the beneficial provisions of a contract while rejecting the burdensome ones; the contract must be assumed or rejected as a whole. However, where under applicable law a contract (even though it is contained in a single document) is determined to be divisible or severable into different agreements, or similarly, where a collection of documents is determined to constitute separate agreements instead of a single, integrated contract, then in those circumstances a debtor/trustee may be allowed to assume some of the divisible or separate agreements while rejecting the others.

Our operators are faced with increased litigation, rising insurance costs and enhanced government scrutiny that may affect their ability to make payments to us.

As is typical in the healthcare industry, our operators are often subject to claims that their services have resulted in resident injury or other adverse effects. We are often subject to the same or similar claims. The insurance coverage maintained by our operators may not cover all claims made against them nor continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to operators due to state law prohibitions or limitations on availability. As a result, our operators operating in these states may be liable for damage awards (including punitive damage awards) that are either not covered or are in excess of their insurance policy limits. We also believe that there has been, and will continue to be, an increase in governmental investigations of long-term care providers, particularly in the area of Medicare/Medicaid false reimbursement claims, as well as an increase in enforcement actions resulting from these investigations. Insurance is not available to cover such losses. Any adverse determination in a legal proceeding or governmental investigation, whether currently asserted or arising in the future, could have a material adverse effect on an operator's financial condition.

Moreover, advocacy groups that monitor the quality of care at healthcare facilities have sued healthcare operators and called upon state and federal legislators to enhance their oversight of trends in healthcare facility ownership and quality of care. Patients have also sued healthcare facility operators and have, in certain cases, succeeded in winning very large damage awards for alleged abuses. This litigation and potential litigation in the future has materially increased the costs incurred by our operators for monitoring and reporting quality of care compliance. In addition, the cost of medical malpractice and liability insurance has increased and may continue to increase so long as the present litigation environment affecting the operations of healthcare facilities continues. Increased costs could limit our operators' ability to make payments to us, potentially decreasing our revenue and increasing our collection and litigation costs. To the extent we are required to remove or replace the operators of our healthcare properties, our revenue from those properties could be reduced or eliminated for an extended period of time.

Operators that fail to comply with the requirements of governmental reimbursement programs such as Medicare or Medicaid, licensing and certification requirements, fraud and abuse regulations or new legislative developments may be unable to meet their obligations to us.

Our operators are subject to numerous federal, state and local laws and regulations that are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations and administrative and judicial interpretations of existing law. The ultimate timing or effect of these changes cannot be predicted. These changes may have a dramatic effect on our operators' costs of doing business and on the amount of reimbursement by both government and other third-party payors. We have no direct control over our operators' ability to meet the numerous federal, state and local regulatory requirements. The failure of any of our operators to comply with these laws, requirements and regulations could adversely affect their ability to meet their obligations to us. In particular:

Medicare and Medicaid. A significant portion of our operators' revenue is derived from governmentally funded reimbursement programs, primarily Medicare and Medicaid, and failure to maintain certification and accreditation in these programs would result in a loss of funding from such programs. Loss of certification or accreditation would cause the revenues of our operators to decline, jeopardizing their ability to meet their obligations to us. In that event, our revenues from those facilities could be reduced, which could in turn cause the value of our affected properties to decline. State licensing and Medicare and Medicaid laws also require operators of nursing homes and assisted living facilities to comply with extensive operating standards. Federal and state agencies administering those laws regularly inspect such facilities and investigate complaints. Our operators and their managers receive notices of potential sanctions and remedies from time to time, and such sanctions have been imposed from time to time on facilities operated by them. If they are unable to cure deficiencies, which have been identified or which are identified in the future, such sanctions may be imposed and, if imposed, may adversely affect their ability to meet their obligations to us, which could adversely affect our revenues.

Licensing and Certification. Our operators and facilities are subject to regulatory and licensing requirements of federal, state and local authorities and are periodically audited by them to confirm compliance. Failure to obtain licensure or loss or suspension of licensure would prevent a facility from operating or result in a suspension of reimbursement payments until all licensure issues have been resolved and the necessary licenses obtained or reinstated. Our SNFs may require governmental approval, in the form of a certificate of need (CON) pursuant to laws and regulations that generally vary by state and may be subject to change, prior to the addition or construction of new beds, the addition of services or certain capital expenditures. Some of our facilities may be unable to satisfy current and future CON requirements and may for this reason be unable to continue operating in the future. In such event, our revenues from those facilities could be reduced or eliminated for an extended period of time or permanently.

Fraud and Abuse Laws and Regulations. There are various extremely complex federal and state laws governing a wide array of referral relationships and arrangements and which prohibit fraud by healthcare providers, including criminal and civil provisions that prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments. Federal and state governments are devoting increasing attention and resources to anti-fraud initiatives against healthcare providers. Penalties for healthcare fraud have been increased and expanded over recent years to include broader provisions for the exclusion of providers from the Medicare and Medicaid programs. Furthermore, the Office of Inspector General of the U.S. Department of Health and Human Services, or OIG-HHS, has announced a number of new and ongoing initiatives for 2008 to study instances of potential Medicare and Medicaid overbilling and/or fraud in SNFs and nursing homes. The OIG-HHS, in cooperation with other federal and state agencies, also continues to

focus on the activities of SNFs in certain states in which we have properties. In addition, the federal False Claims Act allows a private individual with knowledge of fraud against the Medicare or Medicaid programs to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery from such a claim. Because of this monetary incentive, these so-called "whistleblower" suits have become more frequent. Some states currently have statutes that are analogous to the federal False Claims Act. The Deficit Reduction Act of 2005, or Deficit Reduction Act, encourages states to enact such legislation by permitting a state to retain an additional 10% of any recovery in a suit for false or fraudulent claims submitted to that state's Medicaid program if the enacted legislation is at least as effective as the federal False Claims Act in rewarding and facilitating whistleblower suits. Enforcement activity may increase as additional states enact legislation in response to the Deficit Reduction Act. The violation of any of these laws or regulations by an operator may result in the imposition of fines or other penalties that could jeopardize that operator's ability to make lease payments to us or to continue operating its facility.

Other Laws. Other laws that impact how our operators conduct their operations include federal and state laws designed to protect the confidentiality and security of patient health information; state and local licensure and certificate of need laws; laws protecting consumers against deceptive practices; laws generally affecting our operators' management of property and equipment; laws affecting how our operators generally conduct their operations, including fire, health and safety laws; federal and state laws affecting assisted living facilities mandating quality of services and care and quality of food service; laws concerning resident rights, including abuse and neglect laws; laws concerning the use and disposal of controlled substances; and the health standards set by the federal Occupational Safety and Health Administration. We cannot predict the effect that the additional cost of complying with these laws may have on the revenues of our operators, or their ability to make lease payments to us.

Legislative and Regulatory Developments. Legislative proposals often are introduced or proposed in Congress and in some state legislatures that could prompt major changes in the healthcare system, either nationally or at the state level. For example, many individual states and the federal government introduce legislation aimed at controlling healthcare costs by decreasing reimbursement amounts, including in the nursing home setting. Additionally, both the state and federal government increasingly are interested in passing new mandates aimed at improving the quality of care and reducing medical errors throughout the healthcare industry, which could add to our operator's costs. We cannot accurately predict, however, whether any proposals will be adopted by Congress or state legislatures or, if adopted, what effect, if any, these proposals would have on operators and, thus, our business. Regulatory proposals and rules are released on an ongoing basis that may have major impacts on the healthcare system generally and the skilled nursing and long-term care industries in particular.

Congressional hearings and investigations of acquisitions of nursing home facilities by private equity firms, along with recent legislation relating to nursing home care and financial transparency, could lead to increased oversight of the healthcare industry and heightened regulatory requirements that may have an adverse effect on our business.

Over the past year, acquisitions of nursing home facilities by private equity firms have come under increased congressional scrutiny. In October 2007, certain members of the U.S. Senate asked the Government Accountability Office, or GAO, to investigate the effect of private equity ownership on the quality of care provided in nursing homes. In November 2007, the Sub-Committee on Health of the U.S. House of Representatives Committee on Ways and Means heard testimony from researchers, industry representatives and patient advocates regarding trends in nursing home ownership and quality of care. In February 2008, certain members of Congress introduced the Nursing Home Transparency

and Improvement Act of 2008. This legislation proposes additional reporting requirements by nursing home staff, heightened penalties for nursing home quality deficiencies and greater transparency by companies, such as us, that own or operate nursing home facilities. The legislation provides for the disclosure of detailed reports relating to nursing home expenditures, civil monetary penalties of up to \$100,000 for deficiencies in nursing home care and additional protections for nursing home residents, such as advance notice of the closure of a nursing home facility, mandated relocation of nursing home residents before a facility closes and the development of a standardized resident complaint system. In addition, the legislation contemplates heightened regulation of owners of nursing home facilities by granting authority to the Secretary of the U.S. Department of Health and Human Services to develop a national independent monitor program specific to interstate and large intrastate nursing home chains. The Secretary would be responsible for overseeing the efforts of owners of nursing home facilities, including publicly held companies like us, to comply with federal and state regulations, analyzing the management structure, expenditures and staffing of nursing home facilities, reporting findings and recommendations relating to such analyses and oversight to the federal and state governments and publishing such findings, analyses and recommendations. If enacted, the legislation could lead to substantial increases in the cost of regulatory compliance, and negatively impact the market price of our common shares and materially adversely affect our business and results of operations and the businesses of our operators.

In addition, there have been published reports indicating that certain members of Congress would like to strengthen regulation of nursing facilities by mandating that there cannot be separation between owners and operators. Any such requirement, absent a corresponding change in the Internal Revenue Code and Treasury Regulations affecting REITs, would require us either to sell all of our facilities or to acquire a nursing home operator and cease to qualify as a REIT, either of which would have enormous adverse effects on our business.

Our operators depend on reimbursement from governmental and other third-party payors and reimbursement rates from such payors may be reduced.

Changes in the reimbursement rate or methods of payment from third-party payors, including the Medicare and Medicaid programs, or the implementation of other measures to reduce reimbursements for services provided by our operators has in the past, and could in the future, result in a substantial reduction in our operators' revenues and operating margins. Additionally, net revenue realizable under third-party payor agreements can change after examination and retroactive adjustment by payors during the claims settlement processes or as a result of post-payment audits. Payors may disallow requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable or because additional documentation is necessary or because certain services were not covered or were not medically necessary. There also continues to be new legislative and regulatory proposals that could impose further limitations on government and private payments to healthcare providers. In some cases, states have enacted or are considering enacting measures designed to reduce their Medicaid expenditures and to make changes to private healthcare insurance. We cannot assure you that adequate reimbursement levels will continue to be available for the services provided by our operators, which are currently being reimbursed by Medicare, Medicaid or private third-party payors. Further limits on the scope of services reimbursed and on reimbursement rates could have a material adverse effect on our operators' liquidity, financial condition and results of operations, which could cause the revenues of our operators to decline and potentially jeopardize their ability to meet their obligations to us.

Increased competition as well as increased operating costs due to competition for qualified employees have resulted in lower revenues for some of our operators and may affect the ability of our operators to meet their payment obligations to us.

The healthcare industry is highly competitive, and we expect that it will become more competitive in the future. Our operators are competing with numerous other companies providing similar healthcare services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. We cannot be certain the operators of all of our facilities will be able to achieve occupancy and rate levels that will enable them to meet all of their obligations to us. Our operators may encounter increased competition in the future that could limit their ability to attract residents or expand their businesses and therefore affect their ability to pay their lease payments.

The market for qualified nurses, healthcare professionals and other key personnel is also highly competitive and our operators may experience difficulties in attracting and retaining qualified personnel. Increases in labor costs due to higher wages and greater benefits required to attract and retain qualified healthcare personnel incurred by our operators could affect their ability to pay their lease payments. This situation could be particularly acute in certain states that have enacted legislation establishing minimum staffing requirements.

Possible changes in the acuity profile of our operators' residents as well as payor mix and payment methodologies may significantly affect the profitability of our operators.

The sources and amounts of our operators' revenues are determined by a number of factors, including licensed bed capacity, occupancy, the acuity profile of residents and the rate of reimbursement. Changes in the acuity profile of the residents as well as payor mix among private pay, Medicare and Medicaid may significantly affect our operators' profitability, which may affect their ability to meet their obligations to us.

Delays in our operators' collection of their accounts receivable could adversely affect their cash flows and financial condition and their ability to meet their obligations to us.

Prompt billing and collection are important factors in the liquidity of our operators. Billing and collection of accounts receivable are subject to the complex regulations that govern Medicare and Medicaid reimbursement and rules imposed by non-government payors. The inability of our operators to bill and collect on a timely basis pursuant to these regulations and rules could subject them to payment delays that negatively impact their cash flows and ultimately their financial condition and their ability to meet their obligations to us.

We may make errors in evaluating information reported by our operators and, as a result, we may enter into leases that we would not have made if we had properly evaluated the information.

We enter into leases and assess the creditworthiness of our operators based on detailed financial information and projections provided to us by our operators. Even if our operators provide us full and accurate disclosure of all material information concerning their facilities and operations, we may misinterpret or incorrectly analyze this information. In addition, not all of our operators are required under the terms of our leases to provide us with audited financial information. As such, mistakes made by us or mistakes or omissions made by our operators regarding their financial condition could cause us to make faulty leasing or portfolio management decisions, which could result in our inability to collect rents.

RISKS RELATING TO OUR ORGANIZATION AND STRUCTURE

We may assume unknown liabilities in connection with our contribution transactions.

As part of our contribution transactions, we will receive certain assets or interests in certain assets subject to existing liabilities, some of which may be unknown to us at the time of the contribution. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of operators, vendors or other persons dealing with the entities prior to the offering (that had not been asserted or threatened prior to the offering), tax liabilities, and accrued but unpaid liabilities incurred in the ordinary course of business. Our recourse with respect to such liabilities may be limited, as we generally will acquire these assets from CapitalSource on an "as is, where is" basis. Depending on the amount or nature of such liabilities, our business, financial condition and results of operations, our ability to make distributions to our shareholders and the market price of our shares may be materially and adversely affected.

Upon completion of this offering, CapitalSource will own _____ % of our outstanding common shares and will have the ability to control us and any matters presented to our shareholders.

Upon completion of this offering, CapitalSource will own _____ % of our outstanding common shares and two CapitalSource employees will serve on our board of trustees. Under the agreement by which we will acquire our initial assets, CapitalSource will have the right to designate a number of persons to serve on our board that is proportional to its ownership stake in our company, but not more than 50% of our board members. Consequently, CapitalSource will be able to influence significantly our board of trustees and control the outcome of matters submitted for shareholder action, including the election of our board of trustees and approval of significant corporate transactions, such as business combinations, consolidations and mergers. In addition, under the agreement by which we will acquire our initial assets, CapitalSource will have approval rights that will require us to obtain CapitalSource's consent before taking certain corporate actions. See "Other Arrangements between CapitalSource and Us." CapitalSource could exercise its influence in a manner that is not in the best interests of our other shareholders, including by delaying or preventing a change of control that our other shareholders may view as beneficial. As a result of such actions, the market price of our common shares could decline or shareholders might not receive a premium for their shares in connection with a change in control.

Our declaration of trust does not permit ownership in excess of 5.0% or 9.9% in value or in number of shares, whichever is more restrictive, of our common shares or preferred shares, and imposes certain other limits on the ownership of our shares. Attempts to acquire our shares in excess of these limits without prior approval from our board of trustees are void.

In order for us to qualify as a REIT, no more than 50 percent of the value of outstanding shares may be owned, actually or constructively, by five or fewer individuals at any time during the last half of each taxable year. To make sure that we will not fail to qualify as a REIT under this test, subject to some exceptions, our declaration of trust generally prohibits any shareholder from directly or indirectly owning (or being deemed to own by virtue of certain attribution provisions of the Internal Revenue Code) more than 5.0% or 9.9% in value or in number of shares, whichever is more restrictive, of our common shares or preferred shares, respectively. In addition, our declaration of trust generally prohibits direct or indirect ownership (or deemed ownership by virtue of certain attribution provisions of the Internal Revenue Code) of our shares by any person that would cause us to own, actually or constructively (taking into account certain attribution provisions of the Internal Revenue Code), a 10% or greater interest in any of our operators. Our declaration of trust's ownership rules are complex and may cause the outstanding shares owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, for instance, the acquisition of less than 5.0% of the outstanding common shares by an individual or entity could cause that individual or entity to be treated as owning in excess of 5.0% of our outstanding common shares, and cause those

excess shares to be subject to those remedies set forth in our declaration of trust in connection with a breach of the ownership limit. Any attempt to own or transfer shares in excess of the ownership limit without the consent of our board of trustees will be void, and could result in the shares being automatically transferred to a charitable trust. We intend to grant CapitalSource (including, for these purposes, its wholly owned subsidiaries) a waiver to own up to % of our outstanding common shares. Such waiver will be conditioned on certain representations made, and certain covenants agreed to, by CapitalSource, and will be effective immediately upon the completion of this offering. We believe that this waiver will not jeopardize our status as a REIT for federal income tax purposes. See "Description of Shares of Beneficial Interest Restrictions on Ownership and Transfer."

Transformation into a public company may increase our costs and disrupt the regular operations of our business.

Although CapitalSource will bear the expenses incurred on our behalf in connection with this offering, we expect to incur significant additional legal, accounting, reporting and other expenses as a result of having publicly traded common shares. These costs will include, but are not limited to, costs and expenses for trustee fees, trustee and officer insurance, investor relations, expenses for compliance with the Sarbanes-Oxley Act of 2002, as amended, and rules implemented by the SEC and NYSE, and various other costs associated with being a public company.

We also anticipate that we will incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act, as well as rules implemented by the SEC and NYSE. We expect these rules and regulations to increase our legal and financial compliance costs and make some management and corporate governance activities more time-consuming and costly. These rules and regulations may make it more difficult and more expensive for us to obtain trustee and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs, and therefore could have an adverse impact on our ability to recruit and bring on qualified independent trustees. We cannot predict or estimate the amount of additional costs we may incur as a result of these requirements or the timing of such costs.

We may also be required to expend significant financial and managerial resources in connection with the comprehensive evaluation of our internal controls required to be conducted under Section 404 of the Sarbanes-Oxley Act. If for any period our management is unable to ascertain the effectiveness of our internal controls or if our auditors cannot attest to management's certification, we could be subject to regulatory scrutiny and a loss of public confidence, which could have an adverse effect on the price of our common shares.

Additional demands associated with being a public company may disrupt regular operations of our business by diverting the attention of some of our senior management team away from revenue producing activities to management and administrative oversight, adversely affecting our ability to attract and complete business opportunities and increasing the difficulty in managing and growing our businesses. Any of these effects could harm our business, financial condition and results of operations.

RISKS RELATED TO THIS OFFERING

There may not be an active market for our common shares, which may cause our common shares to trade at a discount and make it difficult to sell the common shares you purchase.

Prior to this offering, there has been no public market for our common shares. The initial public offering price for our common shares will be determined by negotiations between the underwriters and CapitalSource. We cannot assure you that the initial public offering price will correspond to the price at which our common shares will trade in the public market subsequent to this offering or that the price of our shares available in the public market will reflect our actual financial performance.

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We have applied to list our common shares on the NYSE under the symbol "CHR." Listing on the NYSE will not ensure that an active market will develop for our common shares. Accordingly, no assurance can be given as to:

the likelihood that a market for our common shares will develop;

the liquidity of any such market;

the ability of any holder to sell our common shares; or

the prices that may be obtained for our common shares.

The market price and trading volume of our common shares may be volatile following this offering.

Even if an active trading market develops for our common shares after this offering, the market price of our common shares may be highly volatile and be subject to wide fluctuations. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur. If the market price of our common shares declines significantly, you may be unable to resell your shares at or above the initial public offering price. We cannot assure you that the market price of our common shares will not fluctuate or decline significantly in the future. Some of the factors, many of which are beyond our control, that could depress our share price or result in fluctuations in the price or trading volume of our common shares include:

actual or anticipated variations in our quarterly operating results or distributions;

changes in estimates by analysts and failure to meet analysts' estimates of our earnings or publication of research reports about us or the real estate or healthcare finance industry;

increases in market interest rates that lead purchasers of our common shares to demand a higher dividend;

changes in market valuations of similar companies;

adverse market reaction to any increased indebtedness we incur in the future;

actions by institutional shareholders;

actions by regulators, including the passage of legislation, or other regulatory developments that adversely affect us or our industry;

our operating performance relative to the performance of other similar companies;

changes in accounting principles;

speculation in the press or investment community; and

general market and economic conditions.

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We will be a "controlled company" within the meaning of the NYSE rules, and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

After the completion of this offering, CapitalSource will own more than 50% of the total voting power of our common shares, and we will be a "controlled company" under the NYSE corporate governance standards. As a controlled company, we intend to utilize exemptions under the NYSE standards that free us from the obligation to comply with certain NYSE corporate governance requirements, including the requirements:

that a majority of our board of trustees consists of independent trustees;

that we have a nominating and governance committee that is composed entirely of independent trustees with a written charter addressing the committee's purpose and responsibilities;

that we have a compensation committee that is composed entirely of independent trustees with a written charter addressing the committee's purpose and responsibilities; and

for an annual performance evaluation of the nominating and governance committee and compensation committee.

As a result of our use of the "controlled company" exemption, you will not have the same protections afforded to shareholders of companies that are subject to all of the NYSE corporate governance requirements.

Future sales by us or CapitalSource of our common shares or convertible securities following this offering may reduce the market price for our common shares.

We may issue additional securities in the future to raise capital. We cannot predict the effect, if any, that future sales by us of our common shares will have on the market price of our common shares. Sales of substantial amounts of our common shares in the public market or the perception that such sales might occur could reduce the market price of our common shares and the terms upon which we may obtain additional equity financing in the future.

Moreover, as of the closing of this offering, CapitalSource will own _____ % of our outstanding common shares. In connection with the contribution to us of our initial assets by CapitalSource, we have agreed upon demand to register for resale all of the shares issued to CapitalSource not being registered for sale in this offering. If CapitalSource were to exercise this registration right and demand registration of its remaining common shares, the market price of our common shares could decrease significantly. In addition, all common shares sold in this offering will be freely tradable without restriction (other than any restrictions set forth in our declaration of trust relating to our qualification as a REIT), unless the shares are owned by one of our affiliates. See "Description of Shares of Beneficial Interest Shares Eligible for Future Sale."

We, CapitalSource, CSE Mortgage LLC, our manager and each of our officers and trustees have also entered into lock-up agreements pursuant to which we and they agreed, as applicable, not to, without the prior written consent of Banc of America Securities LLC, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., on behalf of the underwriters, during the period ending 180 days after the effective date of the registration statement of which this prospectus forms a part (subject to extension under certain circumstances), among other things, directly or indirectly, offer, sell, pledge, contract to sell (including any short sale), grant any options to purchase or otherwise dispose of, directly or indirectly, or enter into any transaction that is designed to, or could be expected to, result in the disposition of any of our common shares or other securities convertible into or exchangeable or exercisable for our common shares or derivatives of our common shares or common shares issuable upon exercise of options or warrants, subject to certain limited exceptions. Banc of America Securities LLC, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. may, at any time, release all or a portion of the securities subject to the foregoing lock-up provisions. There are no present agreements between the underwriters and us or any of our executive officers, trustees or shareholders releasing them or us from these lock-up agreements.

Future offerings of debt securities or preferred shares, which may be senior to our common shares for the purposes of dividends and liquidating distributions, may adversely affect the market price of our common shares.

In the future, we may raise capital through the issuance of debt or preferred equity securities. Upon liquidation, holders of our debt securities and preferred shares, if any, and lenders with respect

to other borrowings will be entitled to our available assets prior to the holders of our common shares. Our preferred shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to pay dividends or make liquidating distributions to the holders of our common shares. Because our decision to issue debt or preferred equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common shares will bear the risk of our future offerings reducing the market price of our common shares and diluting the value of their share holdings in us.

We are subject to significant anti-takeover provisions.

Our declaration of trust and bylaws provide for, among other things:

REIT ownership limits;

the ability of our shareholders to take action without a meeting by less than unanimous written consent of our shareholders;

the authorization of undesignated preferred shares, the terms of which may be established and shares of which may be issued without shareholder approval; and

advance notice requirements for shareholder proposals.

In addition, Maryland law limits business combinations and control share acquisitions unless our board of trustees affirmatively elects not to be covered by the statutory provisions. Although we have opted out of the statutory limitations of both provisions, our board may in the future elect to be covered under the business combination provisions and the control share acquisitions provisions of Maryland law. Furthermore, Maryland law permits our board of trustees, without shareholder approval and regardless of what is provided in our declaration of trust or bylaws, to implement takeover defenses that we may not yet have and to take, or refrain from taking, certain other actions without those decisions being subject to any heightened standard of conduct or standard of review as such decisions may be subject in other jurisdictions. The declaration of trust, bylaws and Maryland law provisions, when taken together with the provisions of our management agreement and CapitalSource's significant share ownership, could discourage unsolicited acquisition proposals or make it more difficult for a third party to gain control of us, which could adversely affect the market price of our securities.

Our distributions are not guaranteed and may fluctuate and we could reduce or eliminate distributions on our common shares.

Our board of trustees, in its sole discretion, will determine the amount and frequency of distributions to be made to our shareholders based on consideration of a number of factors, including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including debt covenant restrictions that may impose limitations on cash payments. Consequently, our distribution levels may fluctuate, and the level of distributions we make could be less than expected. If we reduce our distributions or elect or are required to retain rather than distribute our income, our share price could be adversely affected.

We may change our investment strategies and policies and capital structure without shareholder approval.

Our manager and our board of trustees, without the approval of our shareholders, may alter our investment strategies and policies if it determines in the future that a change is in our shareholders' best interests. The methods of implementing our investment strategies and policies may vary in their discretion as new investments and financing techniques are developed. Shareholders will not be able to influence how or when we develop and implement any changes to our investment strategies or policies.

Our rights and the rights of our shareholders to take action against our trustees are limited, which could limit your recourse in the event of actions deemed not to be in your best interests.

Our declaration of trust limits the liability of our trustees and officers to us and our shareholders for money damages, except for liability resulting from:

actual receipt of an improper benefit or profit in money, property or services; or

a final judgment based upon a finding of active and deliberate dishonesty by a trustee or officer that was material to the cause of action adjudicated.

In addition, our declaration of trust permits us to, and we will enter into agreements to indemnify our present and former trustees and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each present or former trustee or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our trustees and officers.

Market interest rates may have an effect on the value of our common shares.

One of the factors that investors may consider in deciding whether to buy or sell our common shares is our distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution on our common shares or seek securities paying higher dividends or interest. The market price of our common shares likely will be based primarily on the earnings that we derive from rental income with respect to our facilities and our related distributions to shareholders, and not from the underlying appraised value of the facilities themselves. As a result, interest rate fluctuations and capital market conditions can affect the market value of our common shares. For instance, if interest rates rise, it is likely that the market price of our common shares will decrease, because potential investors may require a higher dividend yield on our common shares as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable-rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and make distributions to shareholders.

RISKS RELATED TO OUR OPERATION AS A REIT

If we fail to qualify as a REIT in any given year, we will have reduced funds available for distribution to our shareholders and our income will be subject to taxation at regular corporate rates.

We intend to elect to be taxed, and to qualify, as a REIT for federal income tax purposes, effective for our taxable year ending December 31, 2008. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations and the possibility of future changes in the law or our circumstances, we might not satisfy all requirements applicable to REITs for any particular taxable year. Furthermore, our qualification as a REIT depends on our continuing satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements. Our ability to satisfy the asset tests will depend upon our analysis of the fair market values of our assets, some of which are not susceptible to a precise determination. Our compliance with the REIT annual income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. With respect to our compliance with the REIT organizational requirements, the IRS could contend that our ownership interests in securities of other issuers would give rise to a violation of one or more of the asset tests applicable to REITs.

If in any taxable year we fail to qualify as a REIT,

we will not be allowed a deduction for distributions to shareholders in computing our taxable income;

we will be subject to U.S. federal and state income taxes, including any applicable alternative minimum tax, on our taxable income at regular corporate rates.

Any such corporate tax liability could be substantial and would reduce the amount of cash we have available for distribution to our shareholders, which, in turn, could have a material adverse impact on the value of, and trading prices for, our common shares. In addition, we would not be able to re-elect REIT status until the fifth taxable year following the initial year of disqualification unless we were to qualify for relief under applicable Internal Revenue Code provisions. Thus, for example, if the IRS successfully challenges our status as a REIT solely for our taxable year ended December 31, 2008, we would not be able to re-elect REIT status until our taxable year which began January 1, 2013, unless we were to qualify for relief. This treatment would significantly reduce our net earnings and cash flow because of our additional tax liability for the years involved, which could significantly impact our financial condition. In addition, even if we qualify as a REIT, any gain or income recognized by our TRS, to the extent we form one, will be subject to U.S. federal corporate income tax and applicable state and local taxes.

We could lack access to funds to meet our dividend and tax obligations.

As a REIT, we are required to distribute at least 90% of our REIT taxable income, excluding capital gains, to maintain our REIT qualification, and we need to distribute 100% of our REIT taxable income, including capital gains, to eliminate U.S. federal income tax liability. Moreover, we are subject to a 4% excise tax on the excess of the required distribution over the sum of the amounts actually distributed and amounts retained for which federal income tax was paid, if the amount of dividends which we distribute during a calendar year (plus excess dividends paid in prior years) does not equal at least the sum of 85% of our REIT ordinary income for the year, 95% of our REIT capital gain net income for the year and any undistributed taxable income from prior taxable years. We also could be required to pay additional taxes if we were to fail to qualify as a REIT in any given year. The amount of funds, if any, available to us could be insufficient to meet the distribution requirements and tax obligations. To qualify as a REIT and avoid the payment of income and excise taxes, we 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 federal income tax purposes, the effect of non-deductible capital expenditures, the creation of reserves or required debt amortization payments.

Changes in taxation of corporate dividends may adversely affect the value of our shares.

The maximum marginal rate of tax payable by domestic noncorporate taxpayers on dividends received from a regular "C" corporation under current law generally is 15% through 2010, as opposed to higher ordinary income rates. The reduced tax rate, however, does not apply to ordinary income dividends paid to domestic noncorporate taxpayers by a REIT on its shares, except for certain limited amounts. Although the earnings of a REIT that are distributed to its shareholders generally remain subject to less U.S. federal income taxation than earnings of a non-REIT "C" corporation that are distributed to its shareholders net of corporate-level income tax, legislation that extends the application of the 15% rate to dividends paid after 2010 by "C" corporations could cause domestic noncorporate investors to view the stock of regular "C" corporations as more attractive relative to the shares of a REIT, because the dividends from regular "C" corporations would continue to be taxed at a lower rate while distributions from REITs (other than distributions designated as capital gain dividends) are generally taxed at the same rate as the investor's other ordinary income.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a lease termination and state or local income, property and transfer taxes. Any of these taxes would decrease cash available for the payment of our debt obligations. In addition, to the extent we derive income through our TRSs, which would be subject to corporate-level income tax at regular rates. We will be subject to a 100% penalty tax on amounts received by us (or on certain expenses deducted by a TRS) if certain arrangements among us, or any TRS that we form, and/or any operators of ours, as further described below, are not comparable to similar arrangements among unrelated parties.

Complying with REIT requirements may affect our profitability and may force us to liquidate or forgo otherwise attractive investments.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the nature and diversification of our assets, the sources of our income and the amounts we distribute to our shareholders. For example, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and mortgage backed securities. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our assets can consist of the securities of one or more of our TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. Thus, we may be required to liquidate or forgo otherwise attractive investments in order to satisfy the asset and income tests or to qualify under certain statutory relief provisions. We also may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution (e.g., if we have assets which generate mismatches, including timing differences, between taxable income and available cash). Then, having to comply with the distribution requirement could cause us to: (i) sell assets in adverse market conditions; (ii) borrow on unfavorable terms; or (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt. Accordingly, satisfying the REIT requirements could have an adverse effect on our business results, profitability and our ability to execute our business plan.

Liquidation of assets may jeopardize our REIT qualification.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

Actions taken by CapitalSource or its shareholders may cause us to fail to satisfy certain REIT requirements.

Rents we receive from a "related party tenant" will not qualify as rents from real property in satisfying the gross income tests applicable to REITs. An operator is a related party to a REIT if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns

10% or more of the operator. Because CapitalSource will own 10% or more of our common shares, we generally will be treated, for purposes of the related party tenant rules, as owning any interests that CapitalSource, its subsidiaries or 10% or greater stockholders own in our tenants. As a result, if in connection with its commercial lending business CapitalSource were to take warrants or other rights in a tenant of ours, we will be treated as owning such warrants, or other rights, and will be treated as owning an interest in that tenant represented by such warrants or other rights on an "as exercised" basis. Similarly, if a loan made by CapitalSource secured by equity or other rights in a tenant of ours were to go into default, we would be treated as owning that collateral. In each case, if the interest owned by CapitalSource (and treated as being owned by us) represents 10% or more of our tenant, we will be treated as being related to that tenant. We and CapitalSource will enter into certain arrangements designed to prevent actions taken by CapitalSource from causing us to be treated as being related to one or more of our tenants. Nevertheless, there can be no assurance that such arrangements will be effective in ensuring that we will not be treated as being related to one or more of our tenants as a result of the actions of CapitalSource or any of its shareholders.

Complying with REIT requirements with respect to our TRS limits our flexibility in operating or managing certain properties through our TRS.

A TRS may not directly or indirectly operate or manage a healthcare facility. For REIT qualification purposes, the definition of a "healthcare facility" means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which, immediately before the termination, expiration, default, or breach of the lease of such facility, was operated by a provider of such services which was eligible for participation in the Medicare program under Title XVIII of the Social Security Act with respect to such facility. Although a TRS may lease or own certain healthcare properties so long as an eligible independent contractor actually operates the qualified health care property, the TRS could be treated as directly or indirectly operating the facility unless a number of requirements are met. If the IRS were to treat a subsidiary corporation of ours as directly or indirectly operating or managing a healthcare facility, such subsidiary would not qualify as a TRS, which could jeopardize our REIT qualification under the REIT gross asset and income tests.

We may not be able to find a suitable operator for our healthcare property, which could reduce our cash flow and impair our ability to qualify as a REIT.

We may not be able to find another qualified operator for a property if we have to replace an operator. Accordingly, if we are unable to find a qualified operator for one or more of our properties, rental payments could cease which could have a significant impact on our operating results and financial condition, in which case we could be required to sell such properties or terminate our qualification as a REIT. Although the REIT rules regarding foreclosure property allow us to acquire certain qualified healthcare property as the result of the termination or expiration of a lease (other than by reason of default, or the imminence of default, on the lease) of such property and, in connection with such acquisition, to operate a qualified healthcare facility through, and in certain circumstances derive income from, a qualified independent contractor for a period of two years (or up to six years if extensions are granted), once such period ends, the REIT rules prohibit the direct or indirect operation or management of such facility through a TRS of ours. Under other limited circumstances, a TRS of ours may lease or own certain healthcare properties so long as the facility is operated by an eligible independent contractor. If the IRS were to treat a TRS of ours as directly or indirectly operating or managing a qualified healthcare facility, such subsidiary would not qualify as a TRS, which could jeopardize our REIT qualification under the REIT gross asset and income tests.

Legislative or other actions affecting REITs could have a negative effect on us.

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. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could materially adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the federal income tax consequences of such qualification.

CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar words. These statements are only predictions. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our operators' or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. The sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and "Business" as well as other disclosures included in this prospectus discuss some of the factors that could contribute to these differences.

The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

USE OF PROCEEDS

We will not receive any proceeds from the sale of our common shares by CapitalSource.

DISTRIBUTION POLICY

We intend to make regular quarterly distributions to holders of our common shares. We intend to pay a pro rata initial distribution with respect to the period commencing on the consummation of this offering and ending on December 31, 2008, based on a distribution of \$ _____ per share for a full quarter. On an annualized basis, this would be \$ _____ per share, or an annual distribution rate of approximately _____ % based on an assumed initial public offering price of \$ _____ per share, the midpoint of the range indicated on the cover of this prospectus. We estimate that this initial annual distribution rate will represent approximately _____ % of estimated cash available for distribution for the twelve months ending June 30, 2009. We have estimated our cash available for distribution to our common shareholders for the twelve months ending June 30, 2009 based on adjustments to our pro forma net income available to common shareholders, as described below. This estimate was based upon our historical operating results and does not take into account any additional investments and their associated cash flows, unanticipated expenditures we may have to make or any debt we may incur. In estimating our cash available for distribution to holders of our common shares, we have made certain assumptions as reflected in the table and footnotes below.

Our estimate of cash available for distribution does not include the effect of any changes in our working capital resulting from changes in our working capital accounts. Our estimate also does not reflect the amount of cash estimated to be used for investing activities, nor does it reflect the amount of cash estimated to be used for financing activities, other than scheduled amortization of our debt upon consummation of this offering. Although we have included all material investing and financing activities that we have commitments to undertake as of June 30, 2008, during the twelve months ending June 30, 2009, we may undertake additional investing and/or financing activities. Any such investing and/or financing activities may have a material effect on our estimate of cash available for distribution. Because we have made the assumptions set forth above in estimating cash available for distribution, we do not intend this estimate to be a projection or forecast of our actual results of operations or our liquidity, and have estimated cash available for distribution for the sole purpose of determining the amount of our initial annual distribution rate. Our estimate of cash available for distribution should not be considered as an alternative to cash flow from operating activities (computed in accordance with GAAP) or as an indicator of our liquidity or our ability to pay dividends or make distributions. In addition, the methodology upon which we made the adjustments described below is not necessarily intended to be a basis for determining future distributions.

We intend to maintain our initial distribution rate for the twelve-month period following consummation of this offering unless actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimate. Distributions will be authorized by our board of trustees out of funds legally available therefor and will be dependent upon a number of factors, including restrictions under applicable law.

Distributions to shareholders will generally be taxable to our shareholders as ordinary income. However, a portion of such distributions may be designated by us as long-term capital gain to the extent that such portion is attributable to our sale of capital assets held for more than one year. If we pay distributions in excess of our current and accumulated earnings and profits, such distributions will be treated as a tax-free return of capital to the extent of each shareholder's tax basis in our common shares and as capital gain thereafter. We will furnish annually to each of our shareholders a statement setting forth distributions paid during the preceding year and their federal income tax status. For a discussion of the federal income tax treatment of our distributions, see "Material U.S. Federal Income

Tax Considerations Taxation of the Company as a REIT" and "Material U.S. Federal Income Tax Considerations Taxation of U.S. Shareholders."

To the extent that our cash available for distribution is less than the amount required to be distributed under the REIT provisions of the Internal Revenue Code, we may consider various funding sources to cover any such shortfall, including borrowings under our anticipated \$ senior, secured revolving credit facility, which will allow us to pay distributions in an amount up to 95% of FFO, selling assets or using a portion of the proceeds we may receive in future offerings. As a REIT, we are required to distribute at least 90% of our REIT taxable income, excluding capital gains, to maintain our REIT qualification. Moreover, we will be subject to income tax at regular corporate rates on our REIT taxable income, including capital gains, that is not distributed and to an excise tax to the extent that certain percentages of our taxable income are not distributed by specified dates. See "Material U.S. Federal Income Tax Considerations Annual Distribution Requirements."

We cannot assure you that our estimated distributions will be made or sustained. Any distributions we pay in the future will depend upon our actual results of operations, economic conditions and other factors that could differ materially from our current expectations. Our actual results of operations will be affected by a number of factors, including the revenue we receive from our assets, our operating expenses, interest expense, the ability of our operators to meet their obligations and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, see "Risk Factors." If our assets do not generate sufficient cash flow to allow funds to be distributed by us, we may be required to fund distributions from working capital, or borrowings under our credit facilities or reduce such distributions.

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The following table describes our pro forma net income for the twelve months ended December 31, 2007, and the adjustments we have made in order to estimate our cash available for distribution for the twelve months ending June 30, 2009.

(\$ in thousands, except per share data)

Pro forma net income for the year ended December 31, 2007	\$ 46,390
Less: Pro forma net income for the six months ended June 30, 2007	(23,333)
Add: Pro forma net income for the six months ended June 30, 2008	28,767
 Pro forma net income for the 12 months ended June 30, 2008	 \$ 51,824
Add: Pro forma real estate depreciation(1)	36,090
Add: Amortization of deferred financing fees(2)	473
Add: Non-cash compensation expense(3)	
Add: Net increases in contractual rental income(4)	399
Less: Gain on sale of real estate	(261)
Less: Net effect of straight-line rents(5)	(6,774)
Less: Net effect of above (below) market leases(6)	(1,121)
Estimated cash flows from operating activities for the 12 months ending June 30, 2009	\$ 80,630
 Estimated cash flows from investing activities for the 12 months ending June 30, 2009	 \$
 Estimated cash flows from financing activities for the 12 months ending June 30, 2009(7)	 \$ (5,221)
 Estimated cash available for distribution for the 12 months ending June 30, 2009	 \$ 75,409
 Estimated initial annual distribution for the 12 months ending June 30, 2009	
Distribution excess	
Estimated distribution per share for the 12 months ending June 30, 2009(8)	
Distribution ratio based on estimated cash available for distribution to our holders of common shares(9)	

(1) Pro forma real estate depreciation for the 12 months ended December 31, 2007	\$ 36,212
Less: Pro forma real estate depreciation for the six months ended June 30, 2007	(18,106)
Add: Pro forma real estate depreciation for the six months ended June 30, 2008	17,984
	\$ 36,090

- (2) Pro forma amortization of financing costs for the 12 months ended June 30, 2008.
- (3) Pro forma compensation expense related to certain equity incentive awards. We will recognize the cost of these equity awards based on the fair value method under SFAS No. 123(R), Share-Based Payment. These awards are valued at \$, the midpoint of the range set forth on the cover of this prospectus.
- (4) Represents the net increases in contractual rental income from existing leases and from new leases and renewals that were not in effect for the entire 12-month period ended June 30, 2008 or that will take effect during the 12-month period ending June 30, 2009 based upon leases entered into subsequent to June 30, 2008. Annual contractual rents typically increase 2-3% per annum.
- (5) Represents the conversion of estimated rental revenues for the 12 months ending June 30, 2008 from a straight-line accrual basis to a cash basis of recognition.

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- (6) Represents the conversion of the amortization of above (below) market leases from an accrual basis to a cash basis.
- (7) Represents scheduled principal amortization of our debt for the 12 months ending June 30, 2009.
- (8) Based on a total of common shares to be outstanding upon closing of the offering, on a fully diluted basis.
- (9) Calculated as estimated annual distribution per share divided by our cash available for distribution per share for the 12 months ending June 30, 2009.

CAPITALIZATION

The following table sets forth the capitalization of the Carve-out Entity on an historical basis and our capitalization, on a pro forma basis, in each case, as of June 30, 2008. This table should be read in conjunction with "Unaudited Pro Forma Combined Financial Statements," "Selected Combined Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical combined financial statements and the related notes included elsewhere in this prospectus.

	As of June 30, 2008	
	Actual	Pro Forma(1)
	(unaudited)	
	(\$ in thousands)	
Debt:		
Mortgage debt	\$ 332,988	\$ 332,988
Related party debt	247,743	
Term debt	20,000	20,000
Total debt	600,731	352,988
Noncontrolling interests	14,666	10,178
Equity:		
Member's equity	543,060	
Common shares		
Additional paid in capital		
Retained earnings		
Total equity	543,060	795,291
Total capitalization	\$ 1,158,457	\$ 1,158,457

(1)

The pro forma adjustments consist of:

Repayment of related party debt owed to CapitalSource in connection with the contribution of our initial assets in principal amount of approximately \$248 million as of June 30, 2008; and

Elimination of certain noncontrolling interests reflecting the redemptions of interests formerly held by minority partners in a portion of our assets.

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The unaudited pro forma combined statements of operations for the year ended December 31, 2007 and the six months ended June 30, 2008 and 2007 have been prepared as though the acquisition of properties acquired by the Carve-out Entity in the year ended December 31, 2007 and the six months ended June 30, 2008, the contribution to us of our initial net assets and the related transactions had occurred as of January 1, 2007. The unaudited pro forma combined balance sheet as of June 30, 2008 has been prepared as though the contribution to us of our initial net assets and the related transactions had occurred on June 30, 2008.

Further, the historical financial information presented herein has been adjusted to give pro forma effect to events that are directly attributable to the transaction, are factually supportable and are expected to have a continuing impact of our results. These unaudited pro forma combined financial statements should be read in conjunction with the historical combined financial statements and related notes of the Carve-out Entity, included elsewhere in this prospectus. These adjustments are subject to change based on the finalization of the terms of the contribution to us of our initial assets and the related transaction agreements. See "Other Arrangements Between CapitalSource and Us." In addition, such adjustments are estimates and may not prove to be accurate. Information regarding these adjustments constitutes forward-looking information and is subject to risks and uncertainties that could cause actual results to differ materially from those anticipated. See "Risk Factors" and "Cautionary Language Regarding Forward-Looking Statements."

The unaudited pro forma combined financial statements are for illustrative purposes only and do not reflect what our financial position and results of operations would have been had the acquisition of properties acquired by the Carve-out Entity in the year ended December 31, 2007 and the six months ended June 30, 2008, the contribution to us of our initial assets and the related transactions occurred on the dates indicated and are not necessarily indicative of our future financial position and future results of operations.

Immediately prior to the consummation of this offering, CapitalSource will contribute all of its healthcare net lease assets and a \$150 million interest in the Genesis mezzanine loan to us in exchange for common shares. SEC Staff Accounting Bulletin No. 48 ("SAB 48") specifically states that transfers of non-monetary assets to a company by its promoters or by shareholders in exchange for stock prior to or at the time of the company's initial public offering normally should be recorded by the company at the transferor's historical cost basis. We plan to follow SAB 48 and record the healthcare net lease assets and the \$150 million interest in the Genesis mezzanine loan at CapitalSource's historical cost basis.

We intend to form a TRS to hold a \$100 million portion of our interest in the Genesis mezzanine loan. To the extent that a TRS is formed and generates income, it would be taxable as a corporation and would pay federal, state and local income tax on its net income. Revenues generated by our TRS are offset in part by interest expense it incurs on amounts borrowed from us.

The pro forma adjustments include the following items:

Repayment of debt owed to CapitalSource in connection with the contribution of our initial net assets in principal amount of approximately \$248 million as of June 30, 2008;

Removal of the historical allocation of expenses attributed to our assets while within CapitalSource, and imposition of expenses related to the annual management fee of 0.50% of the average daily value of our gross invested assets plus other expenses we expect to bear as a public company;

Recognition of revenues and related expenses on properties acquired during 2007 and 2008, assuming those properties were acquired and operational as of January 1, 2007;

Recognition of share based compensation expense related to the anticipated issuance of awards under our equity incentive plan;

Recognition of income taxes on earnings generated by our TRS on the portion of the Genesis mezzanine loan held by our TRS; and

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Elimination of noncontrolling interests reflecting the redemptions of interests formerly held by minority partners in a portion of our assets.

Our unaudited pro forma combined statements of operations do not give effect to the initial expenses directly attributable to this offering because these non-recurring charges will be incurred by CapitalSource. Additionally, we expect to obtain a secured revolving credit facility that will be used primarily to finance our future direct real estate investments and for general corporate use. We do not believe this facility will be drawn in the near future, other than to pay closing costs and related fees, and, therefore, we have not made any pro forma adjustments related to it.

CapitalSource Healthcare Net Lease Segment and Loan
Unaudited Pro Forma Combined Balance Sheet
As of June 30, 2008
(\$ in thousands)

	Historical(a)	Transaction Adjustments	Pro Forma
ASSETS			
Real estate investments:			
Building and improvements	\$ 910,413	\$	\$ 910,413
Land	106,797		106,797
Furniture and equipment	51,814		51,814
Less: accumulated depreciation	(61,325)		(61,325)
Real estate investment, net	1,007,699		1,007,699
Loans, net	151,875		151,875
Cash and cash equivalents	9,863		9,863
Restricted cash	16,322		16,322
Deposits	9,334		9,334
Deferred financing fees, net	3,394		3,394
Intangible lease assets, net	18,652		18,652
Straight-line rent receivable	15,512		15,512
Receivables and other assets, net	2,849		2,849
Total assets	\$ 1,235,500	\$	\$ 1,235,500
LIABILITIES, NONCONTROLLING INTERESTS AND EQUITY			
Liabilities:			
Mortgage debt	\$ 332,988	\$	\$ 332,988
Related party debt	247,743	(247,743)(b)	
Term debt	20,000		20,000
Lease obligation, net	48,369		48,369
Other liabilities	28,674		28,674
Total liabilities	677,774	(247,743)	430,031
Noncontrolling interests	14,666	(4,488)(c)	10,178
Equity	543,060	252,231(b)(c)	795,291
Total liabilities, noncontrolling interests and equity	\$ 1,235,500	\$	\$ 1,235,500

See accompanying notes.

NOTES TO UNAUDITED PRO FORMA COMBINED BALANCE SHEET

- (a) Represents the historical combined financial statements of the period attributable to the Carve-out Entity.
- (b) Represents an adjustment to reflect CapitalSource's repayment of the related party debt, which will be considered a capital contribution to us by CapitalSource.
- (c) Represents an adjustment to reflect the redemptions of non-managing member units that have occurred subsequent to June 30, 2008.

CapitalSource Healthcare Net Lease Segment and Loan
Unaudited Pro Forma Combined Statement of Operations
For the Six Months Ended June 30, 2008
(\$ in thousands, except per share data)

	Historical(a)	Acquisition Adjustments	Transaction Adjustments	Pro Forma
Revenues:				
Operating lease income	\$ 54,150	\$ 107(b)	\$	\$ 54,257
Interest and fee income	9,418			9,418
 Total revenue	 63,568	 107		 63,675
Expenses:				
Interest expense	20,921		(10,617)(c)	10,304
Depreciation	17,959	25(d)		17,984
General and administrative	5,046		156(e)(f)(g)(h)(i)	5,202
 Total expenses	 43,926	 25	 (10,461)	 33,490
Income before gain on sale of real estate and noncontrolling interests expenses	19,642	82	10,461	30,185
Gain on sale of real estate	105			105
Noncontrolling interests expense	(1,545)		1,002(k)	(543)
 Income before income taxes	 18,202	 82	 11,463	 29,747
Income tax expense			980(j)	980
 Net income	 \$ 18,202	 \$ 82	 \$ 10,483	 \$ 28,767
 Net income per share:				
Basic	\$	\$	\$	\$
Diluted	\$	\$	\$	\$
Average shares outstanding:				
Basic	\$	\$		
Diluted	\$	\$		

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
Unaudited Pro Forma Combined Statement of Operations
For the Six Months Ended June 30, 2007
(\$ in thousands, except per share data)

	Historical	Acquisition Adjustments	Transaction Adjustments	Pro Forma
Revenues:				
Operating lease income	\$ 41,454	\$ 11,352(b)	\$	\$ 52,806
Interest and fee income	333	9,658(l)		9,991
 Total revenue	 41,787	 21,010		 62,797
Expenses:				
Interest expense	20,806	755(m)	(8,151)(c)	13,410
Depreciation	14,127	3,979(d)		18,106
General and administrative	5,017		1,247(e)(f)(g)(h)(i)	6,264
 Total expenses	 39,950	 4,734	 (6,904)	 37,780
Income before noncontrolling interests expenses				
	1,837	16,276	6,904	25,017
Noncontrolling interests expense	(2,553)		2,010(k)	(543)
 Income before income taxes	 (716)	 16,276	 8,914	 24,474
Income tax expense			1,141(j)	1,141
 Net income	 \$ (716)	 \$ 16,276	 \$ 7,773	 \$ 23,333
Net income per share:				
Basic	\$	\$	\$	\$
Diluted	\$	\$	\$	\$
Average shares outstanding:				
Basic	\$	\$	\$	\$
Diluted	\$	\$	\$	\$

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
Unaudited Pro Forma Combined Statement of Operations
For The Year Ended December 31, 2007
(\$ in thousands, except per share data)

	Historical	Acquisition Adjustments	Transaction Adjustments	Pro Forma
Revenues:				
Operating lease income	\$ 95,191	\$ 10,421(b)	\$	\$ 105,612
Interest and fee income	10,805	9,177(l)		19,982
 Total revenue	 105,996	 19,598		 125,594
Expenses:				
Interest expense	46,262	1,027(m)	(20,469)(c)	26,820
Depreciation	31,955	4,257(d)		36,212
General and administrative	10,460		1,300(e)(f)(g)(h)(i)	11,760
Loss on impairment of assets	1,225			1,225
 Total expenses	 89,902	 5,284	 (19,169)	 76,017
Income before gain on sale of real estate and noncontrolling interests expenses	16,094	14,314	19,169	49,577
Gain on sale of real estate	156			156
Noncontrolling interests expense	(4,951)		3,862(k)	(1,089)
 Income before income taxes	 11,299	 14,314	 23,031	 48,644
Income tax expense			2,254(j)	2,254
 Net income	 \$ 11,299	 \$ 14,314	 \$ 20,777	 \$ 46,390
Net income per share:				
Basic	\$	\$	\$	\$
Diluted	\$	\$	\$	\$
Average shares outstanding:				
Basic	\$	\$	\$	\$
Diluted	\$	\$	\$	\$

See accompanying notes.

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS

(a) Represents the historical combined financial statements of the period attributable to the Carve-out Entity.

(b) Represents an adjustment to recognize revenues for all properties acquired and to reflect the impact of these properties as if they had been acquired and leased on January 1, 2007.

(c) Represents an adjustment to eliminate interest expense that was historically allocated to us for the six months ended June 30, 2008 and 2007, and for the year ended December 31, 2007, on borrowings made by CapitalSource. The adjustment also eliminates any interest expense associated with our related party debt, which will be extinguished prior to completion of the offering. We expect to have our own credit facility to finance future real estate investments and for general corporate use. We believe the credit facility will not be drawn in the near future and we have, therefore, not made any pro forma adjustment related to the expected facility.

(d) Represents an adjustment to record depreciation expense on all properties acquired and to reflect the depreciation expenses that would have been incurred if they had been acquired and leased on January 1, 2007.

(e) Represents an adjustment to eliminate general and administrative expenses in the amount of \$4.4 million and \$3.1 million that were allocated to us for the six months ended June 30, 2008 and 2007, respectively, and \$7.4 million that was allocated to us for the year ended December 31, 2007. General and administrative expenses will not be allocated by CapitalSource to us subsequent to the offering as these expenses will be covered by CapitalSource under the management agreement.

(f) Represents an adjustment to eliminate internal legal and other professional fees in the amount of \$0.1 million and \$0.2 million, for the six months ended June 30, 2008 and 2007, respectively, and \$0.5 million for the year ended December 31, 2007. Internal legal and other professional services will be provided by CapitalSource under the management agreement.

(g) Represents an adjustment to record management fees that will be charged to us by CapitalSource. The annual management fee is calculated as 0.50% of the average daily value of our gross invested assets. Management fees will cover, without limitation, rent, telephone, utilities, office furniture, equipment, machinery and other office tools, internal legal counsel and other professional fees and internal overhead expenses of CapitalSource and its affiliates. The following table summarizes the calculation of the management fee:

	Six Months Ended June 30,		Year Ended
	2008	2007	December 31, 2007
	(in thousands)		
Building and improvements	\$ 910,413	\$ 910,413	\$ 910,413
Land	106,797	106,797	106,797
Furniture and equipment	51,814	51,814	51,814
Loans	150,000	150,000	150,000
Total asset value	\$ 1,219,024	\$ 1,219,024	\$ 1,219,024
 Multiply by management fee rate	 0.25%	 0.25%	 0.50%
Management fees	\$ 3,048	\$ 3,048	\$ 6,095

(h) Represents an adjustment to record expenses of running our operations as a separate public, stand-alone company. These expenses include, without limitation to, audit and tax services, public company costs, directors' and officers' insurance, trustee compensation, outside legal counsel, software and insurance expenses. The adjustment amounts for the six months ended June 30, 2008 and 2007 were \$1.6 million, and the adjustment amount for the year ended December 31, 2007 was \$3.1 million.

NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS (Continued)

(i) Represents an adjustment for share based compensation expense related to the anticipated issuance of awards under our equity incentive plan. Restricted share awards to or for the benefit of our officers and certain other employees of CapitalSource that are expected to devote time to our Company are expected to vest over three to five years from the grant date. Trustee awards are expected to vest annually on the date of the next annual meeting; grants expected to be made to the trustees upon completion of this offering will vest at the 2009 annual meeting of shareholders. We will recognize the cost of these equity awards based on the fair value method under SFAS No. 123(R), *Share-Based Payment*, assuming the shares granted are valued at \$, the mid-point of the range set forth on the cover of this prospectus. The compensation expense is expected to be between \$ million and \$ million.

(j) Represents an adjustment to record income tax expense recorded in our TRS at a rate which was estimated using a combined statutory federal and blended state income tax rate, of 40.2%. The TRS will generate income by holding \$100 million of our \$150 million interest in the Genesis mezzanine loan. This income is partially offset by interest expense on amounts our TRS shall borrow from us.

(k) Represents an adjustment to eliminate noncontrolling interests expense to reflect the noncontrolling interests expense that would have been incurred if all redemptions of non-managing member units that occurred through the date of this filing had occurred on June 1, 2007.

(l) Represents an adjustment to recognize interest and fee income on the Genesis mezzanine loan to reflect the interest and fees that would have been generated by the loan if it had been originated on January 1, 2007.

(m) Represents an adjustment to record interest expense on the debt financing for the properties acquired during the year ended December 31, 2007, to reflect interest expenses as if the debt had been outstanding as of January 1, 2007.

SELECTED COMBINED FINANCIAL DATA

The following selected historical combined financial data should be read in connection with "Unaudited Pro Forma Combined Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical combined financial statements and related notes thereto included elsewhere in this prospectus.

The selected historical combined financial data as of December 31, 2007 and 2006 and for the years ended December 31, 2007 and 2006 have been derived from our audited combined financial statements and notes thereto included elsewhere in this prospectus, which have been audited by Ernst & Young LLP, independent registered public accounting firm. The selected historical combined financial data as of June 30, 2008 and for the six months ended June 30, 2008 and 2007 have been derived from our unaudited historical combined financial statements included elsewhere in this prospectus. The historical results are not necessarily indicative of the results to be expected in future.

	Year Ended December 31,		Six Months Ended June 30,	
	2006	2007	2007	2008
	(unaudited)			
	(\$ in thousands)			
Operating Information				
Revenues				
Operating lease income	\$ 30,380	\$ 95,191	\$ 41,454	\$ 54,150
Interest and fee income	194	10,805	333	9,418
Total revenues	30,574	105,996	41,787	63,568
Operating expenses				
Interest expense	13,373	46,262	20,806	20,921
Depreciation	11,464	31,955	14,127	17,959
General and administrative	3,809	10,460	5,017	5,046
Loss on impairment of assets		1,225		
Loss on debt extinguishment	2,497			
Total expenses	31,143	89,902	39,950	43,926
(Loss) income before gain on sale of real estate and noncontrolling interests expense	(569)	16,094	1,837	19,642
Gain on sale of real estate		156		105
Noncontrolling interests expense	(4,711)	(4,951)	(2,553)	(1,545)
Net (loss) income	\$ (5,280)	\$ 11,299	\$ (716)	\$ 18,202

	As of December 31,		As of
	2006	2007	June 30,
			2008
			(unaudited)
	(\$ in thousands)		
Balance Sheet Information			
Assets			
Real estate investments:			
Buildings and improvements	\$ 608,963	\$ 900,417	\$ 910,413
Land	89,140	106,620	106,797
Furniture and equipment	34,395	51,545	51,814
Less accumulated depreciation	(11,464)	(43,370)	(61,325)
Real estate investments, net	721,034	1,015,212	1,007,699
Loan, net		150,894	151,875
Cash and cash equivalents	6,508	16,088	9,863
Restricted cash	12,881	23,738	16,322
Deposits	6,435	13,758	9,334
Deferred financing fees, net	4,294	3,824	3,394
Intangible lease assets, net	27,584	21,351	18,652
Straight-line rent receivable	4,012	11,680	15,512
Receivables and other assets, net	1,077	2,470	2,849
Total assets	\$ 783,825	\$ 1,259,015	\$ 1,235,500
Liabilities, noncontrolling interests and member's equity			
Mortgage debt	\$ 299,769	\$ 341,086	\$ 332,988
Related party debt	106,660	247,743	247,743
Term debt	20,000	20,000	20,000
Lease obligations, net	26,816	51,918	48,369
Other liabilities	16,231	30,910	28,674
Total liabilities	469,476	691,657	677,774
Noncontrolling interests	56,342	44,808	14,666
Member's equity	258,007	522,550	543,060
Total liabilities, noncontrolling interests and member's equity	\$ 783,825	\$ 1,259,015	\$ 1,235,500

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our combined results of operations and financial condition. You should read this discussion in conjunction with the unaudited pro forma combined financial statements and the historical combined financial statements and the notes included elsewhere in this prospectus.

The audited and unaudited financial statements included in this prospectus reflect the operations of the healthcare net lease segment of CapitalSource and a \$150 million interest in the Genesis mezzanine loan as if the CapitalSource healthcare net lease segment and \$150 million loan asset had been operated together in a single business as a separate, stand-alone company throughout all relevant periods. We refer to these operations as those of the "Carve-out Entity" in this prospectus. In this section, unless the context otherwise requires, references to "we," "us" and "our" refer to the Carve-out Entity.

OVERVIEW

We are a newly organized Maryland real estate investment trust, or REIT, investing in income producing healthcare-related facilities, principally skilled nursing facilities, or SNFs, located in the United States. Immediately prior to the consummation of this offering, CapitalSource intends to contribute to us all of the assets and liabilities of its healthcare net lease segment and a \$150.0 million interest in the \$375.0 million Genesis mezzanine loan. We intend to focus our business on the ownership of SNFs and other healthcare-related properties that we will lease to licensed, independent third-party operators under triple-net leases. Under a typical triple-net lease, an operator agrees to pay a base monthly operating lease payment, subject to annual escalations, and all facility operating expenses, including real estate taxes and insurance, as well as make capital improvements. We believe the healthcare sector is relatively recession resistant compared to other real estate sectors and presents unique growth potential due to favorable demographics of a rapidly growing senior population and the increased use of healthcare services by the aging "baby boomer" generation. We believe SNFs provide an attractive and stable revenue stream as the services SNFs provide are largely paid for under government-sponsored Medicaid and Medicare contracts. We also believe there are significant barriers to entry that limit the number of new SNFs that can be built, due to the requirement that operators obtain either state-mandated Certificates of Need, or CONs, or Medicare and Medicaid reimbursement contracts.

We are managed by a wholly owned subsidiary of CapitalSource. Our manager will receive an annual management fee paid monthly in arrears in an amount equal to one-twelfth of 0.50% of the average daily value of our gross invested assets. Gross invested assets are defined as net real estate investments plus accumulated depreciation plus loan receivable of \$150.0 million. In addition to this management fee, our general and administrative expenses will include other expenses that we expect to incur as a result of being a public company. See "Unaudited Pro Forma Combined Financial Statements" for a more detailed description of these anticipated costs. Our real property assets were previously reported within CapitalSource's healthcare net lease segment. Our executives, who are employees of CapitalSource, have extensive experience investing in healthcare real estate assets. We intend to capitalize on this experience and believe we will benefit from CapitalSource's expertise, knowledge and relationships within the healthcare industry, which will enable CapitalSource to originate, manage and add value to our current and future healthcare-related investments.

As of June 30, 2008, our \$1.0 billion of real property assets were leased on a triple-net basis to 41 operator groups. Only three operator groups produced more than 10% of our contractual rental income, with the largest operator group contributing only 13% of our contractual rental income for the six months ended June 30, 2008. The substantial majority of our operator groups each contributed less than 5% of our contractual rental income for that period. We expect that our \$150.0 million interest in the Genesis mezzanine loan will be our largest revenue generating investment by total revenue; this

participation generated 15.4% of our contractual revenues for the six months ended June 30, 2008. As of June 30, 2008, our leases had average remaining terms of 8.4 years and typically have annual escalations on a fixed rate or tied to an index such as the CPI. As of June 30, 2008, 156 of our 186 properties were subject to master leases or were cross defaulted, providing additional credit support for the performance of these 156 properties.

Substantially all of our revenues and sources of cash flows from operations are derived from operating lease income and interest and fee income earned on the Genesis mezzanine loan. These items represent our primary source of liquidity to fund distributions and are dependent upon our operators' and obligor's continued ability to make contractual rent and interest payments to us. To the extent that our operators or obligor experience operating difficulties and are unable to generate sufficient cash to make payments to us, there could be a material adverse impact on our combined results of operations, liquidity and/or financial condition. To mitigate this risk, we will rely on CapitalSource's portfolio management services, which involve review of periodic operating and financial data for our properties, review of operator/obligor credit, periodic property inspections and review of covenant compliance relating to licensure, real estate taxes, letters of credit and other collateral. CapitalSource uses a proprietary database to collect property-specific data, and considers current industry trends and risks when analyzing such data. We believe CapitalSource's portfolio management practices generally provide timely portfolio information that would typically enable an early intervention to address potential areas of payment risk, and in so doing, support both the collectibility of revenue and the value of our investment.

Our primary objectives are to maintain and enhance shareholder value and to pay consistent cash dividends to our shareholders. We will seek to increase dividend payments to shareholders by taking advantage of appropriate opportunities to expand our portfolio and by leasing properties subject to annual increases in rental income from our leases. To meet these objectives, we will attempt to invest in properties that provide opportunity for additional value and current returns to our shareholders and diversify our investment portfolio by geographic location and operator.

We intend to qualify as a REIT for federal income tax purposes under the Internal Revenue Code commencing with our taxable year ending December 31, 2008. We generally will not be subject to federal taxes on our taxable income to the extent that we distribute our taxable income to shareholders and maintain our qualification as a REIT. As a REIT, we are permitted to own up to 100% of a taxable REIT subsidiary, or TRS. We intend to form a TRS to hold a \$100 million portion of our interest in the Genesis mezzanine loan. To the extent a TRS is formed and generates income, it would be taxable as a corporation and would pay federal, state and local income tax on its taxable income at the applicable corporate rates. As a result, our financial statements after this offering may include a provision for income tax expense relating to the taxable income of our TRS.

KEY TRANSACTIONS IN 2007 AND 2006

During 2007 and 2006, we completed the following key transactions:

On January 27, 2006, CapitalSource acquired 39 long-term care facilities (38 properties in Florida and one property in Pennsylvania) in a "down-REIT" transaction. This transaction was sourced through a previous lending relationship established with CapitalSource more than two years prior to the acquisition and which still exists today. All the properties are owned subject to triple-net leases with five separate non-profit entities. The total purchase price for the 4,874 licensed beds (including 70 ALF units) was \$208.6 million (\$42,796 per bed) subject to the existing leases. The contractual rent due from the facilities during the first year was \$21.5 million. The five leases have an initial term of 10 years and are subject to annual escalation of 3.0%. A significant portion of the purchase price was paid in the form of assumptions of pre-existing loans and non-managing member units in a wholly owned subsidiary of CapitalSource. These non-managing member units, which have no voting interest in such subsidiary, are redeemable at the option of the holders for cash or, at CapitalSource's option,

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for shares of CapitalSource's common stock and entitle the holders to receive dividends as if they held outstanding shares of CapitalSource's common stock. In connection with this transaction, CapitalSource issued 1.3 million shares of its common stock and reserved an additional 2.5 million shares for any future exchange of the non-managing member units. The non-managing member units are shown as noncontrolling interests in our combined balance sheets as of December 31, 2007 and 2006. In connection with the acquisition, CapitalSource assumed loans previously made on the properties and recorded a loss of \$2.5 million upon extinguishment of the related debt based upon the fair value of debt recorded. As of June 30, 2008, 653,575 non-managing member units were outstanding. Of these units, 200,000 units were redeemed subsequent to June 30, 2008. After completion of this offering, we will be required to fund the payment to the holders of the outstanding non-managing member units of amounts equal to the per share dividends, if any, declared by CapitalSource on its common stock. In addition, we will be required to fund the redemption price, which is based on the value of a share of CapitalSource common stock at the date of redemption, upon redemption of any such unit. We may purchase call options or enter into other derivative instruments based on CapitalSource stock to hedge these potential obligations.

During 2007 and 2006, CapitalSource acquired 17 long-term care facilities (twelve properties in Florida and five properties in Mississippi) in three separate closings. The first closing of nine properties occurred on November 30, 2006, the second closing of six properties occurred on April 30, 2007 and finally, the last closing of two properties took place on May 31, 2007. This transaction was sourced through a long-term relationship the seller had with our senior executives. All the properties are subject to triple-net leases with three separate entities. The total purchase price for the total 2,186 licensed beds (2,031 SNF beds and 155 ALF units) was \$150.9 million (\$69,047 per bed). The contractual rent from the facilities during the first year was \$13.1 million. The leases have initial terms of 15 years and are subject to annual escalation of 2.0%.

On November 30, 2006, CapitalSource acquired 69 long-term care facilities located in 22 states from another publicly traded healthcare

REIT. We obtained variable rate mortgage financing to fund \$287.2 million of the purchase price for these assets. All the properties are owned subject to triple-net leases with 26 separate operators. The total purchase price for the 7,362 licensed beds (including 39 ALF units and 26 long term acute care beds) was \$394.5 million (\$53,583 per bed). The contractual rent from the facilities during the first year was \$35.6 million. The leases had a remaining average term of 8.0 years and provide for rent increasing at an average rate of approximately 2.1% annually. Although CapitalSource had existing relationships with many of the operators in the acquired portfolio, this acquisition also provided new operator relationships, two of which led to sale-leaseback transactions completed in the last 18 months.

During 2007, CapitalSource acquired eleven long-term care facilities (seven properties in Tennessee, one each in Ohio, Massachusetts, Indiana, and Colorado) from a publicly traded operator in 3 separate closings. The first closing of nine properties occurred on February 1, 2007, the second closing of one property occurred on March 1, 2007 and finally, the last closing of one property took place on May 1, 2007. All the properties are owned subject to triple-net leases with two separate operators. The total purchase price for the 1,754 SNF beds was \$78.2 million (\$44,567 per bed). The contractual rent from the facilities during the first year was \$7.7 million. Ten of the facilities, located in Indiana, Massachusetts, Ohio and Tennessee with 1,574 licensed beds, are operated under a master lease for an initial term of ten years. The ten facilities are subject to an annual escalation of 2.5%. The eleventh facility, located in Colorado with 180 licensed beds, is operated under a lease agreement with an initial term of five years.

On June 29, 2007, CapitalSource acquired 36 long-term care facilities (35 properties in Texas and one in Pennsylvania) from a publicly traded healthcare REIT. The properties are operated under a 35-facility triple-net master lease and a one-facility triple-net stand alone lease. The

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total purchase price for the 4,232 licensed beds was \$124.6 million (\$29,447 per bed). The contractual rent for the first year was \$10.6 million. The master lease expires June 30, 2017, and escalates at 2.5% annually. The stand-alone lease expires December 31, 2009 and escalates at 2.0% annually. The operator under these leases also has obtained accounts receivable financing from CapitalSource.

FACTORS AFFECTING OUR BUSINESS AND THE BUSINESS OF OUR OPERATORS

The continued success of our business is dependent on a number of macroeconomic and industry trends. Many of these trends will influence our ongoing ability to find suitable investment properties while other factors will impact our operators' ability to conduct their operations profitably and meet their obligations to us.

Industry trends

One of the primary trends affecting our business is the long-term increase in the average age of the U.S. population. This increase in life expectancy is expected to be a primary driver for growth in the healthcare and SNF industries. We believe this demographic trend is resulting in an increased demand for services provided to the elderly. We believe that the low cost healthcare setting of a SNF will benefit our operators and facilities in relation to higher-cost healthcare providers. We believe that these trends will support a growing demand for the services provided by SNF operators, which in turn will support a growing demand for our properties.

The growth in demand for services provided to the elderly has resulted in an increase in healthcare spending. According to the 2007 National Health Expenditures forecast published by CMS, healthcare spending in the United States is projected to grow at an average annual growth rate of approximately 6.7% through 2017. As a percentage of gross domestic product, or GDP, healthcare spending is projected to increase by over 3% to 19.5% of GDP in 2017 with an expected spending level of over \$4.3 trillion. CMS also projects that national nursing home expenditures will grow from \$124.9 billion in 2006 to \$217.5 billion in 2017, representing a 5.2% CAGR.

Competitive environment for healthcare real estate investing

We compete with other public and private companies who structure triple-net leases with operators of varying types of healthcare properties. While the overall landscape for healthcare finance is competitive, we believe there has been a trend in our industry over the last few years of companies pursuing large portfolio transactions. In addition, we believe our industry has also experienced a trend over the last few years of companies seeking to diversify into other asset classes and away from SNFs. In contrast, we have focused, and will continue to focus, on transactions with small and middle market operators, primarily involving SNFs. CapitalSource has experience identifying and underwriting the abilities of local, regional and national operators. We believe that this experience helps us identify new operator relationships and create new opportunities with existing relationships that fall below the radar of other providers of capital. We believe that our continued focus on SNFs has enabled us to develop broad expertise in the markets in which we compete.

Liquidity and access to capital

We anticipate that our single largest cash-based expense will be the interest expense we incur on our debt obligations. To continue to expand our portfolio, we will rely on access to the capital markets on an ongoing basis.

Our indebtedness outstanding upon consummation of this offering will be comprised principally of our mortgage debt. At the closing of this offering, we do not anticipate that we will have made any draws, other than to pay closing costs and related fees, on the \$ million senior secured revolving credit facility that we expect to enter into with affiliates of certain of the underwriters. To the extent

this facility is available to us, we believe it, and our cash flows from operations, will be sufficient to sustain our capital requirements for the next 18 to 24 months.

Factors affecting our operators' profitability

Our revenues are derived from rents we receive from triple-net leases with our operators. Certain economic factors present both opportunities and risks to our operators and, therefore, influence their ability to meet their obligations to us. These factors directly affect our operators' operations and, given our reliance on their performance under our leases, present risks to us that may affect our results of operations or ability to meet our financial obligations.

Our operators' revenues are largely derived from third-party sources. Therefore, we indirectly rely on these same third-party sources to obtain our rents. The majority of these third-party payments come from the federal Medicare program and state Medicaid programs. Our operators also receive payments from other third-party sources, such as private insurance companies or private-pay residents, but these payments typically represent a small portion of our operators' revenue streams. The sources and amounts of our operators' revenues are determined by a number of factors, including licensed bed capacity, occupancy rates, the acuity profile of residents and the rate of reimbursement. Changes in the acuity profile of the residents as well as the mix among payor types, including private pay, Medicare and Medicaid, may significantly affect our operators' profitability and, in turn, their ability to meet their obligations to us. Managing, billing and successfully collecting third-party payments is a relatively complex activity that requires significant experience and is critical to the successful operation of a SNF.

Labor and related expenses typically represent our operators' largest cost component. Therefore, the labor markets in which our operators operate affect their ability to operate in a cost efficient manner and profitably. In order for our operators to be successful, they must possess the management capability to attract and maintain skilled and motivated workforces. Much of the required labor needed to operate a SNF requires specific technical experience and education. In recent years, many of the markets in which we own properties have experienced skilled labor shortages. These trends can require our operators to increase their payroll costs to attract labor and adequately staff their operations. Increases in labor costs due to higher wages and greater employee benefits required to attract and retain qualified personnel could affect our operators' ability to meet their obligations to us. A successful operator must be able to source qualified skilled labor and minimize staff turnover, as high turnover rates can sometimes challenge their ability to operate effectively and profitably.

While our revenues are generated from the rents our operators pay to us, we seek to establish our rent at an appropriate level so that our operators are able to succeed. This requires discipline to ensure that we do not overpay for the properties we acquire. While we operate in a competitive environment, we carefully assess the long-term risks facing our operators as we consider an investment. Because our leases are long-term arrangements, we are required to assess both the short and long-term capital needs of the properties we acquire. SNFs are generally highly specialized real estate assets. We believe we have developed broad expertise in assessing the short and long-term needs of this asset class.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which requires us to make estimates and judgments about future events that affect the reported amounts in the financial statements and the related disclosures. We base estimates on our experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting would have been applied, resulting in a different presentation of our financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or

assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. We believe that the following critical accounting policies, among others, affect our more significant estimates and judgments used in the preparation of our financial statements. For more information regarding our critical accounting policies, see Note 2, *Summary of Significant Accounting Policies* in our accompanying audited combined financial statements for the year ended December 31, 2007.

Operating Lease Income Recognition

We lease our direct real estate investments through long-term, triple-net operating leases that typically include fixed rental payments, subject to escalation over the life of the lease. We recognize operating lease income on a straight-line basis over the life of the lease when collectibility is reasonably assured.

For straight-line rent, we generally record reserves against revenues from leases when collection is uncertain or when negotiations for restructurings of troubled operators result in significant uncertainty regarding ultimate collection. The amount of the reserve is estimated based on what management believes will likely be collected. We continually evaluate the collectibility of our straight-line rent assets. If it appears that we will not collect future rent due under our leases, we will record a provision for loss related to the straight-line rent asset.

We do not recognize any revenue on contingent rents until payments are received and all contingencies have been eliminated.

Long-Lived Assets and Intangibles

We allocate the purchase price of our real estate investments to net tangible and identified intangible assets acquired, primarily lease intangibles, based on their estimated fair values. In making estimates of fair values for purposes of allocating the purchase price, we utilize a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. When valuing the acquired properties, we do not include the value of any in-place leases. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired and liabilities assumed.

In assessing lease intangibles, we recognize above-market and below-market in-place lease values for acquired operating leases based on the present value of the difference between: (1) the contractual amounts to be received pursuant to the leases negotiated and in-place at the time of acquisition of the facilities; and (2) management's estimate of fair market lease rates for the facility or equivalent facility, measured over a period equal to the remaining non-cancelable term of the lease. Factors to be considered for lease intangibles also include estimates of carrying costs during hypothetical lease-up periods, market conditions, and costs to execute similar leases. The capitalized above-market or below-market lease values are classified as intangible assets, net, and lease obligations, net, respectively, and are amortized to operating lease income over the remaining non-cancelable term of each lease.

Impairment of Long-Lived Assets

We assess our real estate investments and the related intangible assets for impairment indicators whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Our assessment of the existence of impairment indicators is based on factors such as, but not limited to, market conditions, operator performance and legal structure. If we determine that indicators of impairment are present, we evaluate the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying facilities. Provisions for impairment losses related to long-lived assets may be recognized when expected future undiscounted cash flows are determined to be less than the carrying values of the assets. An adjustment is made to the net carrying value of the leased properties and other long-lived assets for the excess over their estimated fair value.

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The fair value of the real estate investment is determined by market research, which includes valuing the property as a healthcare facility as well as other alternative uses. All impairments are taken as a period cost at that time, and depreciation is adjusted going forward to reflect the new value assigned to the asset.

If we decide to sell a real estate investment, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell. Our estimates of cash flows and fair values of the properties are based on current market conditions and consider matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties, and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers.

Loans and Other Amounts Receivable from Third Parties

We evaluate the collectibility of loans and other amounts receivable from third parties based on a number of factors, including (i) corporate and facility-level financial and operations reports, (ii) compliance with the financial covenants set forth in the loan agreement, (iii) the financial stability of the applicable borrower or operator and any guarantor and (iv) the payment history of the borrower or operator. Our level of reserves, if any, for loans and other amounts receivable from third parties fluctuates depending upon all of these factors.

Income Tax

Since we operated within qualified REIT subsidiaries of CapitalSource (and hence were not subject to federal income taxes), and as we intend to elect to be taxed as a REIT under the applicable provisions of the Internal Revenue Code, commencing with the year ended December 31, 2008, our historical combined financial statements do not include any provision for federal income tax. We still may be subject to state and local taxation in various state and local jurisdictions, including those in which we transact business or reside. In addition, we intend to form a TRS to hold a \$100 million portion of our interest in the Genesis mezzanine loan. To the extent a TRS is formed and generates income, it would be taxable as a corporation and would pay federal, state and local income tax on its taxable income at the applicable corporate rates. As a result, our financial statements after this offering will include a provision for income tax expense relating to the taxable income of our TRS. If we fail to qualify as a REIT in any taxable year, all of our taxable income for that year would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. In addition, we also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost, unless we were entitled to relief under specific statutory provisions.

RESULTS OF OPERATIONS

The following is a discussion of the combined results of operations of CapitalSource's healthcare net lease segment and the \$150.0 million interest in the Genesis mezzanine loan as carved out of the accounts of CapitalSource and as though the combined healthcare net lease segment and loan participation had been a separate, stand-alone company for the respective periods presented.

Discussion of Revenue, Expenses and Non-GAAP Financial Measures

Revenues

Revenues consist of rents we collect from operators as stipulated in our long term triple-net leases as well as interest and fee income earned on the Genesis mezzanine loan. Additionally, as required under GAAP, we recognize certain non-cash revenue due to straight-lining of rent as well as amortization of lease intangibles. While not a significant component of revenue, we also earn interest on overnight deposits.

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Certain of our leases provide for periodic and determinable increases in base rent. Base rental revenues under these leases are recognized on a straight-line basis over the term of the applicable lease. We recognize operating lease income on a straight-line basis over the life of the lease when collectibility is reasonably assured. Recognizing rental income on a straight-line basis results in recognized revenue exceeding cash amounts contractually due from our operators during the first half of the term for leases that have straight-line treatment.

Certain of our other leases provide for an annual increase in rental payments only if certain revenue parameters or other contingencies are met. We recognize the increased rental revenue under these leases only if the revenue parameters or other contingencies are met rather than on a straight-line basis over the term of the applicable lease.

Expenses

We recognize a variety of cash and non-cash charges in our financial statements. Our expenses consist primarily of depreciation expense and the interest expense we incur as well as general and administrative costs associated with operating our business.

Prior to completion of this offering, certain management, administrative and operational services of CapitalSource were shared among us and other CapitalSource segments. For purposes of financial statement presentation, the costs for these shared services have been allocated to us based on actual direct costs incurred, or allocated based the value of real estate and loan assets. See Note 9, *Related Party Transactions*, to our audited combined financial statements included elsewhere in this prospectus for additional information about these allocations. CapitalSource's management believes that the allocations are reasonable. However, actual expenses may have been materially different from the allocated expenses if we had operated as an unaffiliated stand-alone entity. Going forward, we will incur expenses in the form of the management fee and other costs we expect to incur as a public company.

Non-GAAP Financial Measures

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Additionally, revenue generated from straight-line rent and amortization of lease intangibles gives an incomplete picture that prevents an evaluation of the growth in contractual rental income and the growth in dividend potential. To overcome these problems, the Company considers FFO and FAD appropriate performance measures for an equity REIT. The Company uses the NAREIT definition of FFO. FFO, as defined by NAREIT, means net income, computed in accordance with GAAP, exclusive of gains (or losses) from sales of real estate, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FAD represents FFO excluding: (i) net straight-line rental adjustments; (ii) rental income related to above/below market leases; and (iii) amortization of deferred financing costs, and (iv) non cash compensation expense.

We believe that FFO and FAD as supplemental measures to (not as a replacement of) the GAAP measures contained in the Income Statement and Statement of Cash Flows provide additional information about our operating performance by eliminating certain GAAP components of net income. FFO and FAD as presented herein are not necessarily comparable to FFO and FAD presented by other real estate companies due to the fact that not all real estate companies use the same definition. However management believes that both FFO and FAD are similar to performance measures presented by other REITs, and provide a useful comparison to them to determine our performance relative to other REITs.

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FFO and FAD as presented herein are not necessarily comparable to FFO and FAD presented by other real estate companies due to the fact that not all real estate companies use the same definition. FFO and FAD should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of our financial performance or as an alternative to cash flow from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is FFO or FAD necessarily indicative of sufficient cash flow to fund all of our needs including dividends. FFO and FAD are not financial measures recognized under GAAP and are unaudited for all periods presented. We believe that in order to facilitate a clear understanding of our combined historical operating results, FFO and FAD should be examined in conjunction with net income as presented in the combined financial statements and data included elsewhere in this prospectus.

Three months ended June 30, 2008 compared to three months ended June 30, 2007

The following table reflects the results of operations and our operating performance for the three months ended June 30, 2008 and the three months ended June 30, 2007.

	Three Months Ended June 30,		Change	
	2008	2007		
	(unaudited)			
	(\$ in thousands)			%
Revenues:				
Operating lease income	\$ 27,441	\$ 21,787	\$ 5,654	26%
Interest and fee income	4,467	148	4,319	2,918%
Total revenues	31,908	21,935	9,973	45%
Expenses:				
Interest expense	9,921	11,638	(1,717)	(15)%
Depreciation	8,990	7,378	1,612	22%
General and administrative	2,388	2,198	190	9%
Total Expenses	21,299	21,214	85	*
Income before gain on sale of real estate and noncontrolling interests expense				
	10,609	721	9,888	1,371%
Gain on sale of real estate	105		105	**
Noncontrolling interests expense	(392)	(1,201)	809	(67)%
Net income (loss)	\$ 10,322	\$ (480)	\$ 10,802	**
FFO	\$ 19,207	\$ 6,898	\$ 12,309	178%
FAD	\$ 17,134	\$ 6,190	\$ 10,944	177%

*
Less than 1%.

**
Not meaningful.

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The table below reflects the reconciliation of FFO and FAD to net income available to common shareholders, the most directly comparable U.S. GAAP measure, for the periods presented.

	Three Months Ended June 30,	
	2008	2007
	(unaudited)	
	(\$ in thousands)	
Net income (loss)	\$ 10,322	\$ (480)
Adjustments:		
Depreciation and amortization on real estate assets	8,990	7,378
Depreciation on real estate assets related to noncontrolling interests		
Loss (gain) on sale of real estate assets	(105)	
FFO	19,207	6,898
Adjustments:		
Straight-lining of rent	(1,725)	(1,674)
Loss (gain) on extinguishment of debt		
Non cash compensation expense		
Amortization related to above (below) market leases	(493)	507
Amortization of deferred financing fees	145	459
FAD	\$ 17,134	\$ 6,190

The following is a discussion of the combined statements of operations for the three months ended June 30, 2008 and June 30, 2007.

Net Income

Net income increased by \$10.8 million from a loss of \$0.5 million from the three months ended June 30, 2007 to net income of \$10.3 million for the three months ended June 30, 2008. The increase in net income is a result of an increase in revenue of \$10.0 million. The components of this increase in revenue are more fully explained below. Additionally, noncontrolling interests expense decreased by \$0.8 million.

Operating Lease Income

Operating lease income increased by \$5.6 million or 26% from \$21.8 million for the three months ended June 30, 2007 to \$27.4 million for the three months ended June 30, 2008. Approximately \$4.6 million of this increase was due to increased rental income from acquisitions in the second quarter of 2007. An additional \$1.0 million of the increase was due to intangible lease amortization. We acquired a large portfolio in June 2007 (see " Key Transactions" above) that has a significant intangible lease obligation. The impact of this intangible lease obligation was a net increase in operating lease income.

Interest and Fee Income

Interest and fee income increased by \$4.3 million from \$0.2 million for the three months ended June 30, 2007 to \$4.5 million for the three months ended June 30, 2008. Of this increase, \$4.3 million was due to interest and fees earned on the Genesis mezzanine loan that was originated in July 2007, and \$0.1 million was due to the increased interest on cash on deposits in various cash accounts.

Interest Expense

Interest expense decreased by \$1.7 million or 15% from \$11.6 million for the three months ended June 30, 2007 to \$9.9 million for the three months ended June 30, 2008. The decrease reflects the decrease in LIBOR, partially offset by increased borrowings due to our increased asset base.

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Depreciation Expense

Depreciation expense increased by \$1.6 million or 22% from \$7.4 million for the three months ended June 30, 2007 to \$9.0 million for the three months ended June 30, 2008. Approximately \$1.2 million of this increase related to depreciation on real property assets as a result of acquisitions in 2007 and \$0.4 million of this increase was due to depreciation on personal property as a result of continued asset growth in 2007.

General and Administrative

General and Administrative expense increased by \$0.2 million from \$2.2 million for the three months ended June 30, 2007 to \$2.4 million for the three months ended June 30, 2008. The increase reflects the increased allocation from our parent company due to an increase in our asset base.

Non-GAAP Financial Measures

FFO increased by \$12.3 million or 178% from \$6.9 million for the three months ended June 30, 2007 to \$19.2 million for the three months ended June 30, 2008. The increase was driven by increased net income and depreciation expense for the three months ended June 30, 2008. Both of these reflect the increased asset base for the three months ended June 30, 2008. No depreciation expense is attributed to our noncontrolling interests because holders of these interests do not have ownership rights in, or claims to, any real property assets.

FAD increased by \$10.9 million or 177% from \$6.2 million to \$17.1 million. The increase was driven by an increase in FFO as described above. The increase was partially offset by the amortization of intangible lease obligations as more fully described in operating lease income above.

Six months ended June 30, 2008 compared to six months ended June 30, 2007

The following table reflects the results of our operations and our operating performance for the six months ended June 30, 2008 and 2007.

	Six Months Ended June 30,		Change	
	2008	2007		
	(unaudited)			
	(\$ in thousands)		%	
Revenues:				
Operating lease income	\$ 54,150	\$ 41,454	\$ 12,696	31%
Interest and fee income	9,418	333	9,085	2,728%
Total revenues	63,568	41,787	21,781	52%
Expenses:				
Interest expense	20,921	20,806	115	*
Depreciation	17,959	14,127	3,832	27%
General and administrative	5,046	5,017	29	*
Total expenses	43,926	39,950	3,976	10%
Income before gain on sale of real estate and noncontrolling interests expense	19,642	1,837	17,805	969%
Gain on sale of real estate	105		105	**
Noncontrolling interests expense	(1,545)	(2,553)	1,008	(39)%
Net income (loss)	\$ 18,202	\$ (716)	\$ 18,918	**
FFO	\$ 36,056	\$ 13,411	\$ 22,645	169%
FAD	\$ 32,033	\$ 11,871	\$ 20,162	170%

*
Less than 1%.

**
Not meaningful.

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The table below reflects the reconciliation of FFO and FAD to net income available to common shareholders, the most directly comparable GAAP measure, for the periods presented.

	Six Months Ended	
	June 30,	
	2008	2007
	(unaudited)	
	(\$ in thousands)	
Net income (loss)	\$ 18,202	\$ (716)
Adjustments:		
Depreciation and amortization on real estate assets	17,959	14,127
Depreciation on real estate assets related to noncontrolling interests		
Loss (gain) on sale of real estate assets	(105)	
FFO	36,056	13,411
Adjustments:		
Straight-lining of rent	(3,832)	(3,311)
Loss (gain) on extinguishment of debt		
Non cash compensation expense		
Amortization related to above (below) market leases	(649)	1,197
Amortization of deferred financing fees	458	574
FAD	\$ 32,033	\$ 11,871

The following is a discussion of the combined statements of operations for the six months ended June 30, 2008 and 2007.

Net Income

Net income increased by \$18.9 million from a loss of \$0.7 million for the six months ended June 30, 2007 to net income of \$18.2 million for the six months ended June 30, 2008. The increase in net income is a result of an increase in revenue by \$21.8 million. The components of this increase in revenue are more fully explained below. The increase was partly offset by an increase of \$4.0 million in total expenses. The components of this increase in expenses are more fully explained below.

Operating Lease Income

Operating lease income increased by \$12.7 million or 31% from \$41.5 million for the six months ended June 30, 2007 to \$54.2 million for the six months ended June 30, 2008. Approximately \$10.1 million of this increase was due to increased rental income from acquisitions in the second and third quarters of 2007 as well as the second quarter of 2008. An additional \$0.7 million of this increase was due to escalations in contractual rental income. Finally, the remaining \$1.9 million was due to intangible lease amortization. We acquired a large portfolio in June 2007 (see " Key Transactions" above) that has a significant intangible lease obligation. The impact of this intangible lease obligation was a net increase in operating lease income.

Interest and Fee Income

Interest and fee income increased by \$9.1 million from \$0.3 million for the six months ended June 30, 2007 to \$9.4 million for the six months ended June 30, 2008. Substantially all of the increase was due to interest and fees earned on the Genesis mezzanine loan that was originated in July 2007.

Interest Expense

Interest expense increased by \$0.1 million from \$20.8 million for the six months ended June 30, 2007 to \$20.9 million for the six months ended June 30, 2008. The increase reflects increased

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borrowings due to our increased asset base. However, in the same period 30-day LIBOR declined significantly. The increase in interest expense would have been significantly higher if 30-day LIBOR had remained at the same level.

Depreciation Expense

Depreciation expense increased by \$3.8 million or 27% from \$14.1 million for the six months ended June 30, 2007 to \$18.0 million for the six months ended June 30, 2008. Approximately \$2.7 million of this increase related to depreciation on real property assets and \$1.1 million was due to depreciation on personal property as a result of acquisitions in 2007.

Non-GAAP Financial Measures

FFO increased by \$22.7 million or 169% from \$13.4 million for the six months ended June 30, 2007 to \$36.1 million for the six months ended June 30, 2008. The increase was primarily driven by an increase in operating lease income of \$12.7 million, an increase in interest and fee income of \$9.1 million, and a decrease of \$1.0 million in noncontrolling interest expense. No depreciation expense is attributed to our noncontrolling interests because holders of these interests do not have ownership rights in or claims to, any real property assets.

FAD increased by \$20.2 million or 170% from \$11.9 million for the six months ended June 30, 2007 to \$32.0 million for the six months ended June 30, 2008. The increase was driven by an increase in FFO as described above. The increase was partially offset by the amortization of intangible lease obligations as more fully described in operating lease income above.

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Year ended December 31, 2007 compared to year ended December 31, 2006

The following table reflects the results of our operations and our operating performance measures for the years ended December 31, 2007 and 2006:

	Year Ended December 31,		Change	
	2007	2006	(\$ in thousands)	%
Revenues:				
Operating lease income	\$ 95,191	\$ 30,380	\$ 64,811	213%
Interest and fee income	10,805	194	10,611	5,470%
Total revenues	105,996	30,574	75,422	247%
Expenses:				
Interest expense	46,262	13,373	32,889	246%
Depreciation	31,955	11,464	20,491	179%
General and administrative	10,460	3,809	6,651	175%
Loss on impairment of assets	1,225		1,225	
Loss on debt extinguishment		2,497	(2,497)	(100)%
Total expenses	89,902	31,143	58,759	189%
Income (loss) before gain on sale of real estate and noncontrolling interests expense	16,094	(569)	16,663	**
Gain on sale of real estate	156		156	**
Noncontrolling interests expense	(4,951)	(4,711)	(240)	5%
Net income (loss)	\$ 11,299	\$ (5,280)	\$ 16,579	**
FFO	\$ 43,098	\$ 6,184	\$ 36,914	597%
FAD	\$ 36,491	\$ 4,886	\$ 31,606	647%

**

Not meaningful.

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The table below reflects the reconciliation of FFO and FAD to net income available to common shareholders, the most directly comparable GAAP measure, for the periods presented.

	Year Ended December 31,	
	2007	2006
	(\$ in thousands)	
Net income (loss)	\$ 11,299	\$