M&T BANK CORP
Form 8-K
November 18, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 17, 2015

M&T BANK CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation)

1-9861	**16-0968385**
(Commission	**(I.R.S. Employer**

File Number)	**Identification No.)**
One M&T Plaza, Buffalo, New York	**14203**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (716) 842-5445

(NOT APPLICABLE)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On November 17, 2015, the Board of Directors of M&T Bank Corporation (M&T) authorized a new stock repurchase program (the Stock Repurchase Program) to repurchase up to $200 million of shares of its common stock, $0.50 par value per share, on the open market or in privately negotiated transactions. The exact number of shares, timing for such purchases, and the price and terms at and on which such purchases are to be made will be at the discretion of M&T and will comply with all applicable regulatory limitations, including those set forth in M&T s 2015 Capital Plan which received no objection from the Board of Governors of the Federal Reserve System and contemplated repurchases of up to $200 million during the first half of 2016. Shares that are repurchased under the Stock Repurchase Program will be held in M&T s Treasury and will constitute authorized but unissued shares of M&T common stock and will be eligible for issuance in the future. The Stock Repurchase Program rescinds and replaces M&T s stock repurchase plan that was authorized by the Board of Directors of M&T in February 2007.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, M&T has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

M&T BANK CORPORATION

By: /s/ Rene F. Jones
Name: Rene F. Jones
Title: Executive Vice President and Chief Financial Officer

Date: November 18, 2015

ements Between CapitalSource and Us."

(3)
Assumes no exercise of the underwriters' option to purchase additional common shares.

(4)
The address for Mr. Gilleland is c/o CapitalSource Inc., 5 Concourse Parkway, Suite 2950, Atlanta, GA 30328.

OTHER ARRANGEMENTS BETWEEN CAPITALSOURCE AND US

Relationship with CapitalSource

Immediately prior to this offering, CapitalSource will be our only shareholder. After this offering, CapitalSource will own of our common shares, representing approximately % of our total outstanding common shares. For as long as CapitalSource continues to own common shares representing more than 50% of the total voting power of our outstanding shares, and notwithstanding the existence of the management agreement described elsewhere, CapitalSource will be able to direct the election and removal of all members of our board of trustees and control our business and affairs. Similarly, while it holds a majority of our outstanding shares, under our declaration of trust and bylaws, CapitalSource will have the power to require us to take action by delivering a written consent, instead of waiting until a shareholder meeting can be called. Consequently, as our majority shareholder, CapitalSource will be able to control our operations, will have the power to cause or prevent a change in control, and could take other actions that might be favorable to CapitalSource. See "Description of Shares of Beneficial Interest."

Prior to the completion of this offering, in addition to the management agreement, we will enter into a Master Transaction Agreement and a number of other agreements with CapitalSource setting forth various matters governing our relationship with CapitalSource. These agreements will govern our relationship with CapitalSource after this offering and will provide for, among other things, the allocation of tax and other liabilities and obligations attributable or related to periods or events prior to and in connection with this offering.

Set forth below are descriptions of certain agreements, relationships and transactions we will have with CapitalSource.

Master Transaction Agreement

We will enter into a master transaction agreement with CapitalSource prior to the completion of this offering, which we refer to as the Master Transaction Agreement. The Master Transaction Agreement will set forth our agreements with CapitalSource regarding the principal transactions required to effect the transfer of assets and the assumption of liabilities necessary to complete our formation and acquisition of assets from CapitalSource. It also will set forth other agreements governing our relationship immediately prior to and after these formation transactions.

The Contribution

CapitalSource will, and will cause its affiliates to, transfer to us the assets related to our business, as described in this prospectus. This will involve, in part, the transfer of the shares or other equity interests of certain of CapitalSource's current subsidiaries. We or our subsidiaries will assume and agree to perform, discharge and fulfill the liabilities related to our business following the contribution. If any governmental approval or other consent required to transfer any assets to us or for us to assume any liabilities is not obtained prior to the completion of this offering, we and CapitalSource have agreed that such transfer or assumption will be deferred until the necessary approvals or consents are obtained, in which case CapitalSource would continue to hold the assets and be responsible for the liabilities for our benefit and at our expense until the necessary approvals or consents are obtained. We anticipate that the transfer of each of the entities holding properties that are encumbered by an aggregate of $56.4 million of HUD financing may be delayed pending HUD approval, which has been requested but not yet obtained.

Certain of the assets that will be transferred to us are encumbered by the mortgage indebtedness described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Mortgage Debt." CapitalSource will continue to provide a limited guarantee with respect to approximately $276.6 million in principal amount of the indebtedness we will assume and will remain a co-borrower on our $20 million of junior subordinated term debt. CapitalSource has also agreed to contribute equity to us in an amount sufficient to permit us to repay all of the related party debt we owe CapitalSource, which approximated $247.7 million as of June 30, 2008. For more information on this related party debt, see Note 7, *Borrowings*, to the audited combined financial statements, "Unaudited Pro Forma Combined Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity" contained elsewhere in this prospectus.

Except as expressly set forth in the Master Transaction Agreement or in any other transaction document, neither we nor CapitalSource will make any representation or warranty as to the assets, business or liabilities transferred or assumed as part of the contribution transactions, or the legal sufficiency of any document or instrument delivered to convey title to any asset transferred.

Except as expressly set forth in any transaction document, all assets will be transferred on an "as is, where is" basis, and we and our subsidiaries will agree to bear the economic and legal risks that any conveyance was insufficient to vest in us good title, free and clear of any security interest, and that any necessary consents or approvals are not obtained or that any requirements of laws or judgments are not complied with.

Auditors and Audits; Annual Financial Statements and Accounting

We have agreed that, for so long as CapitalSource is required to consolidate our results of operations and financial position or account for its investment in us using the equity method of accounting, we will reimburse CapitalSource for any costs associated with a change in our independent auditors and we will use our best efforts to enable our independent auditors to complete their audit of our financial statements in a timely manner so as to permit timely filing of CapitalSource's financial statements. We have also agreed to provide to CapitalSource and its independent auditors all information required for CapitalSource to meet its schedule for the filing and distribution of its financial statements and to make available to CapitalSource and its independent auditors all documents necessary for the annual audit of our company as well as access to the responsible personnel (who will be CapitalSource employees for so long as the management agreement remains in place) so that CapitalSource and its independent auditors may conduct their audits relating to our financial statements. We have also agreed to adhere to certain specified CapitalSource accounting policies and to notify and consult with CapitalSource regarding any changes to our accounting principles and estimates used in the preparation of our financial statements, and any deficiencies in, or violations of law in connection with, our internal control over financial reporting.

Tax Matters

Treatment of the Contribution

For federal income tax purposes, the contribution of assets by CapitalSource to us is intended to be treated as a taxable sale of those assets by CapitalSource. Accordingly, we will be treated as having acquired the properties with a basis equal to their fair market value as of the date of this offering.

Liability for Taxes

Each party has agreed to indemnify the other in respect of all taxes for which it is responsible under the Master Transaction Agreement. CapitalSource is generally responsible for all federal, state, local and foreign income (and similar) taxes of those entities which are to be acquired by us from CapitalSource in the contribution transactions, in each case, for all tax periods (or portions of tax periods) ending on or before the closing of this offering. We generally will be responsible for all other taxes of those entities and assets which are to be acquired from CapitalSource in connection with the contribution transactions.

Transaction Taxes

CapitalSource will, and will cause its subsidiaries to, contribute to us the assets related to our business not currently owned by us, as described in this prospectus. CapitalSource generally will be responsible for any transfer, stamp, recording, and similar taxes resulting from such contribution.

Preparation and Filing of Tax Returns

CapitalSource will be responsible for the preparation and filing of all federal, state, local and foreign income (and similar) tax returns of those entities which are to be acquired by us from CapitalSource for all tax periods ending on or before the closing of this offering, and will have sole authority to manage the conduct of all audits, investigations, or other proceedings relating to such tax periods with respect to such taxes. CapitalSource will not, however, be permitted to settle or compromise any such matter if such compromise or settlement would otherwise increase any tax for which we would be responsible without our prior consent, which may not be unreasonably withheld.

Miscellaneous

We have agreed to provide to CapitalSource certain information and cooperation, including access to our books and records, related to our status as a REIT. In addition, we and CapitalSource have agreed to provide each other with certain information and cooperation related to tax matters with respect to the assets we have acquired from CapitalSource and to the contribution transactions, including with respect to audits, investigations, or other proceedings relating thereto.

Exchange of Other Information

The Master Transaction Agreement will also provide for other arrangements with respect to the mutual sharing of information between CapitalSource and us in order to comply with reporting, filing or audit requirements, for use in judicial proceedings, and in order to comply with our respective obligations after the contribution transactions. We will also agree to provide mutual access to historical records relating to businesses that may be in our possession.

Releases and Indemnification

Except for each party's obligations under the Master Transaction Agreement, the other transaction documents and certain other specified liabilities, we and CapitalSource will release and discharge each other and each of our affiliates from all liabilities existing or arising between us on or before the contribution, including in connection with the contribution. The releases will not extend to obligations or liabilities under any agreements between CapitalSource and us that remain in effect following the contribution or to liabilities that CapitalSource may have to us in connection with this offering.

We will indemnify, hold harmless and defend CapitalSource, each of its affiliates and each of their respective directors, officers and employees, from and against all liabilities (other than tax-related liabilities) relating to, arising out of or resulting from:

- the failure by us or any of our affiliates or any other person or entity to pay, perform or otherwise promptly discharge any liabilities or contractual obligations associated with our businesses, whether arising before or after the contribution;

- the operations, liabilities and obligations of our business;

- any amounts expended or the value of any securities issued by CapitalSource pursuant to any guarantee or other co-borrower arrangement delivered by CapitalSource for our benefit, including the guarantees of CapitalSource on approximately $276.6 million of mortgage indebtedness we will assume following the contribution and of our obligations to fund the redemption of the non-managing member units reflected as noncontrolling interests in the Carve-out Entity's financial statements and our unaudited pro forma financial statements, and CapitalSource's status as a co-borrower under our $20 million of junior subordinated financing;

- any breach by us or any of our affiliates of the Master Transaction Agreement; and

- any untrue statement of, or omission to state, a material fact in CapitalSource's public filings to the extent the statement or omission was as a result of information that we furnished, based on information provided by persons not affiliated with CapitalSource, to CapitalSource or that CapitalSource incorporated by reference from our public filings, if the statement or omission was made or occurred after the contribution.

CapitalSource will indemnify, hold harmless and defend us, each of our affiliates and each of our and their respective trustees and officers, from and against all liabilities (other than tax-related liabilities) relating to, arising out of or resulting from:

- the failure of CapitalSource or any other person or entity to pay, perform or otherwise promptly discharge any liabilities of CapitalSource or its affiliates, other than liabilities associated with our businesses, whether arising before or after the contribution;

- the liabilities of CapitalSource and its affiliates' businesses, other than liabilities associated with our business;

- any breach by CapitalSource of the Master Transaction Agreement;

- any untrue statement of, or omission to state, a material fact in our public filings to the extent the statement or omission was as a result of information that CapitalSource furnished to us or that we incorporated by reference from CapitalSource's public filings; and

- any untrue statement of, or omission to state, a material fact contained in any registration statement or prospectus related to this offering.

The Master Transaction Agreement will also specify procedures with respect to claims subject to indemnification and related matters and will provide for contribution in the event that indemnification is not available to an indemnified party.

Expenses of the Contribution Transactions and Our Initial Public Offering

CapitalSource will pay or reimburse us for all out-of-pocket fees, costs and expenses (including all legal, accounting and printing expenses) incurred in connection with the contribution and this offering.

Disputes

Any dispute or claim between us and CapitalSource arising out of or relating to the Master Transaction Agreement that is not resolved in the normal course of business must be brought in the state courts of Maryland. Both we and CapitalSource will agree to waive trial by jury in any such litigation. These provisions will not apply to any disputes arising out of CapitalSource's ownership of our shares.

Other Provisions

The Master Transaction Agreement also will contain covenants between CapitalSource and us with respect to the following:

- our agreement that, for so long as CapitalSource owns at least 10% of our outstanding common shares, CapitalSource may require us to elect to our board of trustees, and nominate for reelection at all subsequent shareholder meetings at which trustees are to be elected, a number of persons equal to the number of members of our board of trustees multiplied by the percentage of the outstanding common shares that CapitalSource and its affiliates then beneficially own, provided that the number of CapitalSource-designated nominees may not be less than one or more than 50% of the total number of trustees on our board following such election or appointment;
- restrictions on our ability to take any action or enter into any agreement that would cause CapitalSource to violate any law, agreement or judgment;
- restrictions on our ability to take any action that limits CapitalSource's ability to freely sell, transfer, pledge or otherwise dispose of our shares;
- our obligation to comply with CapitalSource's policies for complying with applicable banking laws and regulations;
- restrictions on our ability to enter into any agreement that binds or purports to bind CapitalSource; and
- litigation and settlement cooperation between CapitalSource and us.

Approval Rights of CapitalSource

The prior affirmative vote or written consent of CapitalSource will be required for us to take certain actions (subject in each case to certain agreed exceptions) that are prohibited to be taken by "unrestricted subsidiaries" under CapitalSource's unsecured credit facility, until such time as we are no longer subject to the terms of such credit facility in any respect.

Registration Rights Agreement

We will enter into a registration rights agreement with CapitalSource prior to the completion of this offering to provide CapitalSource with registration rights relating to our outstanding common shares held by CapitalSource after this offering. In this prospectus, we refer to this agreement as the Registration Rights Agreement.

CapitalSource may assign its rights under the Registration Rights Agreement to any person that acquires at least 1 million of our outstanding common shares subject to the agreement and agrees to be bound by the terms of the agreement. Subject to certain limitations, CapitalSource and its permitted transferees may require us to register under the Securities Act of 1933, as amended, or the Securities Act, all or any portion of these shares, through a "demand registration." We are not obligated to effect the following:

- a demand registration within 180 days after the effective date of the registration statement of which this prospectus is a part;
- a demand registration within 180 days after the effective date of a previous demand registration, other than a shelf registration pursuant to Rule 415 under the Securities Act;
- a demand registration, unless the demand request is for a number of common shares with a market value that is equal to at least $50 million; and

more than six demand registrations on Form S-11 after this offering.

We may defer the filing of a registration statement for a period of up to 90 days after a demand request has been made if at the time of such request we are engaged in confidential business activities, which would be required to be disclosed in the registration statement, and our board of trustees determines that such disclosure would be materially detrimental to us and our shareholders, or prior to receiving such request, our board of trustees had determined to effect a registered underwritten public offering of our securities for our account and we have taken substantial steps to effect such offering.

Subject to our deferral rights described above, CapitalSource and its permitted transferees have unlimited rights to request registration of their shares on Form S-3 once we are eligible to use that form, but are limited in their ability to request us to facilitate underwritten offerings under such a "shelf registration." Additionally, CapitalSource and its permitted transferees have "piggyback" registration rights, which means that CapitalSource and its permitted transferees may include their respective shares in any future registrations of our equity securities, whether or not that registration relates to a primary offering by us or a secondary offering by or on behalf of any of our shareholders. These demand registration rights and piggyback registration rights are each subject to market cutback exceptions.

We will pay all costs and expenses in connection with any demand or piggyback registration, including up to $100,000 of reasonable fees and expenses of counsel to selling shareholders, except underwriting discounts, commissions or fees attributable to the common shares sold by CapitalSource and its permitted transferees. The Registration Rights Agreement will set forth customary registration procedures, including an agreement by us to make our management available for road show presentations in connection with any underwritten offerings. We will also agree to indemnify CapitalSource and its permitted transferees with respect to liabilities resulting from untrue statements or omissions in any registration statement used in any such registration, other than untrue statements or omissions resulting from information furnished to us for use in the registration statement by CapitalSource or any permitted transferee. While a subsidiary of CapitalSource remains our manager, our obligation to indemnify CapitalSource will be limited to liabilities relating to untrue statements or omissions based on information provided to us by persons other than CapitalSource employees.

The rights of CapitalSource and its permitted transferees under the Registration Rights Agreement will remain in effect with respect to the common shares covered by the agreement until those shares:

have been sold pursuant to an effective registration statement under the Securities Act;

have been sold or may be sold in a single transaction to the public pursuant to Rule 144 under the Securities Act;

have been transferred in a transaction where subsequent public distribution of the shares would not require registration under the Securities Act; or

are no longer outstanding.

Co-Lender Agreement

We will enter into a lender addition/assignment agreement with CSE Mortgage LLC and CapitalSource Finance LLC immediately prior to the completion of this offering pursuant to which we will acquire our $150 million interest in the Genesis mezzanine loan. Under the terms of this agreement, CSE Mortgage LLC will contribute, transfer and assign to us all of its rights, title and interest in a $150 million principal portion of the Genesis mezzanine loan, and we will accept and assume the assignment and agree to be a lender under, and therefore be bound by the terms and conditions of, the mezzanine term loan agreement among FC-Gen Acquisition, Inc., FC-Gen Investment, LLC, CapitalSource, Citicorp USA, Inc. and any other financial institutions that may become a party to that agreement. As a co-lender under the mezzanine loan, we will be entitled to receive a pro rata share of all interest and fees payable to the lenders thereunder. Our interest as a co-lender under the Genesis mezzanine loan will be subject to the terms of an intercreditor agreement with General Electric Capital Corporation, the administrative agent for the lenders of a loan senior to the Genesis mezzanine loan. The terms of this intercreditor agreement limit our ability to transfer or encumber our interest in the Genesis mezzanine loan. In addition, under the terms of the intercreditor agreement, we and the other co-lenders under the Genesis mezzanine loan will have the right to cure certain monetary and non-monetary defaults under the senior loan agreement. If we decide to participate in the cure of a monetary default, we will be required to remit an amount equal to our pro rata share of the amount necessary to cure the default based upon how much of the outstanding principal balance of the Genesis mezzanine loan we hold relative to how much is held by all lenders participating in the cure of the monetary default. We also will have the right to participate in the purchase of the senior loan, including the piece of that loan held by CapitalSource, under certain circumstances as set forth in the intercreditor agreement.

DESCRIPTION OF SHARES OF BENEFICIAL INTEREST

The following is a summary of the material terms of our shares of beneficial interest. The discussion that follows is based in part on the terms of our declaration of trust and bylaws as both will be in effect upon completion of this offering. All references to the declaration of trust and bylaws are to these amended versions, copies of which have been filed as exhibits 3.1 and 3.2, respectively, to the registration statement of which this prospectus forms a part. See "Where You Can Find More Information."

Common Shares of Beneficial Interest

We are authorized to issue up to 650,000,000 common shares of beneficial interest, par value $0.01 per share. Holders of our common shares will be entitled to receive dividends when, as and if declared by our board of trustees, out of funds legally available for distribution. If we fail to pay dividends on our outstanding preferred shares of beneficial interest, if any are then outstanding, generally we may not pay dividends on or repurchase our common shares. If we were to liquidate, dissolve or wind up our affairs, holders of common shares would be entitled to share equally and ratably in any assets available for distribution to them, after payment or provision for payment of our debts and other liabilities and the preferential amounts owing with respect to any of our outstanding preferred shares. Holders of common shares will have no preemptive rights, which means they have no right to acquire any additional common shares that we may issue at a later date.

The holders of our common shares will be entitled to cast one vote for each share on all matters presented to our shareholders for a vote. Our common shares will be, when issued, fully paid and nonassessable.

The rights, preferences and privileges of holders of our common shares are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred shares which we may designate and issue in the future.

Preferred Shares of Beneficial Interest

We are authorized to issue up to 200,000,000 preferred shares of beneficial interest, par value $0.01 per share. Our declaration of trust provides that preferred shares may be issued from time to time in one or more series and gives our board of trustees broad authority to fix the dividend and distribution rights, conversion and voting rights, if any, redemption provisions and liquidation preferences of each series of preferred shares. Holders of preferred shares will have no preemptive rights. The preferred shares will be, when issued, fully paid and nonassessable.

Power to Reclassify Shares and Issue Additional Shares

Our declaration of trust authorizes our board of trustees to classify any unissued preferred shares and to reclassify any previously classified but unissued common shares and preferred shares of any series from time to time in one or more series, as authorized by the board of trustees. Prior to issuance of any classified or reclassified shares of a particular class or series, our board of trustees is required by the Maryland REIT law and our declaration of trust to set for each such class or series, subject to the provisions of our declaration of trust regarding the restrictions on transfer of shares of beneficial interest, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such class or series. As a result, our board of trustees could authorize the issuance of preferred shares or equity shares that have priority over the common shares with respect to dividends and rights upon liquidation and with other terms and conditions that could have the effect of delaying, deterring or preventing a transaction or a change in control that might involve a premium price for holders of common shares or otherwise might be in their best interest.

Holders of our shares will not have preemptive rights, which means they will have no right to acquire any additional shares that we may issue at a subsequent date.

Restrictions on Ownership and Transfer

To qualify as a REIT under the Internal Revenue Code, our shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of our outstanding shares (after taking into account options to acquire shares) may be owned, directly, indirectly or through attribution, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of a taxable year. Under the rules applicable to REITs, corporations are not considered "individuals" for purposes of this test and, as a result, CapitalSource's ownership of greater than 50% of our common shares will not, in and of itself, cause us to fail to qualify as a REIT. To continue to qualify as a REIT, we must satisfy these requirements after the completion of the offering.

To maintain our qualification as a REIT, our declaration of trust will include restrictions on the number of our shares that a person may own. The declaration of trust will provide:

- no person, other than a designated investment entity (as defined in the declaration of trust), may own directly or indirectly, or be deemed to own by virtue of certain attribution provisions of the Internal Revenue Code, more than 5.0%, in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of common shares;

- no person, other than a designated investment entity (as defined in the declaration of trust), may own directly or indirectly, or be deemed to own by virtue of certain attribution provisions of the Internal Revenue Code, more than 9.9%, in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of preferred shares;

- no designated investment entity (as defined in the declaration of trust and as described below), may own directly or indirectly, or be deemed to own by virtue of certain attribution provisions of the Internal Revenue Code, more than 9.9%, in value or number of shares, whichever is more restrictive, of the outstanding shares of any class or series of common shares;

- no person (as defined in the declaration of trust) may own directly or indirectly, or be deemed to own by virtue of certain attribution provisions of the Internal Revenue Code, our shares if such ownership 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;

- no person (as defined in the declaration of trust) shall actually or beneficially own our shares to the extent that such ownership would result in our being "closely held" under Section 856(h) of the Internal Revenue Code or otherwise cause us to fail to qualify as a REIT at any time; and

- no person (as defined in the declaration of trust) shall transfer our shares if such transfer would result in our shares being owned by fewer than 100 persons at any time.

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.

Our declaration of trust defines a "designated investment entity" as:

1. an entity that is a pension trust that qualifies for look-through treatment under Section 856(h)(3) of the Internal Revenue Code;

2. an entity that qualifies as a regulated investment company under Section 851 of the Internal Revenue Code; or

3. an entity (referred to in the declaration of trusts a "qualified investment manager") that (i) for compensation engages in the business of advising others as to the value of securities or as to the advisability of investing in, purchasing or selling securities; (ii) purchases securities in the ordinary course of its business and not with the purpose or effect of changing or influencing control of the trust, nor in connection with or as a participant in any transaction having such purpose or effect, including any transaction subject to Rule 13d-3(b) of the Exchange Act; and (iii) has or shares voting power and investment power under the Exchange Act so long as each beneficial owner of such entity, or in the case of a qualified investment manager holding shares solely for the benefit of its customer account holders, the individual account holders of the accounts managed by such entity, would satisfy the 5.0% common share or 9.9% preferred share ownership limit, as applicable, if such beneficial owner or account holder owned directly its proportionate share of the shares held by the entity.

Under the declaration of trust, the board of trustees may exempt a shareholder that is not an individual from the 5.0% ownership limit for common shares, the 9.9% ownership limit for preferred shares, or the ownership limit for common shares applicable to designated investment entities, if such shareholder provides information and makes representations to the board of trustees that are satisfactory to the board of trustees, in its sole and absolute discretion, to establish that such person's ownership in excess of the applicable ownership limit would not jeopardize our qualification as a REIT.

Any person who acquires or attempts or intends to acquire actual or beneficial or constructive ownership of our shares that will or may violate any of the foregoing restrictions on transferability and ownership will be required to give notice immediately to us and provide us with such other information as the board of trustees may request in order to determine the effect of such transfer on our status as a REIT. If any transfer of shares or any other event would otherwise result in any person violating the ownership limits described above, then the declaration of trust provides that (a) the transfer will be void and of no force or effect with respect to the prohibited transferee with respect to that number of shares that exceeds the ownership limits and (b) the prohibited transferee would not acquire any right or interest in the shares. The foregoing restrictions on transferability and ownership will not apply if our board of trustees determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

Any certificates we may issue representing our shares will bear a legend referring to the restrictions described above.

Every owner of more than 5% (or such lower percentage as required by the Internal Revenue Code or the Treasury Regulations promulgated thereunder) of all classes or series of our shares, including common shares, will be required to give written notice to us within 30 days after the end of each taxable year stating the name and address of such owner, the number of shares of each class and series of shares that the owner beneficially owns and a description of the manner in which such shares are held. Each such owner shall provide to us such additional information as the board of trustees may request in order to determine the effect, if any, of such beneficial ownership on our status as a REIT and to ensure compliance with the various ownership limitations. In addition, each shareholder shall upon demand be required to provide to the board of trustees such information as the board of trustees may request, in good faith, in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

These ownership limitations could delay, deter or prevent a transaction or a change in control that might involve a premium price for the common shares or might otherwise be in the best interest of our shareholders.

Transfer Agent and Registrar

The transfer agent and registrar for our shares initially will be American Stock Transfer & Trust Company.

Certain Provisions of Maryland Law and Our Declaration of Trust and Bylaws

Number of Trustees; Vacancies

Our declaration of trust and bylaws provide that the number of our trustees will be established by a vote of a majority of the members of our board of trustees. We expect to have five trustees upon completion of the offering. Our bylaws provide in general that any vacancy, including a vacancy created by an increase in the number of trustees, may be filled by a majority of the remaining trustees, even if the remaining trustees do not constitute a quorum. An exception to this exists in a situation where a trustee has been removed by the vote of our shareholders, as discussed below. In this situation, our shareholders will be required to elect a trustee to fill the resulting vacancy by the affirmative vote of at least a majority of the votes entitled to be cast in the election of trustees. Pursuant to the Master Transaction Agreement we will enter into with CapitalSource in connection with its contribution to us of our initial assets, CapitalSource will be granted the right to designate a number of trustees to our board, depending on the percentage of shares then held by CapitalSource. Should a trustee designated by CapitalSource vacate his or her position on our board for any reason, CapitalSource will have the right to fill such vacancy.

Removal of Trustees

Our declaration of trust provides that a trustee may be removed upon the affirmative vote of at least a majority of the votes entitled to be cast in the election of trustees.

Business Combinations

Our board of trustees has adopted a resolution that exempts transactions with CapitalSource and its current and future affiliates, or any other "interested shareholder," from the provisions of the Maryland business combination statute described below. Our board may opt to make these provisions applicable to transactions between us and any interested shareholder, other than CapitalSource and its current and future affiliates. Maryland law prohibits "business combinations" between us and an interested shareholder or an affiliate of an interested shareholder for five years after the most recent date on which the interested shareholder becomes an interested shareholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. Maryland law defines an interested shareholder as:

- any person who beneficially owns 10% or more of the voting power of our shares; or

- an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding voting shares.

A person is not an interested shareholder if our board of trustees approves in advance the transaction by which the person otherwise would have become an interested shareholder. However, in approving a transaction, our board of trustees may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by our board of trustees.

After the five-year prohibition, any business combination between us and an interested shareholder generally must be recommended by our board of trustees and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of our then outstanding shares of beneficial interest; and
- two-thirds of the votes entitled to be cast by holders of our voting shares other than shares held by the interested shareholder with whom or with whose affiliate the business combination is to be effected or shares held by an affiliate or associate of the interested shareholder.

These super-majority vote requirements do not apply if our common shareholders receive a minimum price, as described under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested shareholder for its shares.

Control Share Acquisitions

Our bylaws contain a provision exempting any and all acquisitions of our common shares from the control shares provisions of Maryland law. Except in the case of CapitalSource, our board of trustees may opt to make these provisions applicable to us at any time by amending or repealing this bylaw provision in the future, and may do so on a retroactive basis. Maryland law provides that "control shares" of a Maryland REIT acquired in a "control share acquisition" have no voting rights unless approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror or by officers or trustees are excluded from the shares entitled to vote on the matter. "Control shares" are voting shares that, if aggregated with all other shares previously acquired by the acquiring person, or in respect of which the acquiring person is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiring person to exercise or direct the exercise of the voting power in electing trustees within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel our board of trustees to call a special meeting of shareholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the special meeting. If no request for a special meeting is made, we may present the question at any shareholders' meeting.

If voting rights are not approved at the shareholders' meeting or if the acquiring person does not deliver the statement required by Maryland law, then, subject to certain conditions and limitations, we may redeem any or all of the control shares, except those for which voting rights have previously been approved, for fair value. Fair value is determined without regard to the absence of voting rights for the control shares and as of the date of the last control share acquisition or of any meeting of shareholders at which the voting rights of the shares were considered and not approved. If voting rights for control shares are approved at a shareholders' meeting, the acquiror may then vote a majority of the shares entitled to vote, and all other shareholders may exercise appraisal rights. The fair value of the shares for purposes of these appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction, nor does it apply to acquisitions approved by or exempted by our declaration of trust or bylaws.

Merger, Amendment of Declaration of Trust or Bylaws

Under Maryland REIT law, a Maryland REIT generally cannot dissolve, amend its declaration of trust or merge with another entity unless recommended by the trustees and approved by the affirmative vote of shareholders holding at least two-thirds of the shares entitled to vote on the matter unless a lesser percentage, but not less than a majority of all the votes entitled to be cast on the matter, is set forth in the REIT's declaration of trust. In our declaration of trust, we have set the vote required to approve most amendments of our declaration of trust and mergers required to be submitted to our shareholders at a majority of all votes entitled to be cast on the matter. In addition, under the Maryland REIT law and our declaration of trust, our trustees will be permitted, without any action by our shareholders, to amend the declaration of trust from time to time to qualify as a REIT under the Internal Revenue Code or the Maryland REIT law. Our declaration of trust permits our board of trustees to amend or repeal most provisions of our bylaws but requires the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of beneficial interest entitled to vote to amend or repeal certain provisions of our bylaws.

Action by Written Consent

Our declaration of trust provides that any action required or permitted to be taken by the shareholders may be taken without a meeting by less than unanimous written consent of our shareholders.

Limitation of Liability and Indemnification

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 the trustee/officer that was material to the cause of action adjudicated.

Our declaration of trust requires us, to the maximum extent permitted by Maryland law, to pay or reimburse reasonable expenses to any of our present or former trustees or officers or any individual who, while a trustee or officer, and at our request, serves or has served another entity, employee benefit plan or any other enterprise as a trustee, director, officer, partner or otherwise.

Consistent with Maryland law, we are required to indemnify our present and former trustees and officers against liabilities and reasonable expenses actually incurred by them in any proceeding unless:

- the act or omission of the trustee or officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty;

- the trustee or officer actually received an improper personal benefit in money, property or services; or

- in a criminal proceeding, the trustee or officer had reasonable cause to believe that the act or omission was unlawful.

However, Maryland law prohibits us from indemnifying our present and former trustees and officers for an adverse judgment in a derivative action or if the trustee or officer was adjudged to be liable for an improper personal benefit. Our bylaws and Maryland law require us, as a condition to advancing expenses in certain circumstances, to obtain:

- a written affirmation by the trustee or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification; and a written undertaking to repay the amount reimbursed if the standard of conduct is not met.

We have also entered into indemnification agreements with our trustees and our officers providing for procedures for indemnification by us, to the fullest extent permitted by law, and advancements by us of certain expenses and costs relating to claims, suits or proceedings arising from their service to us.

We have obtained an insurance policy under which our trustees and executive officers will be insured, subject to the limits of the policy, against certain losses arising from claims made against such trustees and officers by reason of any acts or omissions covered under such policy in their respective capacities as trustees or officers, including certain liabilities under the Securities Act.

We have been advised that the SEC has expressed the opinion that indemnification of trustees, officers or persons otherwise controlling a company for liabilities arising under the Securities Act is against public policy and is therefore unenforceable.

Term and Termination

Our declaration of trust provides for us to have a perpetual existence. Pursuant to our declaration of trust, and subject to the provisions of any of our classes or series of shares of beneficial interest then outstanding and the approval by a majority of the entire board of trustees, our shareholders, at any meeting thereof, by the affirmative vote of at least two-thirds of all of the votes entitled to be cast on the matter, may approve a plan of liquidation and dissolution.

Meetings of Shareholders

Under our bylaws, annual meetings of shareholders are to be held each year, commencing in 2009, within fifteen (15) months after the last annual meeting, at a date and time as determined by our board of trustees. Special meetings of shareholders may be called only by a majority of the trustees then in office, by the Chairman of our board of trustees, our President or the holders of at least 10% of our outstanding shares entitled to vote on the election of the trustees. Only matters set forth in the notice of the special meeting may be considered and acted upon at such a meeting. Our bylaws provide that any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting by written consent, if that consent sets forth that action and is signed by shareholders holding shares representing a sufficient number of votes to approve the matter if it had been addressed at a duly called shareholders meeting.

Advance Notice of Trustee Nominations and New Business

Our bylaws provide that, with respect to an annual meeting of shareholders, nominations of persons for election to our board of trustees and the proposal of business to be considered by shareholders at the annual meeting may be made only:

pursuant to our notice of the meeting;

by our board of trustees; or

by a shareholder who was a shareholder of record both at the time of the provision of notice and at the time of the meeting who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in our bylaws.

With respect to special meetings of shareholders, only the business specified in our notice of meeting may be brought before the meeting of shareholders and nominations of persons for election to our board of trustees may be made only:

pursuant to our notice of the meeting;

by our board of trustees; or

provided that our board of trustees has determined that trustees shall be elected at such meeting, by a shareholder who was a shareholder of record both at the time of the provision of notice and at the time of the meeting who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in our bylaws.

The purpose of requiring shareholders to give advance notice of nominations and other proposals is to afford our board of trustees the opportunity to consider the qualifications of the proposed nominees or the advisability of the other proposals and, to the extent considered necessary by our board of trustees, to inform shareholders and make recommendations regarding the nominations or other proposals. The advance notice procedures also permit a more orderly procedure for conducting our shareholder meetings. Although our bylaws do not give our board of trustees the power to disapprove untimely shareholder nominations and proposals, these advance notice provisions may have the effect of precluding a contest for the election of trustees or proposals for other action if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of trustees to our board of trustees or to approve its own proposal.

Appraisal Rights

As permitted by Maryland law, our declaration of trust contains a provision that denies our shareholders appraisal rights in connection with any merger, consolidation or other business combination transaction.

Possible Anti-Takeover Effect of Certain Provisions of Maryland Law and of Our Declaration of Trust and Bylaws

The business combination provisions of Maryland law (if our board of trustees opts to make them applicable to us), the control share acquisition provisions of Maryland law (if the applicable provision in our bylaws is rescinded), the requirement to obtain a majority vote to remove incumbent trustees, the restrictions on the acquisition of our shares of beneficial interest, the power to issue additional common shares or preferred shares, and the advance notice provisions of our bylaws could have the effect of delaying, deterring or preventing a transaction or a change in the control that might involve a premium price for holders of the common shares or might otherwise be in their best interest. In addition, for so long as CapitalSource continues to hold a majority of our outstanding common shares, provisions of our declaration of trust and bylaws that permit shareholders to act by written consent of less than all of our shareholders, and that set the approval thresholds for shareholder action at a majority of our outstanding common shares, effectively permit CapitalSource to cause us to take actions without obtaining a vote from any other shareholder and to control the outcome of each matter not initiated by CapitalSource that may be submitted for shareholder approval. 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 certain other jurisdictions.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common shares. We cannot predict the effect, if any, that sales of common shares or the availability of shares for sale will have on the market price of our common shares prevailing from time to time. Sales of substantial amounts of our common shares in the public market, or the perception that such sales could occur, could adversely affect the prevailing market price of our common shares.

Prior to this offering, we had common shares outstanding. Upon completion of this offering, we will have outstanding an aggregate of approximately common shares, consisting of shares issued to CapitalSource in the contribution transactions (of which, shares will be sold by CapitalSource in this offering) and shares underlying grants made to our officers and trustees and employees of CapitalSource under the Equity Plan.

LOCK-UP AGREEMENTS

Each of CapitalSource, CSE Mortgage LLC, our manager, our trustees and our officers have entered into the lock-up agreements described in "Underwriting."

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

Introduction

We intend to elect to be taxed and to qualify as a REIT effective for our taxable year ending December 31, 2008. The following discussion describes the material United States federal income tax considerations relating to our qualification and taxation as a REIT and the ownership and disposition of our common shares issued in the initial public offering. As used in this discussion, except where the context indicates otherwise, the terms "the Company," "our company," "we," "us," "our" and "ours" refer solely to CapitalSource Healthcare REIT, and not to its subsidiaries. Because this is a general summary that is intended to address only material U.S. federal income tax considerations relating to the ownership and disposition of our common shares, it may not contain all the information that may be important to you, and it does not address the tax considerations of owning our common shares. As you review this discussion, you should keep in mind that:

- the tax consequences for you may vary depending on your particular tax situation;
- special rules that are not discussed below may apply to you if, for example, you are:
  - a tax-exempt organization,
  - a broker-dealer,
  - a non-U.S. person,
  - a trust, estate, regulated investment company, real estate investment trust, financial institution, insurance company or S corporation,
  - subject to the alternative minimum tax provisions of the Internal Revenue Code,
  - holding our common shares as part of a hedge, straddle, conversion or other risk-reduction or constructive sale transaction,
  - holding our common shares through a partnership or similar pass-through entity,
  - a person with a "functional currency" other than the U.S. dollar,
  - beneficially or constructively holding a 10% or more (by vote or value) beneficial interest in us,
  - a U.S. expatriate, or
  - otherwise subject to special tax treatment under the Internal Revenue Code;
- this summary does not address state, local or non-U.S. tax considerations;
- this summary deals only with investors that hold our common shares as a "capital asset," within the meaning of Section 1221 of the Internal Revenue Code; and

this discussion is not intended to be, and should not be construed as, tax advice.

The information in this section is based on the Internal Revenue Code, current, temporary and proposed Treasury Regulations, the legislative history of the Internal Revenue Code, current administrative interpretations and practices of the Internal Revenue Service, or the IRS, and court decisions. The reference to the IRS interpretations and practices includes the IRS practices and policies as endorsed in private letter rulings, which are not binding on the IRS except with respect to the taxpayer that receives the ruling. In each case, these sources are relied upon as they exist on the date of this discussion. Future legislation, Treasury Regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law on which the information in this section is based. Any such change could apply retroactively. Even if there is no change in the applicable law, no assurance can be provided that the statements made in the following discussion, which do not bind the IRS or the courts, will not be challenged by the IRS or will be sustained by a court if so challenged. The discussion below is based in part upon recently enacted legislation. As with all new legislation, there is some uncertainty as to the application of several provisions included in therein. In addition, some provisions of this law require the IRS to issue certain substantive and procedural guidance that has not yet been issued. We cannot provide any assurance that administrative guidance issued after the date hereof will be consistent with our expectations or interpretations of the matters discussed herein.

You are urged both to review the following discussion and to consult with your own tax advisor to determine the impact of your personal tax situation on the anticipated tax consequences of the ownership and sale of our common shares. This includes the federal, state, local, foreign and other tax consequences of the ownership and sale of our common shares and potential changes in applicable tax laws, or any judicial or administrative interpretations thereof.

Taxation of the Company as a REIT

General. We intend to elect to be taxed, and to qualify, as a REIT effective for our taxable year ending December 31, 2008. We believe that we have been organized and intend to operate in such a manner as to permit us to qualify for taxation as a REIT. We expect to receive an opinion of Hogan & Hartson LLP to the effect that we have been organized in conformity with the requirements for qualification and taxation as a REIT, and that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT. It must be emphasized, however, that the opinion of Hogan & Hartson LLP is based on various assumptions related to our organization and proposed operations, and is conditioned on representations and covenants made by us, CapitalSource and our manager regarding our organization, assets, sources of gross income, and other matters related to the conduct of our business operations.

In addition, our continuing qualification and taxation as a REIT will depend upon our ability to meet on a continuing basis, through actual annual (or, in some cases, quarterly) operating results, the various requirements under the Internal Revenue Code, as described in this discussion, with regard to, among other things, the sources of our gross income, the composition and values of our assets (which may not be susceptible to precise determination), our distribution levels, and the diversity of ownership of our shares. Hogan & Hartson LLP will not review our compliance with these requirements. Given the complex nature of the REIT qualification requirements, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given by either Hogan & Hartson LLP or us that we will satisfy such requirements. For a discussion of the tax consequences of the failure to qualify as a REIT, see " Failure to Qualify as a REIT."

The sections of the Internal Revenue Code and the corresponding Treasury Regulations that govern the federal income tax treatment of a REIT and its shareholders are highly technical and complex. The following discussion is qualified in its entirety by the applicable Internal Revenue Code, provisions, rules and Treasury Regulations promulgated thereunder, and administrative and judicial interpretations thereof.

Regular domestic corporations (corporations that do not qualify as REITs or for other special classification under the Internal Revenue Code) generally are subject to federal corporate income taxation on their net taxable income, and shareholders of regular domestic corporations are subject to tax on dividends that they receive. In any taxable year in which we qualify for taxation as a REIT, we generally will not be subject to federal corporate income tax on our net taxable income that is distributed currently to our shareholders as dividends. Shareholders generally will be subject to taxation on dividends that they receive (other than dividends designated as "capital gain dividends" or "qualified dividend income") at rates applicable to ordinary income. Qualification for taxation as a

REIT enables the REIT and its shareholders to substantially eliminate the "double taxation" (that is, taxation at both the corporate and shareholder levels) that generally results from an investment in a regular corporation. Currently, however, shareholders of regular domestic corporations and certain types of foreign corporations who are taxed at individual rates generally are taxed on dividends they receive at long-term capital gain rates, which are lower for individuals than ordinary income rates. In addition, shareholders of regular domestic corporations that are taxed at regular corporate rates receive the benefit of a dividends received deduction that substantially reduces the effective rate that they pay on such dividends. Still, income earned by a REIT and distributed currently to its shareholders generally will be subject to lower aggregate rates of federal income tax than if such income were earned by a regular domestic corporation, subjected to corporate income tax, and then distributed to shareholders and subjected to tax either at long-term capital gain rates or the effective rate paid by a corporate recipient entitled to the benefit of the dividends received deduction.

Although as a REIT we generally will not be subject to federal corporate income taxes on income that we distribute currently to shareholders, we will be subject to federal taxes as follows:

(1) We will be taxed at regular corporate rates on any "REIT taxable income." REIT taxable income is the taxable income of the REIT subject to specified adjustments, including a deduction for dividends paid;

(2) Under some circumstances, we (or our shareholders) may be subject to the "alternative minimum tax" due to our items of tax preference and alternative minimum tax adjustments;

(3) If we have net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of business, or other nonqualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on this income. To the extent that income from foreclosure property is otherwise qualifying for the 75% REIT income test, this tax is not applicable. In general, in addition to certain other requirements, foreclosure property is property we acquire as a result of having bid in a foreclosure or through other legal means after there was a default on a lease of such property or on an indebtedness secured by such property;

(4) Our net income from "prohibited transactions" will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business;

(5) If we fail to satisfy either the 75% gross income test or the 95% gross income test discussed below, but nonetheless maintain our qualification as a REIT because other requirements are met, we will be subject to a tax equal to the gross income attributable to the greater of the amount by which we fail either the 75% or the 95% gross income test, multiplied by a fraction intended to reflect our profitability;

(6) We will be 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 imposed, if the amount we distribute during a calendar year (plus excess distributions made 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;

(7) We may elect to retain and pay income tax on our net capital gain. In that case, a "U.S. shareholder" (as defined below) would include its proportionate share of our undistributed net capital gain (to the extent we make a timely designation of such gain to the shareholder) in its

income, would be deemed to have paid the tax that we paid on such gain, and would be allowed a credit for its proportionate share of the tax deemed to have been paid, and an adjustment would be made to increase the basis of the U.S. shareholder in our common shares;

(8) 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, our TRS, and/or any operators of ours, as further described below, are not comparable to similar arrangements among unrelated parties;

(9) Under certain REIT savings provisions of the Internal Revenue Code, we may be subject to a tax if we fail specified asset tests;

(10) If we fail to satisfy a requirement under the Internal Revenue Code which would result in the loss of our REIT status, other than a failure to satisfy a gross income test or an asset test described in paragraph 9 above, but nonetheless maintain our qualification as a REIT because the requirements of certain relief provisions are satisfied, we will be subject to a penalty of $50,000 for each such failure;

(11) If we fail to comply with the requirement to send annual letters to our shareholders requesting information regarding the actual ownership of our common shares, and the failure was not due to reasonable cause or was due to willful neglect, we will be subject to a $25,000 penalty or, if the failure is intentional, a $50,000 penalty;

(12) If we acquire any assets from a non-REIT "C" corporation in a carry-over basis transaction (including, for example, if we were to liquidate as a TRS), we would be liable for corporate income tax, at the highest applicable corporate rate for the "built-in gain" with respect to those assets if we disposed of those assets within 10 years after they were acquired. Built-in gain is the amount by which an asset's fair market value exceeds its adjusted tax basis at the time we acquire the asset. To the extent that assets are transferred to us in a carry-over basis transaction by a partnership in which a corporation owns an interest, we will be subject to this tax in proportion to the non-REIT "C" corporation's interest in the partnership. For a discussion of the tax treatment of dividends paid by us that are attributable to any taxable built-in gains that we may recognize in the future, see " Taxation of U.S. Shareholders Distributions to Shareholders Qualified Dividend Income."

Furthermore, notwithstanding our status as a REIT, (a) we may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner as they are treated for federal income tax purposes, (b) our subsidiaries that are not subject to federal income tax may have to pay state and local income taxes because not all states and localities treat these entities in the same manner as they are treated for federal income tax purposes, and (c) we and our subsidiaries may have to pay certain foreign taxes to the extent that we own assets or conduct operations in foreign jurisdictions. Moreover, any TRS of ours will be subject to U.S. federal corporate income tax and all applicable non-U.S., state and local taxes on its net income and operations. We may also be subject to tax in situations not presently contemplated.

Requirements for Qualification As a REIT. The Internal Revenue Code defines a REIT as a corporation, trust or association

(1) that is managed by one or more trustees or directors;

(2) that issues transferable shares or transferable certificates to evidence its beneficial ownership;

(3) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Internal Revenue Code;

(4) that is neither a financial institution nor an insurance company within the meaning of certain provisions of the Internal Revenue Code;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) not more than 50% in value of the outstanding shares of which is owned, actually or constructively, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities and as determined by applying certain attribution rules) during the last half of each taxable year;

(7) that makes an election to be taxed as a REIT, or has made such election for a previous taxable year which has not been revoked or terminated;

(8) that uses a calendar year for federal income tax purposes and complies with the recordkeeping requirements of the Internal Revenue Code and the Treasury Regulations promulgated thereunder;

(9) that has no earnings and profits from any non-REIT taxable year at the close of any taxable year; and

(10) that meets other tests, described below, regarding the nature of its income and assets and the amount of its distributions.

Conditions (1) through (4), inclusive, must be met during the entire taxable year. Condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Conditions (5) and (6) do not need to be met for our first REIT year (currently expected to be the taxable year ending December 31, 2008). For purposes of determining the ownership of shares under condition (6), a supplemental unemployment compensation benefits plan, a private foundation or a portion of a trust permanently set aside or used exclusively for charitable purposes generally is considered an individual. However, a trust that is a qualified trust under Section 401(a) of the Internal Revenue Code generally is not considered an individual, and beneficiaries of a qualified trust are treated as holding shares of a REIT in proportion to their actuarial interests in the trust for purposes of condition (6).

We expect that, upon the initial public offering, we will have outstanding common shares with sufficient diversity of ownership to allow us to satisfy requirements (5) and (6). In addition, although it is not required by law or the REIT provisions of the Internal Revenue Code, many existing REITs have adopted ownership and transfer restrictions in their articles of incorporation or organizational documents which prevent five or fewer individuals from owning, directly or indirectly, 50% or more, by value, of the outstanding shares of these entities. We have adopted ownership and transfer restrictions to assist us with our qualification as a REIT. See "Description of Our Shares of Beneficial Interest Restrictions on Ownership and Transfer" above. These restrictions, however, may not ensure that we will in all cases be able to satisfy the share ownership requirements described above. Further, we will be treated as having met the requirements of (6) above, so long as we do not know, and upon the exercise of reasonable diligence would not have known, of ownership by shareholders in violation of this requirement, provided that we comply with Treasury Regulations that require us to send annual letters to our shareholders of record inquiring about the ownership of our shares. We intend to comply with the annual letters requirement and to regularly monitor securities filings by our significant shareholders. If we fail to satisfy such share ownership requirements and cannot avail ourselves of any statutory relief provisions, we will not qualify as a REIT. See " Failure to Qualify as a REIT" below.

Qualified REIT Subsidiaries. If a REIT owns a corporate subsidiary (including an entity which is treated as an association taxable as a corporation for federal income tax purposes) that is a "qualified REIT subsidiary," or QRS, the separate existence of that subsidiary is disregarded for federal income tax purposes. Generally, a QRS is a corporation, other than a TRS, all of the capital stock of which is owned by the REIT (either directly or through other disregarded subsidiaries). For federal income tax purposes, all assets, liabilities and items of income, deduction and credit of the QRS will be treated as assets, liabilities and items of income, deduction and credit of the REIT itself. A QRS will not itself be subject to federal corporate income taxation, although it may be subject to state and local taxation in some jurisdictions.

Taxable REIT Subsidiaries. A "taxable REIT subsidiary," or TRS, is an entity that is taxable as a regular corporation in which we directly or indirectly own stock and that elects jointly with us to be treated as a TRS under Section 856(l) of the Internal Revenue Code. A TRS also includes any entity that is taxable as a regular corporation in which the electing TRS owns, directly or indirectly, securities representing more than 35% of the vote or value of the entity. However, an entity will not qualify as a TRS if it directly or indirectly operates or manages a lodging or health care facility or, generally, provides to another person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated, except in certain limited circumstances permitted by the Internal Revenue Code. The Internal Revenue Code defines a "healthcare facility" generally to mean 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.

Although a TRS may not operate or manage a health care facility, it may lease or own a "qualified health care property" so long as the property is operated by an "eligible independent contractor." A "qualified healthcare property" 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 is operated by a provider which is eligible for participation in the Medicare program with respect to such facility, along with any real or personal property necessary or incidental to the use of any such facility. An "eligible independent contractor" is an independent contractor that, at the time a management agreement is entered into with a TRS to operate a "qualified health care property," is actively engaged in the trade or business of operating "qualified health care properties" for a person or persons unrelated to the TRS and the REIT. An operator will not qualify as an "eligible independent contractor" with regard to a TRS of a REIT if the operator and/or one or more actual or constructive owners of 10% or more of the operator actually or constructively own more than 35% of the REIT, or one or more actual or constructive owners of more than 35% of the operator own 35% or more of the REIT (determined with respect to a REIT whose stock is regularly traded on an established securities market by taking into account only the stock held by persons owning, directly or indirectly, more than 5% of the outstanding stock of the REIT and, if the stock of the eligible independent contractor is publicly-traded, 5% of the publicly-traded stock of the eligible independent contractor). Complex ownership attribution rules apply for purposes of making this determination. As described in "Business" above, our properties currently are leased directly to operators. However, we may enter into leases with our TRS in the future with respect to newly acquired properties or upon the expiration or earlier termination of our current leases if and to the extent that this arrangement would be consistent with our business strategy and regulatory requirements. 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 qualification as a REIT.

Unlike our QRSs, the income and assets of our TRSs are not attributed to us for purposes of the conditions that we must satisfy to maintain our REIT status. Accordingly, the separate existence of a TRS is not ignored for federal income tax purposes. Rather, for REIT asset and income testing purposes, we take into account our interest in a TRS's securities and the income and gain we derive therefrom. A TRS or other taxable corporation generally would be subject to corporate income tax on its earnings, which may reduce the cash flow that we and our subsidiaries generate in the aggregate, and may reduce our ability to make distributions to our shareholders. A TRS can engage in activities or hold assets that could not be performed or held directly by the REIT or partnership subsidiaries of the REIT without affecting REIT compliance, such as providing certain services to tenants or others (other than in connection with the operation or management of a healthcare facility). However, certain restrictions will be imposed on our ability to own, and our dealings with, TRSs. These restrictions are intended to ensure that TRSs comprise a limited amount of our business (the securities of our TRSs cannot comprise more than 25% of our total assets) and that TRSs remain subject to an appropriate level of federal income taxation. These restrictions are discussed in detail under " Requirements for Qualification As a REIT Income Tests," " Requirements for Qualification As a REIT Asset Tests," and " Requirements for Qualification As a REIT Tax Aspects of Our Investments in Taxable REIT Subsidiaries" below.

Income Tests. To qualify as a REIT, we must satisfy two gross income tests, which are applied on an annual basis. First, at least 75% of our gross income, excluding gross income from prohibited transactions and certain hedging transactions, for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property and from some types of temporary investments. Income qualifying for the 75% gross income test generally includes:

- rents from real property;
- interest on debt secured by mortgages on real property or on interests in real property;
- dividends or other distributions on, and gain from the sale of, shares in other REITs;
- gain from the sale of real property or mortgages on real property, in either case, not held for sale to customers;
- amounts received in consideration for entering into an agreement to make a loan secured by real property or on interests in real property, or to purchase or lease real property (including interests in real property and interests in mortgages in real property) other than amounts the determination of which depends in whole or in part on the income or profit of any person;
- income derived from a REMIC in proportion to the real estate assets held by the REMIC, unless at least 95% of the REMIC's assets are real estate assets, in which case all of the income derived from the REMIC; and
- income attributable to temporary investments of new capital in stocks and debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings or issuance of debt obligations with at least a five-year term.

Second, at least 95% of our gross income, excluding gross income from prohibited transactions and certain hedging transactions, for each taxable year must be derived from sources that qualify for purposes of the 75% test, and from (a) dividends, (b) interest, and (c) gain from the sale or disposition of stock and securities, in either case, not held for sale to customers.

Our income for purposes of these tests includes our allocable share of all income earned by the entities in which we own an interest that are partnerships or disregarded entities for federal income tax purposes, and the subsidiaries of these entities that are partnerships or disregarded entities for federal income tax purposes. Our allocable share of the income from an entity that is treated as a partnership for federal income tax purposes is determined in accordance with our capital interest in that entity.

For purposes of the 75% and 95% gross income tests, certain foreign currency income is disregarded for purposes of determining gross income.

Rents from Real Property. Substantially all of our portfolio is leased to commercial tenants either on a triple-net basis and/or as part of sale and leaseback transactions. Rents we receive under such transactions generally will qualify as "rents from real property" in satisfying the gross income for a REIT described above, provided that the following conditions are met:

First, the transaction underlying the real property must qualify as a "true lease" for federal income tax purposes. The determination of whether a lease is a true lease for federal income tax purposes depends upon an analysis of all the surrounding facts and circumstances. In making such a determination, courts have considered a variety of factors, including the following:

- the intent of the parties;
- the form of the agreement;
- the degree of control over the property that is retained by the property owner; and
- the extent to which the property owner retains the risk of loss with respect to the property or the potential for economic gain with respect to the property.

Second, the amount of rent must not depend in whole or in part on the income or profits of any person. However, an amount we receive or accrue generally will not fail to be treated as "rents from real property" solely by reason of being dependent on a fixed percentage or percentages of receipts or sales.

Third, rents we receive from a "related party tenant" will not qualify as rents from real property in satisfying the gross income tests. An exception applies to a related party that is a TRS if at least 90% of the property is leased to unrelated tenants and the rent paid by the TRS is substantially comparable to the rent paid by the unrelated tenants for comparable space. Amounts attributable to certain rental increases charged to a controlled TRS can fail to qualify even if the above conditions are met. A tenant is a related party tenant 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 tenant. However, a REIT can lease qualified healthcare properties to a TRS that is a related party for these purposes without causing the rents to be related party rents (and therefore not qualifying as "rents from real property") provided that the property is operated by an "eligible independent contractor."

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 of more of our tenants as a result of the actions of CapitalSource or any of its shareholders.

Fourth, if rent attributable to personal property leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.

Fifth, for rents to qualify as "rents from real property" for purposes of the gross income tests, we are only permitted to directly provide services that are both "usually or customarily rendered" in connection with the rental of real property and not otherwise considered "rendered to the occupant." Income received from any other service will be treated as "impermissible tenant service income" unless the service is provided through either an independent contractor that bears the expenses of providing the services and from whom we derive no revenue or a TRS, subject to specified limitations. As described above, a TRS generally will not, however, be able to provide services which would constitute operation or management of a healthcare facility. The amount of impermissible tenant service income we receive is deemed to be the greater of the amount actually received by us or 150% of our direct cost of providing the service. If the impermissible tenant service income with respect to a property exceeds 1% of our total income from that property, then all of the income from that property will fail to qualify as rents from real property. If the total amount of impermissible tenant service income from a property does not exceed 1% of our total income from that property, the income will not cause the rent paid by tenants of that property to fail to qualify as "rents from real property," but the impermissible tenant service income itself will not qualify as "rents from real property."

Unless we determine that the resulting nonqualifying income under any of the following situations, taken together with all other nonqualifying income earned by us in the taxable year, will not jeopardize our status as a REIT, we do not intend to structure any leases of real property in a manner that would produce a significant amount non-qualifying income. In addition, we intend to monitor the activities at our properties to ensure that we do not provide services that will cause us to fail to meet the income tests.

Hedging Transactions. From time to time, we may enter into transactions to hedge against interest rate risks or value fluctuations. Our hedging activities may include entering into interest rate swaps, caps, and floors, options to purchase these items, futures and forward contracts and other financial instruments. To the extent that we enter into a hedging transaction (A) in the normal course of our business primarily to manage the risk of interest rate changes, price changes or currency fluctuations with respect to indebtedness incurred or to be incurred by us to acquire or carry real estate assets, or (B) primarily to manage risk of currency fluctuation with respect to items of income or gain qualifying under the 75% or 95% income tests, income and certain gain from the hedging transaction will be excluded from gross income solely for purposes of 75% and 95% income tests, provided, in each case, that we clearly and timely identify such hedging transaction in the manner required under the Internal Revenue Code and the Treasury Regulations promulgated thereunder. We intend to structure any hedging transactions in a manner that does not jeopardize our status as a REIT.

Interest. The term "interest," as defined for purposes of both gross income tests, generally excludes any amount that is based in whole or in part on the income or profits of any person. However, interest generally includes the following:

- an amount that is based on a fixed percentage or percentages of receipts or sales; and

- an amount that depends in whole or in part on the income or profits of a debtor, to the extent such amount is attributable to qualified rents received by a debtor if the debtor derives substantially all of its income from the real property securing the debt from leasing substantially all of its interest in the property.

If a loan contains a shared appreciation feature (generally, a provision that entitles us to a percentage of the borrower's gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property's value as of a specific date), the income attributable to the shared appreciation feature will be treated as gain from the sale of the property that is securing the loan for purposes of the gross income tests and the prohibited transactions tax rules.

Interest, original issue discount and market discount on debt secured by mortgages on real property or on interests in real property generally is qualifying income for purposes of the 75% gross income test. However, if the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date we agreed to originate or acquire the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property that is, the amount by which the loan exceeds the value of the real estate that is security for the loan.

In the future, we may hold mezzanine loans that are secured by equity interests in an entity that directly or indirectly owns real property, rather than a direct mortgage on the real property. Revenue Procedure 2003-65 provides a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained in the Revenue Procedure, will be treated by the IRS as a real estate asset for purposes of the REIT asset tests (described below), and interest derived from it will be treated as qualifying mortgage interest for purposes of the 75% gross income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. If the mezzanine loans that we hold do not meet all of the requirements for reliance on this safe harbor, there can be no assurance that the IRS will not challenge our characterization of such mezzanine loans.

Qualified Temporary Investment Income. For purposes of the gross income tests, temporary investment income generally constitutes qualifying income for purposes of the 75% gross income test if such income is earned as a result of investing new capital raised through the issuance of our shares or certain long-term debt obligations, in stock and debt obligations during the one-year period beginning on the date we receive the new capital.

Income from Foreclosure Property. We will be subject to tax at the maximum corporate rate on any income from foreclosure property (including certain foreign currency-related income attributable to such foreclosure property), other than income that otherwise would be qualifying income for purposes of the 75% gross income test, less expenses directly connected with the production of that income. However, gross income from foreclosure property will qualify for purposes of the 75% and 95% gross income tests. In general, foreclosure property is any real property, including interests in real property, and any personal property incidental to such real property:

- that we acquire as the result of having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default or default was imminent on a lease of such property or on indebtedness that such property secured;

- for which we acquired the related loan or lease at a time when the default was not imminent or anticipated; and

- for which we make a proper election to treat the property as foreclosure property.

Property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property, or longer if an extension is granted.

Foreclosure property also includes certain qualified healthcare property acquired by a REIT as the result of the termination or expiration of a lease of such property (other than by reason of a default, or the imminence of a default, on the lease). In general, we may operate a qualified healthcare facility acquired in this manner through, and in certain circumstances may derive income from, an independent contractor for a grace period of two years (or up to six years if extensions are granted). For purposes of this rule, a "qualified healthcare property" 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 is operated by a provider which is eligible for participation in the Medicare program with respect to such facility, along with any real or personal property necessary or incidental to the use of any such facility. This grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

- on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test, or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test;

- on which any construction takes place on the property, other than completion of a building or any other improvement, where more than 10% of the construction was completed before default became imminent; or

- which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business which we conduct, other than through an independent contractor from whom the REIT itself does not derive or receive any income. Income that we derive from an independent contractor with respect to a qualified healthcare facility is disregarded if such income is derived pursuant to a lease in effect at the time we acquire the facility, through renewal of such a lease according to its terms, or through a lease entered into on substantially similar terms.

We cannot predict whether, in the future, our income from foreclosure property will be significant or whether we could be required to pay a significant amount of tax on that income.

Failure to Satisfy the Income Tests. If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if we are entitled to relief under the Internal Revenue Code. These relief provisions generally will be available if our failure to meet the tests was due to reasonable cause and not due to willful neglect, and following identification of the failure, we file with the IRS a schedule describing each item of our gross income.

It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. If, for example, we fail to satisfy the gross income tests because non-qualifying income that we intentionally incur exceeds the limits on non-qualifying income, the IRS could conclude that the failure to satisfy the tests was not due to reasonable cause. If we fail to satisfy the 75% or 95% gross income test and these relief provisions do not apply, we will fail to qualify as a REIT. Even if these relief provisions were to apply, we would be subject to a penalty tax based on the amount of our non-qualifying income. We intend to take advantage of any and all relief provisions that are available to us to cure any violation of the income tests applicable to REITs.

Asset Tests. At the close of each quarter of our taxable year, we must satisfy six tests relating to the nature of our assets, as follows:

(1) At least 75% of the value of our total assets must be represented by "real estate assets," cash, cash items, and government securities. Real estate assets include debt instruments secured by mortgages on real property, shares of other REITs, and stock or debt instruments held for less than one year purchased with the proceeds of an offering of shares or long-term debt;

(2) Not more than 25% of our total assets may be represented by securities, other than those described in (1) above;

(3) Except for securities described in (1) above and securities in TRSs, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets;

(4) Except for securities described in (1) above and securities in TRSs, we may not own more than 10% of any one issuer's outstanding voting securities;

(5) Except for securities described in (1) above, securities in TRSs, and certain types of indebtedness that are not treated as securities for purposes of this test, as discussed below, we

may not own more than 10% of the total value of the outstanding securities of any one issuer; and

(6) Not more than 25% of the value of our total assets may be represented by the securities of one or more TRSs.

Our assets for purposes of the asset tests include our allocable share of all assets held by the entities in which we own an interest that are partnerships or disregarded entities for federal income tax purposes, and the subsidiaries of these entities that are partnerships or disregarded entities for federal income tax purposes, and generally do not include the equity interests in these entities. For purposes of the asset tests other than the 10% value test, an allocable share of the assets of an entity that is treated as a partnership for federal income tax purposes is determined in accordance with the capital interests in that entity. For purposes of the 10% value test only, our allocable share of the assets of an entity that is treated as a partnership for federal income tax purposes is determined in accordance with our proportionate ownership of the equity interests in such entity and certain other securities issued by such entity.

For purposes of the asset tests, a regular or residual interest in a REMIC generally is treated as a real estate asset. If, however, less than 95% of the assets of a REMIC consists of real estate assets (determined as if we held such assets), we will be treated as owning directly our proportionate share of the assets of the REMIC.

Whether a mezzanine loan secured by equity interests in an entity that directly or indirectly owns real property, rather than a direct mortgage on a real property, will constitute a qualifying real estate asset will depend on the facts and circumstances. Revenue Procedure 2003-65 provides a safe harbor pursuant to which a mezzanine loan, if it meets each of the requirements contained in the Revenue Procedure, will be treated as a real estate asset for purposes of the REIT asset tests. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. Moreover, the mezzanine loans that we originate or acquire may not meet all of the requirements for reliance on this safe harbor. Hence, there can be no assurance that the IRS will not challenge the treatment of the mezzanine loans as qualifying real estate assets for the REIT asset test purposes.

Securities, for purposes of the asset tests, may include debt we hold from other issuers. However, the Internal Revenue Code specifically provides that the following types of debt will not be taken into account as securities we own for purposes of the 10% value test: (1) securities that meet the "straight debt" safe harbor, as discussed below; (2) loans to individuals or estates; (3) obligations to pay rents from real property; (4) rental agreements described in Section 467 of the Internal Revenue Code (generally, obligations to pay rent after the close of the taxable year, other than such agreements with related party operators); (5) securities issued by other REITs; (6) certain securities issued by a state, the District of Columbia, a foreign government, or a political subdivision of any of the foregoing, or the Commonwealth of Puerto Rico; and (7) any other arrangement as determined by the IRS.

In addition, for purposes of the 10% value test only, to the extent we hold debt securities that are not described in the preceding paragraph, (a) any such debt issued by partnerships that derive at least 75% of their gross income from sources that constitute qualifying income for purposes of the 75% gross income test, and (b) any such debt instrument that is issued by any partnership, to the extent of our interest as a partner in the partnership, are not considered securities.

Debt will meet the "straight debt" safe harbor if (1) neither we, nor any of our controlled TRSs, own any securities not described in the preceding paragraph that have an aggregate value greater than 1% of the issuer's outstanding securities, (2) the debt is a written unconditional promise to pay on demand or on a specified date a sum certain in money, (3) the debt is not convertible, directly or indirectly, into stock, and (4) the interest rate and the interest payment dates of the debt are not contingent on the profits, the borrower's discretion or similar factors. However, contingencies regarding time of payment and interest are permissible for purposes of qualifying as a "straight debt" security if either (a) such contingency does not have the effect of changing the effective yield of maturity, as determined under the Internal Revenue Code, other than a change in the annual yield to maturity that does not exceed the greater of (i) 5% of the annual yield to maturity or (ii) 0.25%, or (b)(i) neither the aggregate issue price nor the aggregate face amount of the issuer's debt instruments held by the REIT exceeds $1,000,000 and (ii) not more than 12 months of unaccrued interest can be required to be prepaid thereunder. In addition, debt will not be disqualified from being treated as "straight debt" solely because the time or amount of payment is subject to a contingency upon a default or the exercise of a prepayment right by the issuer of the debt, provided that such contingency is consistent with customary commercial practice.

With respect to each issuer of securities we currently own or expect to own that does not qualify as a REIT, a QRS or a TRS, we believe the value of the securities of such issuer (including unsecured debt but excluding any equity interest if such issuer is a partnership) that we own or we expect to own does not exceed 5% of the total value of our assets and that we comply with the 10% voting securities test and the 10% value test (taking into account the considerations described above). With respect to our compliance with each of these asset tests, however, we cannot provide any assurance that the IRS might not disagree with our determinations.

After initially meeting the asset tests for our first calendar quarter as a REIT, we will not lose our status as a REIT if we fail to satisfy the asset tests at the end of a later quarter solely by reason of changes in the relative values of our assets. If the failure to satisfy the asset tests results from an increase in the value of our assets after the acquisition of securities or other property during a quarter, or the acquisition of non-qualifying assets during the quarter, the failure can be cured by a disposition of sufficient non-qualifying assets within 30 days after the close of that quarter.

Furthermore, the failure to satisfy certain asset tests can be remedied even after the 30-day cure period. If the total value of the assets that caused a failure of the 5% test, the 10% voting securities test or the 10% value test does not exceed the lesser of 1% of our assets at the end of the relevant quarter or $10,000,000, we can cure the failure by disposing of sufficient assets to cure the violation within six months following the last day of the quarter in which we first identify the failure of the asset test. For a violation of any of the 5% test, the 10% voting securities test, or the 10% value test attributable to the ownership of assets the total value of which exceeds the amount described in the preceding sentence, or for any violation of any of the 75%, the 25% asset test, and the 25% TRS asset test, we can avoid disqualification as a REIT if the violation is due to reasonable cause, and we dispose of an amount of assets sufficient to cure such violation within the six-month period described in the preceding sentence. In such a case, we must also pay a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying assets during the period of time that the assets were held as non-qualifying assets, and file in accordance with applicable Treasury Regulations a schedule with the IRS that describes the assets. The applicable Treasury Regulations are yet to be issued. Thus, it is not possible to state with precision under what circumstances we would be entitled to the benefit of these provisions. We intend to take advantage of any and all relief provisions that are available to us (including, for these purposes, the 30-day cure period described above) to cure any violation of the asset tests applicable to REITs.

We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take any available action within the applicable time period after the close of any quarter as may be required to cure any noncompliance with the asset tests. We cannot ensure that these steps always will be successful. If we fail to cure the noncompliance with the asset tests within the applicable time period, we could fail to qualify as a REIT.

Annual Distribution Requirements. To qualify as a REIT, we generally must make distributions (other than capital gain dividends) to our shareholders in an amount at least equal to:

the sum of (a) 90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gain, and (b) 90% of our net income after tax, if any, from foreclosure property, *minus*

the sum of certain items of non-cash income.

Dividend distributions must generally be made during the taxable year to which they relate. Dividend distributions may be made in the following year in two circumstances. First, if we declare a dividend in October, November, or December of any year with a record date in one of these months and pay it on or before January 31 of the following year, we will be treated as having paid the dividend on December 31 of the year in which it was declared. Second, distributions may be made in the following year if they are declared before we timely file our tax return for the year and if made before the first regular dividend payment made after such declaration. To the extent that we do not distribute as a dividend all of our net capital gain or distribute at least 90%, but less than 100% of our REIT taxable income, as adjusted, we will be subject to tax on the undistributed amount at regular capital gain or ordinary corporate tax rates, as the case may be.

Furthermore, we will incur a 4% nondeductible excise tax on the excess of the required distribution over the sum of the amounts actually distributed as dividends and amounts retained for which federal income tax was paid if we fail to distribute by the end of a calendar year (or, in the case of distributions with declaration and record dates falling in the last three months of the calendar year, by the end of January following such calendar year) at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods.

We may elect to retain rather than distribute all or a portion of our net capital gain and pay the tax on the gain. In that case, we may elect to have our shareholders include their proportionate share of the undistributed net capital gain in income as long-term capital gain and receive a credit for their share of the tax paid by us. For purposes of the 4% excise tax described above, any retained amounts would be treated as having been distributed.

We intend to make timely distributions sufficient to satisfy the annual distribution requirements. It is possible, however, that we, from time to time, may not have sufficient cash or other liquid assets to meet these distribution requirements. This may be due to differences in timing between the actual receipt of income and the actual payment of deductible expenses and the inclusion of that income and the deduction of those expenses in determining our REIT taxable income. Among other situations, this may occur if a lease of our property is subject to the provisions of Section 467 of the Internal Revenue Code. Although some non-cash income may be excluded in determining the annual distribution requirement, we will incur corporate income tax and we also may be required to pay the 4% excise tax with respect to those non-cash income items if we do not distribute those items on a current basis. As a result of the foregoing, we may have less cash than is necessary to distribute all of our taxable income and thereby avoid corporate income tax and the excise tax imposed on certain undistributed income. In such a situation, we may need to borrow funds or issue additional common or preferred shares.

Under certain circumstances, we may be able to rectify a failure to meet the distribution requirement for a year by paying "deficiency dividends" to shareholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends. However, we would be required to pay to the IRS interest based upon the amount of any deduction taken for deficiency dividends.

Sale/Leaseback Transactions. As described above, a substantial portion of our portfolio includes properties which we acquired in connection with sale and leaseback transactions. Depending on the economic terms of the transaction, we will be treated for federal income tax purposes as either the owner of the property that has leased the property to a tenant or the holder of debt secured by the property. The IRS may take the position that specific sale/leaseback transactions that we have treated as a sale and lease to the seller should be treated as a financing. Questions of whether we are the owner of such facilities and whether the leases are true leases for federal tax purposes are essentially factual matters. See " Rents from Real Property." If a sale/leaseback transaction that we characterized in one way was then recharacterized by the IRS, this could affect our ability to satisfy the REIT income and asset tests and the REIT distribution requirement for the years for which a sale/leaseback transaction were recharacterized. Therefore, such a recharacterization could cause us to fail to qualify as a REIT. See " Failure to Qualify as a REIT" below. Moreover, it is possible that some of our sale-leaseback activity with tax-exempt operators may subject us to certain deduction deferral rules under Sections 168(h) and 470 of the Internal Revenue Code. If these rules were to apply, we may have higher taxable income than we would otherwise have if our operators were not tax-exempt entities (and possibly, as a result, higher income than anticipated) and, accordingly, if the amount of any resulting deferral were significant, we may not be able to make cash distributions to shareholders in an amount sufficient to eliminate all of our taxable income or meet the REIT distribution requirements.

Recordkeeping Requirements. We are required to comply with applicable recordkeeping requirements. Failure to comply could result in monetary penalties.

Failure to Qualify as a REIT. If we do not comply with one or more of the conditions required for qualification as a REIT (other than the asset tests and the income tests that have the specific savings clauses discussed above in " Requirements for Qualification As a REIT Asset Tests" and " Requirements for Qualification As a REIT Income Tests"), we can avoid disqualification of our REIT status by paying a penalty of $50,000 for each such failure, provided that our noncompliance was due to reasonable cause and not willful neglect. If we fail to qualify for taxation as a REIT in any taxable year and the statutory relief provisions do not apply, we will be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. Distributions to shareholders in any year in which we fail to qualify will not be required and, if made, will not be deductible by us. As a result, our failure to qualify as a REIT would significantly reduce both the cash available for distribution by us to our shareholders and our earnings. In addition, all of our distributions to our shareholders, to the extent of our current and accumulated earnings and profits, will be taxable as regular corporate dividends, which means that shareholders taxed as individuals currently would be taxed on those dividends at long-term capital gain rates and corporate shareholders generally would be entitled to a dividends received deduction with respect to such dividends. Unless we are entitled to relief under specific statutory provisions, we also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. We cannot state whether in all circumstances we would be entitled to this statutory relief. We intend to take advantage of any and all relief provisions that are available to us to cure any violation of the requirements applicable to REITs.

Prohibited Transactions Tax. Any gain (including certain foreign currency-related income) realized by us on the sale, which may include taxable disposition of any property held as inventory or other property held primarily for sale to customers in the ordinary course of a trade or business, including our share of this type of gain realized by any partnership or limited liability company that is treated as a partnership for income tax purposes, will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Any income from a prohibited transaction is excluded from gross income solely for purposes of the gross income tests. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances of a particular transaction. However, we will not be treated as a dealer in real property for the purpose of the 100% tax if (i) we have held the property for at least two years for the production of rental income, (ii) we capitalized expenditures on the property in the two years preceding sale that are less than 30% of the net selling price of the property, and (iii) we

(a) have seven or fewer sales of property (excluding certain property obtained through foreclosure) for the year of sale or (b) either (I) the aggregate tax basis of property sold during the year of sale is 10% or less of the aggregate tax basis of all of our assets as of the beginning of the taxable year, or (II) the aggregate fair market value of property sold during the year of sale is 10% or less of the aggregate fair market value of all of our assets as of the beginning of the taxable year and (III) in the case of either (I) or (II), substantially all of the marketing and development expenditures with respect to the property sold are made through an independent contractor from whom we derive no income. For purposes of the seven sale limitation, the sale of more than one property to one buyer as part of one transaction constitutes one sale.

Tax Aspects of Our Investments in Partnerships and Limited Liability Companies Generally

General. We have an interest in one or more partnerships or limited liability companies that may involve special tax considerations. These tax considerations include the following:

- the status of each subsidiary partnership and limited liability company as a partnership or an entity that is disregarded for federal income tax purposes (as opposed to an association taxable as a corporation) for federal income tax purposes;
- the taking of actions by any of the subsidiary partnerships or limited liability companies that could adversely affect our qualification as a REIT; and
- the allocations of income and expense items of the subsidiary partnerships or limited liability companies, which could affect the computation of our taxable income.

Tax Status Subsidiary Partnerships and Limited Liability Companies. We believe that our subsidiary partnerships and limited liability companies, other than any limited liability companies that have made an election to be treated as a corporation for federal income tax purposes and that have also made an election to be treated as a taxable REIT subsidiary of ours, will be treated for federal income tax purposes as partnerships or entities disregarded from their owners (and not as associations taxable as corporations). If one or more of these subsidiary partnerships or limited liability companies were to be treated as a corporation, it would be subject to an entity level tax on its income. In such a situation, the character of our assets and items of gross income would change, which could preclude us from satisfying the asset tests and possibly the income tests, and in turn prevent us from qualifying as a REIT.

Tax Aspects of Our Ownership of Interests in the Partnerships and Limited Liability Companies

General. We hold substantially all of our investments indirectly through subsidiary partnerships and limited liability companies which we expect will be treated as disregarded entities (or, in some cases, partnerships) for federal income tax purposes. In general, entities that are classified as partnerships or as disregarded entities for federal income tax purposes are "pass-through" entities which are not required to pay federal income tax. Rather, partners or members of such entities are allocated their pro rata shares of the items of income, gain, loss, deduction and credit of the entity, and are required to include these items in calculating their U.S. federal income tax liability, without regard to whether the partners or members receive a distribution of cash from the entity. We will include in our income our pro rata share of the foregoing items for purposes of the various REIT income and asset tests based on our capital interest in such entity, but the actual computation of our REIT taxable income will be based on our distributive share of such items determined under the applicable partnership or limited liability company agreement or under the applicable provisions of the Internal Revenue Code and the Treasury Regulations thereunder. In addition, to the extent we enter into joint ventures with third parties who contribute properties to such joint ventures on a tax-deferred basis, the allocation of the items of income, gain, loss, deduction and credit may be different from our pro-rata ownership of the joint ventures' capital.

Entity Classification. Our interests in subsidiary partnerships and limited liability companies involve special tax considerations, including the possibility that the IRS might challenge the status of one or more of these entities as a partnership or disregarded entity, and assert that such entity is an association taxable as a corporation for federal income tax purposes. Generally, a partnership or a limited liability company will be treated as a partnership or disregarded as an entity separate from its owner for federal income tax purposes, depending on the number of owners. However, under certain circumstances, a partnership or a limited liability company may nonetheless be treated as an association taxable as a corporation for federal income tax purposes. In particular, a partnership or a limited liability company may be treated as such association if it meets requirements for a "publicly traded partnership" for federal income tax purposes based on the ownership diversification and transferability of its equity interests. Alternately, a partnership or a limited liability company may affirmatively make an election to be treated as an association taxable as a corporation for federal income tax purposes. As described above, if a subsidiary partnership or limited liability company, were treated as an association, it would be taxable as a corporation and would be required to pay an entity-level tax on its income. Furthermore, in this situation, the character of our assets and items of gross income could change and preclude us from satisfying the REIT asset tests and possibly the REIT income tests. See " Taxation of the Company as a REIT Asset Tests" and " Income Tests." This, in turn, would prevent us from qualifying as a REIT. See "Taxation of the Company as a REIT Failure to Qualify as a REIT" for a discussion of the effect of our failure to meet these tests for a taxable year. In addition, a change in a subsidiary partnership's or limited liability company's status as a partnership for tax purposes might be treated as a taxable event. If so, we might incur a tax liability without any related receipt of cash.

Tax Aspects of Our Investments in Taxable REIT Subsidiaries

To the extent that we and a corporation make an election to treat such corporation as our TRS, such corporation will not qualify as a REIT and therefore will pay federal, state and local income taxes on its net income at normal corporate rates. To the extent that a TRS of ours pays such taxes, the cash available for distribution to shareholders will be reduced accordingly. However, to the extent that our TRS pays dividends to us in a particular calendar year, dividends received by our shareholders during that year attributable to those distributions will be eligible to be subject to taxation at reduced capital gain rates, rather than at ordinary income rates. See " Taxation of U.S. Shareholders Distributions to Shareholders Qualified Dividend Income." We may form a TRS to hold a portion of our interest in the Genesis mezzanine loan.

Certain restrictions are imposed on a TRS to ensure that such entities will be subject to an appropriate level of federal income taxation. For example, our TRS may not deduct interest payments made in any year to us to the extent that such payments exceed, generally, 50% of its adjusted taxable income for that year (although the TRS may carry forward to, and deduct in, a succeeding year the disallowed interest amount if the 50% test is satisfied in that later year). In addition, any redetermined rents, redetermined deductions or excess interest we generate will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of services furnished by one of our TRSs to any of our operators, and redetermined deductions and excess interest represent amounts that are deducted by a TRS for payments to us that are in excess of the amounts that would have been deducted based on arm's length negotiations. Rents we receive will not constitute redetermined rents if they qualify for any of the safe harbor provisions contained in the Internal Revenue Code.

To the extent that we use a TRS of ours to provide services with respect to our investments or financing to our operators, we anticipate that any fees paid to the TRS for operator services will reflect arm's length rates. Nevertheless, these determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to clearly reflect their respective incomes. If the IRS successfully made such an assertion and we did not satisfy any of the safe harbor provisions described above, we could be required to pay a 100% penalty tax on the redetermined rent, redetermined deductions or excess interest, as applicable.

Our ownership of the securities of TRSs is subject to certain asset tests. These tests restrict the ability of our TRSs to increase the size of their businesses unless the value of our assets increases at a commensurate rate. See " Requirements for Qualification As a REIT Asset Tests" above.

Taxation of Holders of Our Common Shares

As used in the remainder of this discussion, the term "U.S. shareholder" means a beneficial owner of our common shares described in this discussion that is for United States federal income tax purposes:

(1) a citizen or resident alien individual, as defined in Section 7701(b) of the Internal Revenue Code, of the United States;

(2) a corporation or other entity treated as a corporation or partnership for federal income tax purposes, created or organized in or under the laws of the United States or any state or the District of Columbia;

(3) an estate the income of which is subject to United States federal income taxation regardless of its source; or

(4) in general, a trust subject to the primary supervision of a United States court and the control of one or more United States persons or a trust that was in existence on August 20, 1996 and has made a valid election to be treated as a U.S. person.

In the case of a partnership that holds our common shares, the treatment of its partners generally will depend upon the status of the partner and the activities of the partnership. A "non-U.S. shareholder" is a holder, including any partner in a partnership that holds our common shares, that is not a U.S. shareholder.

Taxation of U.S. Shareholders

Distributions to Shareholders

General. As long as we qualify as a REIT, distributions made to taxable U.S. shareholders of our shares out of current or accumulated earnings and profits that are not designated as capital gain dividends or as qualified dividend income will be taken into account by them as ordinary income. In determining the extent to which a distribution constitutes a dividend for tax purposes, if we issue preferred shares, our earnings and profits will be allocated first to distributions with respect to the preferred shares and then to the common shares. Corporate shareholders will generally not be eligible for the dividends received deduction with respect to these distributions.

Distributions in excess of current and accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that the distributions do not exceed the adjusted basis of the shareholder's shares. Rather, such distributions will reduce the adjusted basis of such shares. To the extent that distributions exceed the adjusted basis of a U.S. shareholder's shares, the distributions will be taxable as capital gain, assuming the shares are a capital asset in the hands of the U.S. shareholder.

Distributions will generally be taxable, if at all, in the year of the distribution. However, if we declare a dividend in October, November, or December of any year with a record date in one of these months and pay it on or before January 31 of the following year, we will be treated as having paid the portion of the distribution that is treated as a dividend for federal income tax purposes, and the shareholder will be treated as having received such amount, on December 31 of the year in which the dividend was declared.

Capital Gain Dividends. We may elect to designate distributions attributable to our net capital gain as "capital gain dividends." Capital gain dividends are taxed to U.S. shareholders as gain from the sale or exchange of a capital asset held for more than one year. This tax treatment applies regardless of the period during which the shareholders have held their shares. Corporate shareholders, however, may be required to treat up to 20% of capital gain dividends as ordinary income.

Instead of paying capital gain dividends, we may elect to require shareholders to include our undistributed net capital gain in their income. If we make such an election, U.S. shareholders (a) will include in their income as long-term capital gain their proportionate share of such undistributed capital gain and (b) will be deemed to have paid their proportionate share of the tax paid by us on such undistributed capital gain and thereby receive a credit or refund for such amount. A U.S. shareholder will increase its basis in its shares by the difference between the amount of capital gain included in its income and the amount of tax it is deemed to have paid. Our earnings and profits will be adjusted appropriately.

With respect to U.S. shareholders of our shares who are taxed at the rates applicable to individuals, we must classify portions of our designated capital gain dividends into the following categories:

- a 15% gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 15%; or

- an unrecaptured Section 1250 gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 25%.

We must determine the maximum amounts that we may designate as 15% and 25% capital gain dividends by performing the computation required by the Internal Revenue Code, as if the REIT were an individual whose ordinary income were subject to a marginal tax rate of at least 28%. Designations made by the REIT will be effective only to the extent that they comply with Revenue Ruling 89-81, which requires that distributions made to different classes of shares be composed proportionately of dividends of a particular type.

Recipients of capital gain dividends from us that are taxed at corporate income tax rates will be taxed at the normal corporate income tax rates on those dividends.

Qualified Dividend Income. A portion of distributions out of our current or accumulated earnings and profits may constitute "qualified dividend income" to the extent that such amount is attributable to amounts described in (a) through (c) below, and we properly designate it as "qualified dividend income." Qualified dividend income is taxable to non-corporate U.S. shareholders at long-term capital gain rates, provided that the shareholder has held the common shares with respect to which the distribution is made for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which such common shares became ex-dividend with respect to the relevant distribution. The maximum amount of our distributions eligible to be designated as qualified dividend income for a taxable year is equal to the sum of:

(a) the qualified dividend income received by us during such taxable year from regular corporations (including our TRSs);

(b) the excess of any "undistributed" REIT taxable income recognized during the immediately preceding year over the federal income tax paid by us with respect to such undistributed REIT taxable income; and

(c) the excess of any income recognized during the immediately preceding year attributable to the sale of a built-in-gain asset that was acquired in a carry-over basis transaction from a regular corporation over the federal income tax paid by us with respect to such built-in gain.

Generally, dividends that we receive will be treated as qualified dividend income for purposes of (a) above if the dividends are received from a domestic corporation (other than a REIT or a regulated investment company) or a "qualified foreign corporation" and specified holding period requirements and other requirements are met. A foreign corporation (generally excluding a "passive foreign investment company") will be a qualified foreign corporation if it is incorporated in a possession of the United States, the corporation is eligible for benefits of an income tax treaty with the United States that the Secretary of Treasury determines is satisfactory, or the shares of the foreign corporation on which the dividend is paid is readily tradable on an established securities market in the United States.

If we designate any portion of a dividend as a capital gain dividend or as qualified dividend income, the amount that will be taxable to the shareholder as capital gain or as qualified dividend income will be indicated to U.S. shareholders on IRS Form 1099-DIV.

Other Tax Considerations. Distributions made by us with respect to our common shares and gain arising from the sale or exchange of our common shares by a U.S. shareholder will not be treated as passive activity income. As a result, U.S. shareholders generally will not be able to apply any "passive losses" against this income or gain. In addition, taxable distributions from us generally will be treated as investment income for purposes of the investment interest limitations. A U.S. shareholder may elect to treat capital gain dividends, capital gain from the disposition of our common shares and income designated as qualified dividend income as investment income for purposes of the investment interest limitation, in which case the applicable gain will be taxed at ordinary income tax rates. We will notify shareholders regarding the portions of distributions for each year that constitute ordinary income, return of capital and capital gain. U.S. shareholders may not include in their individual income tax returns any of our net operating losses or capital losses. The operating or capital losses will be carried over by us for potential offset against our future income, subject to applicable limitations. For purposes of computing liability for alternative minimum tax, certain of our alternative minimum tax adjustments will be treated as alternative minimum tax adjustments of our shareholders in the ratio that our distributions bear to our taxable income (determined without regard to the deduction for dividends paid). Amounts treated as alternative minimum tax adjustments of our shareholders are deemed to be derived by the shareholders proportionately from each such alternative minimum tax adjustment of us and are taken into account by the shareholders in computing their alternative minimum taxable income for the taxable year to which the dividends are attributable.

Sale of Our Common Shares

Upon any taxable sale or other disposition of our common shares, a U.S. shareholder will recognize gain or loss for federal income tax purposes on the disposition in an amount equal to the difference between:

- the amount of cash and the fair market value of any property received on such disposition; and
- the U.S. shareholder's adjusted tax basis in such common shares for federal income tax purposes.

Gain or loss will be capital gain or loss if the common shares have been held by the U.S. shareholder as capital assets. The applicable tax rate will depend on the holder's holding period in the asset (generally, if an asset has been held for more than one year it will produce long-term capital gain) and the holder's tax bracket. A U.S. shareholder who is an individual or an estate or trust and who has long-term capital gain or loss will be subject to a maximum capital gain rate, which is currently 15%. The IRS has the authority to prescribe, but has not yet prescribed, Treasury Regulations that would apply a capital gain tax rate of 25% (which is higher than the long-term capital gain tax rates for non-corporate shareholders) to a portion of capital gain realized by a non-corporate shareholder on the sale of our common shares that would correspond to the REIT's "unrecaptured Section 1250 gain." U.S. shareholders are advised to consult with their own tax advisors with respect to their capital gain tax liability.

In general, any loss upon a sale or exchange of our common shares by a U.S. shareholder who has held such shares for six months or less (after applying certain holding period rules) will be treated as a long-term capital loss, to the extent that the U.S. shareholder previously received distributions from us that were required to be treated by such U.S. shareholder as long-term capital gain.

Taxation of Non-U.S. Shareholders

Distributions. Distributions with respect to our common shares by us to a non-U.S. shareholder generally will be treated as ordinary dividends to the extent that they are made out of our current or accumulated earnings and profits unless (a) the dividend is designated as a capital gain dividend and is not attributable to the disposition of a U.S. real property interest or (b) the dividend is attributable to the disposition of a U.S. real property interest and either (i) our common shares are not regularly traded on an established securities market located in the United States, or (ii) the non-U.S. shareholder owns more than 5% of the class of our common shares with regard to which the distribution is paid at any time during one-year period ending on the date of the distribution. Ordinary dividends generally will be subject to U.S. federal income tax on a gross basis at a rate of 30%, or a lower rate as permitted under an applicable income tax treaty, unless the dividends are treated as effectively connected with the conduct by the non-U.S. shareholder of a U.S. trade or business. Under some treaties, however, lower rates generally applicable to dividends do not apply to dividends from REITs. Dividends that are effectively connected with a trade or business generally will not be subject to the withholding tax and instead will be subject to tax on a net basis, that is, after allowance for deductions, at graduated rates, in a manner similar to the taxation of U.S. shareholders with respect to these dividends, and may be subject to any applicable alternative minimum tax. Applicable certification and disclosure requirements must be satisfied for dividends to be exempt from withholding under the effectively connected income exception. Any dividends received by a corporate non-U.S. shareholder that is engaged in a U.S. trade or business also may be subject to an additional branch profits tax at a 30% rate, or lower applicable treaty rate. We expect to withhold U.S. income tax at the rate of 30% on any distributions, not designated as (or otherwise deemed to be) capital gain dividends, made to a non-U.S. shareholder unless:

- a lower treaty rate applies and the non-U.S. shareholder files an IRS Form W-8BEN with us evidencing eligibility for that reduced rate; or

- the non-U.S. shareholder files an IRS Form W-8ECI with us claiming that the distribution is effectively connected income.

Distributions in excess of our current or accumulated earnings and profits that do not exceed the adjusted basis of the non-U.S. shareholder in its common shares will reduce the non-U.S. shareholder's adjusted basis in its common shares and will not be subject to U.S. federal income tax. Distributions in excess of current and accumulated earnings and profits that do exceed the adjusted basis of the non-U.S. shareholder in its common shares will be treated as gain from the sale of its common shares, the tax treatment of which is described below. See "Taxation of Non-U.S. Shareholders Sale of Our Common Shares."

We may be required to withhold at least 10% of any distribution in excess of our current and accumulated earnings and profits, even if a lower treaty rate applies or the non-U.S. shareholder is not liable for tax on the receipt of that distribution. However, a non-U.S. shareholder may seek a refund of these amounts from the IRS if the non-U.S. shareholder's U.S. tax liability with respect to the distributions is less than the amount withheld.

Distributions to a non-U.S. shareholder that are designated by us as capital gain dividends, other than those arising from the disposition of a U.S. real property interest, generally should not be subject to U.S. federal income taxation, unless:

- such distribution is effectively connected with the non-U.S. shareholder's U.S. trade or business, in which case the non-U.S. shareholder will be subject to tax on a net basis in a manner similar to the taxation of U.S. shareholders with respect to such gain, except that a holder that is a foreign corporation may also be subject to the additional 30% branch profits tax, as discussed above; or

- the non-U.S. shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gain.

In addition, distributions attributable to gain from sales or exchanges by us of U.S. real property interests that are made with respect to a class of shares that is not regularly traded on an established securities market located in the United States or that are paid to a non-U.S. shareholder who owns, at any time during the one year period ending on the date of the distribution, more than 5% of the class of shares with regard to which the distribution is paid will be taxed under the Foreign Investment in Real Property Tax Act, or "FIRPTA." For a non-U.S. shareholder that is not subject to FIRPTA tax with respect to a capital gain dividend because the non-U.S. shareholder owns 5% or less of our common shares during the relevant period, the dividend generally will be treated as an ordinary dividend for U.S. federal income tax and withholding purposes. As a general matter, our investments in real estate will be considered U.S. real property interests, and amounts we distribute to our non-U.S. shareholders attributable to the gain from the sale or other disposition by us of such assets would be subject to FIRPTA. Non-U.S. shareholders should, however, consult their tax advisors regarding whether designated capital gain dividends attributable to net capital gain from sources other than the sale of "U.S. real property interests" who own 5% or less of the value of the relevant class of shares at all times during the 1-year period ending on the date of any such distribution will be treated as long-term capital gain to such non-U.S. shareholders (as opposed to being subject to tax in the same manner as ordinary income dividends).

A non-U.S. shareholder receiving a distribution subject to FIRPTA will be treated as recognizing gain that is income effectively connected with a U.S. trade or business and taxed in the manner described above. We will be required to withhold and remit to the IRS 35% (or such lower amount that may be provided for in Treasury Regulations) of any distribution to non-U.S. shareholders that is either designated as a capital gain dividend, or, if greater, 35% (or such lower amount that may be provided for in Treasury Regulations) of a distribution that could have been designated as a capital gain dividend, whether or not such distribution is attributable to the sale of a U.S. real property interest. Distributions can be designated as capital gain dividends to the extent of our net capital gain for the taxable year of the distribution. The amount withheld is creditable against the non-U.S. shareholder's U.S. federal income tax liability.

Undistributed Capital Gain. Although the law is not entirely clear on the matter, it appears that amounts which we designate as undistributed capital gains in respect of our shares held by non-U.S. shareholders generally should be treated in the same manner as actual distributions by us of capital gain dividends. Under that approach, the non-U.S. shareholders would be able to offset as a credit against their U.S. federal income tax liability resulting from their proportionate share of the tax paid by us on the undistributed capital gains treated as long-term capital gains to the non-U.S. shareholder and generally to receive from the IRS a refund to the extent their proportionate share of the tax paid by us were to exceed the non-U.S. shareholder's actual U.S. federal income tax liability on such long term capital gain. If we were to designate any portion of our net capital gain as undistributed capital gain, a non-U.S. shareholder should consult its tax adviser regarding the taxation of such undistributed capital gain.

Sale of Our Common Shares. Gain recognized by a non-U.S. shareholder upon the sale or exchange of our common shares generally would not be subject to U.S. taxation unless:

- the investment in our common shares is effectively connected with the non-U.S. shareholder's U.S. trade or business, in which case the non-U.S. shareholder will be subject to tax on a net basis in a manner similar to the taxation of U.S. shareholders with respect to any gain;

- the non-U.S. shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and either has a tax home in the United States or certain other conditions exist, in which case any gain from the sale or exchange of our common shares will be included in determining the individual's net capital gain from U.S. sources for the taxable year, subject to a 30% withholding tax; or

- the common shares constitute a U.S. real property interest within the meaning of FIRPTA, as described below.

Our common shares will not constitute a U.S. real property interest if we are not a USRPHC at any time during the applicable testing period. The applicable testing period is the shorter of (a) the period during which the non-U.S. Shareholder is treated as having acquired the interest being disposed or (b) the 5-year period ending on the date of such disposition. Given the expected nature of our investments, we believe that we will be a USRPHC.

Assuming that we are a USRPHC, our common shares will not constitute a U.S. real property interest if we are a "domestically-controlled qualified investment entity." We will be a domestically-controlled qualified investment entity if, at all times during a specified testing period, less than 50% in value of our shares is held directly or indirectly by non-U.S. shareholders. We believe that upon the initial public offering we will be a domestically controlled qualified investment entity, but we cannot offer any assurance that we will be domestically controlled during the testing period that may be applicable to you when you sell our common shares.

If we were a USRPHC and did not qualify as a domestically-controlled qualified investment entity at the time a non-U.S. shareholder sells our shares, gain arising from the sale still would not be subject to FIRPTA tax if:

- our common shares are considered regularly traded under applicable Treasury Regulations on an established securities market, such as the NYSE; and

- the selling non-U.S. shareholder owned, actually or constructively, 5% or less in value of the outstanding common shares being sold throughout the shorter of the period during which the non-U.S. shareholder held the shares or the five-year period ending on the date of the sale or exchange.

If gain on the sale or exchange of our common shares were subject to taxation under FIRPTA, the non-U.S. shareholder would be required to file U.S. federal income tax returns and would be subject to regular U.S. income tax with respect to any gain on a net basis in a manner similar to the taxation of a taxable U.S. shareholder, subject to any applicable alternative minimum tax and special alternative minimum tax in the case of nonresident alien individuals.

Taxation of Tax-Exempt Holders

Provided that a tax-exempt holder has not held our common shares as "debt financed property" within the meaning of the Internal Revenue Code, or has otherwise held or used them in a trade or business, generally, the dividend and interest income from us will not be unrelated business taxable income, or UBTI, to a tax-exempt holder. Similarly, income from the sale of a common share will not constitute UBTI unless the tax-exempt holder has held its security as debt financed property within the meaning of the Internal Revenue Code or has held or used the common share in a trade or business. Under recently published IRS guidance, the IRS has taken the position that charitable remainder trusts will not fail to qualify as charitable remainder trusts solely as a result of being allocated excess inclusion income in respect of their interest as shareholders of a REIT. If you are a charitable remainder trust, you should consult with your tax advisor regarding the consequences to you of owning shares in a REIT that will allocate excess inclusion income to you.

Further, for a tax-exempt holder that is a social club, voluntary employee benefit association, supplemental unemployment benefit trust, or qualified group legal services plan exempt from federal income taxation under Internal Revenue Code Sections 501(c)(7), (c)(9), (c)(17) and (c)(20), respectively, or a single parent title-holding corporation exempt under Section 501(c)(2) the income of which is payable to any of the aforementioned tax-exempt organizations, income from an investment in our common shares will constitute UBTI unless the organization properly sets aside or reserves such amounts for purposes specified in the Internal Revenue Code. These tax exempt holders should consult their own tax advisors concerning these "set aside" and reserve requirements.

Notwithstanding the above, however, a portion of the dividends paid by a "pension held REIT" are treated as UBTI as to any trust which is described in Section 401(a) of the Internal Revenue Code, is tax-exempt under Section 501(a) of the Internal Revenue Code, and holds more than 10%, by value, of the interests in the REIT. Tax-exempt pension funds that are described in Section 401(a) of the Internal Revenue Code are referred to below as "pension trusts."

A REIT is a "pension held REIT" if it meets the following two tests:

(1) it would not have qualified as a REIT but for Section 856(h)(3) of the Internal Revenue Code, which provides that shares owned by pension trusts will be treated, for purposes of determining whether the REIT is closely held, as owned by the beneficiaries of the trust rather than by the trust itself; and

(2) either (a) at least one pension trust holds more than 25% of the value of the interests in the REIT, or (b) a group of pension trusts each individually holding more than 10% of the value of the REIT's shares, collectively owns more than 50% of the value of the REIT's shares.

The percentage of any REIT dividend from a "pension held REIT" that is treated as UBTI is equal to the ratio of the UBTI earned by the REIT, treating the REIT as if it were a pension trust and therefore subject to tax on UBTI, to the total gross income of the REIT. An exception applies where the percentage is less than 5% for any year, in which case none of the dividends would be treated as UBTI. The provisions requiring pension trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is not a "pension held REIT" (for example, if the REIT is able to satisfy the "not closely held requirement" without relying on the "look through" exception with respect to pension trusts). Based on the current estimated ownership of our common shares, and as a result of certain limitations on transfer and ownership of our shares contained in our Declaration of Trust, we do not expect to be classified as a "pension held REIT."

Backup Withholding Tax and Information Reporting

U.S. Shareholders. In general, information-reporting requirements will apply to distributions with respect to, and the proceeds of the sale of, our common shares discussed herein to some holders, unless an exception applies.

The payor is required to backup withhold tax on such payments (currently at the rate of 28%) if (a) the payee fails to furnish a taxpayer identification number, or TIN, to the payor or to establish an exemption from backup withholding, or (b) the IRS notifies the payor that the TIN furnished by the payee is incorrect.

In addition, a payor of dividends or interest on our common shares discussed herein will be required to backup withhold tax if (a) there has been a notified payee under-reporting with respect to interest, dividends or original issue discount described in Section 3406(c) of the Internal Revenue Code or (b) there has been a failure of the payee to certify under the penalty of perjury that the payee is not subject to backup withholding under the Internal Revenue Code.

Some U.S. shareholders, including corporations, may be exempt from backup withholding. Any amounts withheld under the backup withholding rules from a payment to a U.S. shareholder will be allowed as a credit against the holder's U.S. federal income tax and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

The payor will be required to furnish annually to the IRS and to holders of our common shares information relating to the amount of dividends and interest paid on our common shares, and that information reporting may also apply to payments of proceeds from the sale of our common shares. Some holders, including corporations, financial institutions and certain tax-exempt organizations, are generally not subject to information reporting.

Non-U.S. Shareholders. Generally, information reporting and backup withholding requirements described above for a U.S. shareholder will apply to a non-U.S. shareholder with respect to distributions on, or the proceeds from the sale of, our common shares.

The proceeds of a disposition by a non-U.S. shareholder of shares to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for federal income tax purposes, a foreign person 50% or more of whose gross income from all sources for specified periods is from activities that are effectively connected with a U.S. trade or business, a foreign partnership if partners who hold more than 50% of the interest in the partnership are U.S. persons, or a foreign partnership that is engaged in the conduct of a trade or business in the United States, then information reporting (but not the backup withholding) generally will apply as though the payment was made through a U.S. office of a U.S. or foreign broker. Generally, backup withholding does not apply in such a case.

Generally, non-U.S. shareholders will satisfy the information reporting requirement by providing a proper IRS withholding certificate (such as the Form W-8BEN). In the absence of a proper withholding certificate, applicable Treasury Regulations provide presumptions regarding the status of holders of our common shares when payments to the holders cannot be reliably associated with appropriate documentation provided to the payer. If a non-U.S. shareholder fails to comply with the information reporting requirement, payments to such person may be subject to the full withholding tax even if such person might have been eligible for a reduced rate of withholding or no withholding under applicable income tax treaty. Any payment subject to a withholding tax will not be again subject to any backup withholding. Because the application of these Treasury Regulations varies depending on the holder's particular circumstances, you are advised to consult your tax advisor regarding the information reporting requirements applicable to you.

Sunset of Tax Provisions

Several of the tax considerations described herein are subject to a sunset provision. The sunset provisions generally provide that, for taxable years beginning after December 31, 2010, certain provisions that are currently in the Internal Revenue Code will revert back to a prior version of those provisions. These provisions include provisions related to the reduced maximum income tax rate for capital gain of 15% (rather than 20%) for taxpayers taxed at individual rates, qualified dividend income, including the application of the 15% capital gain rate to qualified dividend income, and certain other tax rate provisions. The impact of this reversion is not discussed herein. Consequently, prospective holders should consult their own tax advisors regarding the effect of sunset provisions on an investment in our common shares discussed herein.

State and Local Taxes

We and the holders of our common shares may be subject to state or local taxation in various state or local jurisdictions, including those in which we or they transact business or reside. Our state and local tax treatment and that of the holders of our common shares may not conform to the federal income tax treatment discussed above. Prospective investors should consult their own tax advisors regarding the effect of state and local tax laws on an investment in our common shares.

Tax Shelter Reporting

If a holder of our common shares recognizes a loss as a result of a transaction with respect to our common shares of at least (i) $2 million or more in a single taxable year or $4 million or more in a combination of taxable years, for a holder that is an individual, S corporation, trust, or a partnership with at least one noncorporate partner, or (ii) $10 million or more in a single taxable year or $20 million or more in a combination of taxable years, for a holder that is either a corporation or a partnership with only corporate partners, such holder may be required to file a disclosure statement with the IRS on Form 8886. Direct holders of portfolio securities are in many cases exempt from this reporting requirement, but holders of REIT securities currently are not excepted. The fact that a loss is reportable under these Treasury Regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these Treasury Regulations in light of their individual circumstances.

UNDERWRITING

CapitalSource is offering the common shares described in this prospectus through a number of underwriters. Banc of America Securities LLC, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. are the representatives of the underwriters. We and CapitalSource have entered into a firm commitment underwriting agreement with the representatives. Subject to the terms and conditions of the underwriting agreement, CapitalSource has agreed to sell to the underwriters, and each underwriter has agreed to purchase, the number of common shares listed next to its name in the following table:

Underwriter	Number of Shares
Banc of America Securities LLC	
Citigroup Global Markets Inc.	
Deutsche Bank Securities Inc.	
Total	

The underwriting agreement is subject to a number of terms and conditions and provides that the underwriters must buy all of the shares if they buy any of them. The underwriters will sell the shares to the public when and if the underwriters buy the shares from CapitalSource.

The underwriters initially will offer the shares to the public at the price specified on the cover page of this prospectus. The underwriters may allow a concession of not more than $ per share to selected dealers. The underwriters may also allow, and those dealers may re-allow, a concession of not more than $ per share to some other dealers. If all the shares are not sold at the public offering price, the underwriters may change the public offering price and the other selling terms. The common shares are offered subject to a number of conditions, including:

- receipt and acceptance of the common shares by the underwriters; and
- the underwriters' right to reject orders in whole or in part.

Option to Purchase Additional Shares. CapitalSource has granted the underwriters an option to purchase up to additional common shares at the same price per share as they are paying for the shares shown in the table above. These additional shares would cover sales by the underwriters which exceed the total number of shares shown in the table above. The underwriters may exercise this option at any time and from time to time, in whole or in part, within 30 days after the date of this prospectus. To the extent that the underwriters exercise this option, each underwriter will purchase additional shares from CapitalSource in approximately the same proportion as it purchased the shares shown in the table above. CapitalSource will pay the expenses associated with the exercise of this option.

Discount and Commissions. The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by CapitalSource. These amounts are shown assuming no exercise and full exercise of the underwriters' option to purchase additional shares.

CapitalSource will pay for the expenses of this offering, including underwriting discounts and commissions.

	Paid by CapitalSource	
	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Listing. We have applied to list our common shares on the NYSE, subject to notice of issuance, under the symbol "CHR." In order to meet one of the requirements for listing our common shares on the NYSE, the underwriters have undertaken to sell 100 or more common shares to a minimum of 400 U.S. holders, and to ensure that the common shares have a minimum price of $4.00 at the time of listing, that there is an aggregate market value of publicly held shares of at least $60 million in the U.S. and that there are at least 1.1 million publicly held common shares in the U.S. following completion of the offering.

Stabilization. In connection with this offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common shares, including:

- stabilizing transactions;
- short sales;
- syndicate covering transactions;
- imposition of penalty bids; and
- purchases to cover positions created by short sales.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common shares while this offering is in progress. Stabilizing transactions may include making short sales of our common shares, which involves the sale by the underwriters of a greater number of common shares than they are required to purchase in this offering, and purchasing common shares from CapitalSource or on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' option to purchase additional shares referred to above, or may be "naked" shorts, which are short positions in excess of that amount. Syndicate covering transactions involve purchases of our common shares in the open market after the distribution has been completed in order to cover syndicate short positions.

The underwriters may close out any covered short position either by exercising their option to purchase additional shares, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares as referred to above.

A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common shares in the open market that could adversely affect investors who purchased in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The representatives also may impose a penalty bid on underwriters and dealers participating in the offering. This means that the representatives may reclaim from any syndicate members or other dealers participating in the offering the underwriting discount on shares sold by them and purchased by the representatives in stabilizing or short covering transactions.

These activities may have the effect of raising or maintaining the market price of our common shares or preventing or retarding a decline in the market price of our common shares. As a result of these activities, the price of our common shares may be higher than the price that otherwise might exist in the open market. If the underwriters commence the activities, they may discontinue them at any time. The underwriters may carry out these transactions on the NYSE, in the over-the-counter market or otherwise.

Discretionary Accounts. The underwriters have informed us that they do not expect to make sales to accounts over which they exercise discretionary authority in excess of 5% of the common shares being offered.

IPO Pricing. Prior to this offering, there has been no public market for our common shares. The initial public offering price will be negotiated between CapitalSource and the representatives of the underwriters. Among the factors to be considered in these negotiations are:

- the history of, and prospects for, our company and the industry in which we compete;
- our past and present financial performance;
- an assessment of our management;
- the present state of our development;
- the prospects for our future earnings;
- the prevailing conditions of the applicable United States securities market at the time of this offering;
- market valuations of publicly traded companies that we and the representatives of the underwriters believe to be comparable to us; and
- other factors deemed relevant.

The estimated initial public offering price range set forth on the cover of this preliminary prospectus is subject to change as a result of market conditions and other factors.

Lock-up Agreements. We, our manager, CapitalSource, CSE Mortgage LLC and each of our trustees and executive officers have entered into lock-up agreements with the underwriters. Under these agreements, subject to exceptions, we may not issue any new common shares, and those holders of common shares and options may not, directly or indirectly, offer, sell, contract to sell, pledge or otherwise dispose of or hedge any common shares or securities convertible into or exchangeable for common shares, or publicly announce the intention to do any of the foregoing, without the prior written consent of the representatives for a period of 180 days from the date of this prospectus. This consent may be given at any time without public notice. In addition, during this 180 day period, subject to certain exceptions, we have also agreed not to file any registration statement for, and our manager, CapitalSource and each of our trustees and executive officers have agreed not to make any demand for, or exercise any right of, the registration of, any common shares or any securities convertible into or exercisable or exchangeable for common shares without the prior written consent of the representatives.

CapitalSource, as the selling shareholder, may be deemed to be an "underwriter" within the meaning of the Securities Act, and any profit on the sale of the common shares by CapitalSource may be deemed to be underwriting commissions under the Securities Act. If CapitalSource were deemed to be an underwriter, it may be subject to statutory liabilities including, but not limited to, those of Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Exchange Act.

Indemnification. We, our manager, CapitalSource and CSE Mortgage LLC will indemnify the underwriters against some liabilities, including liabilities under the Securities Act. If we, our manager, CapitalSource, CSE Mortgage LLC are unable to provide this indemnification, we, our manager CSE Mortgage LLC and CapitalSource will contribute to payments the underwriters may be required to make in respect of those liabilities.

Selling Restrictions. Each underwriter intends to comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers securities or has in its possession or distributes the prospectus or any such material.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) an offer of the securities to the public may not be made in that Relevant Member State prior to the publication of a prospectus in relation to the securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except an offer to the public in that Relevant Member State of any securities may be made at any time under the following exemptions under the Prospectus Directive if they have been implemented in the Relevant Member State:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of securities shall result in a requirement for the publication by the issuer or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of securities to the public" in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

No prospectus (including any amendment, supplement or replacement thereto) has been prepared in connection with the offering of the securities that has been approved by the Autorité des marchés financiers or by the competent authority of another State that is a contracting party to the Agreement on the European Economic Area and notified to the Autorité des marchés financiers; no securities have been offered or sold and will be offered or sold, directly or indirectly, to the public in France except to permitted investors ("Permitted Investors") consisting of persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (investisseurs qualifiés) acting for their own account and/or investors belonging to a limited circle of investors (cercle restreint d'investisseurs) acting for their own account, with "qualified investors" and "limited circle of investors" having the meaning ascribed to them in Articles L. 411-2, D. 411-1, D. 411-2, D. 411-4, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the French Code Monétaire et Financier and applicable regulations thereunder; none of this prospectus or any other materials related to the offering or information contained therein relating to the securities has been released, issued or distributed to the public in France except to Permitted Investors; and the direct or indirect resale to the public in France of any securities acquired by any Permitted Investors may be made only as provided by Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French Code Monétaire et Financier and applicable regulations thereunder.

In addition:

an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in connection with the issue or sale of the securities in circumstances in which Section 21(1) of the FSMA does not apply to us; and

all applicable provisions of the FSMA have been complied with and will be complied with, with respect to anything done by it in relation to the securities in, from or otherwise involving the United Kingdom.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

The offering of the common shares has not been cleared by the Italian Securities Exchange Commission (Commissione Nazionale per le Società e la Borsa, the "CONSOB") pursuant to Italian securities legislation and, accordingly, the common shares may not and will not be offered, sold or delivered, nor may or will copies of the prospectus or any other documents relating to the common shares be distributed in Italy, except (i) to professional investors (operatori qualificati), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of July 1, 1998, as amended, (the "Regulation No. 11522"), or (ii) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998 (the "Financial Service Act") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended.

Any offer, sale or delivery of the common shares or distribution of copies of the prospectus or any other document relating to the common shares in Italy may and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be: (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of September 1, 1993, as amended (the "Italian Banking Law"), Regulation No. 11522, and any other applicable laws and regulations; (ii) in compliance with Article 129 of the Italian Banking Law and the implementing guidelines of the Bank of Italy; and (iii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Any investor purchasing the common shares in the offering is solely responsible for ensuring that any offer or resale of the common shares it purchased in the offering occurs in compliance with applicable laws and regulations.

The prospectus and the information contained therein are intended only for the use of its recipient and, unless in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the "Financial Service Act" and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended, is not to be distributed, for any reason, to any third party resident or located in Italy. No person resident or located in Italy other than the original recipients of this document may rely on it or its content.

Italy has only partially implemented the Prospectus Directive, the provisions under the heading "European Economic Area" above shall apply with respect to Italy only to the extent that the relevant provisions of the Prospectus Directive have already been implemented in Italy.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the Prospectus Directive, such requirements shall be replaced by the applicable requirements under the Prospectus Directive.

Online Offering. A prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters participating in this offering. Other than the prospectus in electronic format, the information on any such web site, or accessible through any such web site, is not part of the prospectus. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that will make internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

Conflicts/Affiliates. In addition to their involvement with our senior secured revolving credit facility, affiliates of certain underwriters, including Banc of America Securities LLC, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. serve as lenders under CapitalSource's $1,070,000,000 revolving credit facility due 2010 and other of CapitalSource's outstanding indebtedness. In addition, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. served as joint lead managers and Banc of America Securities LLC served as co-manager in CapitalSource's June 2008 common stock offering and Citigroup Global Markets Inc. served as joint bookrunning manager for CapitalSource's July 2007 Senior Subordinated Convertible Notes offering. Citigroup Global Markets Inc. also provided advisory services to CapitalSource in connection with an acquisition that closed in July 2008. An affiliate of Deutsche Bank Securities Inc. provides approximately $343 million in financing to CapitalSource. This amount is secured by loans originated by CapitalSource. In addition, an affiliate of Citigroup Global Markets Inc. holds a $50 million interest in the Genesis mezzanine loan, one of our initial assets. The underwriters and their affiliates have provided, and may in the future provide, various investment banking, commercial banking and other financial services for us, CapitalSource and our respective affiliates for which services they have received, and may in the future receive, customary fees.

LEGAL MATTERS

The validity of the securities offered hereby will be passed upon by Hogan & Hartson LLP. In addition, Hogan & Hartson LLP will pass upon certain federal income tax matters. Skadden, Arps, Slate, Meagher & Flom LLP is counsel for the underwriters in connection with this offering.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our balance sheet at July 31, 2008, as set forth in their report. We have included our balance sheet in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

Ernst & Young LLP, independent registered public accounting firm, has audited the combined financial statements and schedule of CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) at December 31, 2007 and 2006, and for each of the two years in the period ended December 31, 2007, as set forth in their report. We have included the financial statements and schedule of CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) in the prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-11, including exhibits and schedules filed with the registration statement of which this prospectus is a part, under the Securities Act with respect to the common shares to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to our company and the common shares to be sold in this offering, reference is made to the registration statement, including the exhibits and schedules to the registration statement. Copies of the registration statement, including the exhibits and schedules to the registration statement, may be examined without charge at the public reference room of the SEC, 100 F Street, N.E., Washington, DC 20549. Information about the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0300. Copies of all or a portion of the registration statement may be obtained from the public reference room of the SEC upon payment of prescribed fees. Our SEC filings, including our registration statement, are also available to you on the SEC's website at *www.sec.gov*.

As a result of this offering, we will become subject to the information and reporting requirements of the Exchange Act, and will file periodic reports and proxy statements and will make available to our shareholders annual reports containing audited financial information for each year and quarterly reports for the first three quarters of each fiscal year containing unaudited interim financial information.

INDEX TO FINANCIAL STATEMENTS

CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.)	
Report of Independent Registered Public Accounting Firm	F-2
Combined Balance Sheets as of December 31, 2007 and 2006	F-3
Combined Statements of Operations for the years ended December 31, 2007 and 2006	F-4
Combined Statements of Member's Equity for the years ended December 31, 2007 and 2006	F-5
Combined Statements of Cash Flows for the years ended December 31, 2007 and 2006	F-6
Notes to Combined Financial Statements	F-7
Schedule III Real Estate and Accumulated Depreciation	F-27
Combined Balance Sheets as of June 30, 2008 (unaudited) and December 31, 2007	F-31
Combined Statements of Operations (unaudited) for the six months ended June 30, 2008 and 2007	F-32
Combined Statement of Member's Equity (unaudited) for the six months ended June 30, 2008	F-33
Combined Statements of Cash Flows (unaudited) for the six months ended June 30, 2008 and 2007	F-34
Notes to the Unaudited Combined Financial Statements	F-35
CapitalSource Healthcare REIT	
Report of Independent Registered Public Accounting Firm	F-42
Balance Sheet as of July 31, 2008	F-43
Notes to Balance Sheet	F-44

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Member
CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

We have audited the accompanying combined balance sheets of CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) as of December 31, 2007 and 2006, and the related combined statements of operations, member's equity and cash flows for each of the two years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index to Financial Statements. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) at December 31, 2007 and 2006, and the combined results of its operations and its cash flows for each of the two years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young

McLean, Virginia
August 5, 2008

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

Combined Balance Sheets

	December 31, 2007	December 31, 2006
	($ in thousands)	
ASSETS		
Real estate investments:		
Buildings and improvements	$ 900,417	$ 608,963
Land	106,620	89,140
Furniture and equipment	51,545	34,395
Less accumulated depreciation	(43,370)	(11,464)
Real estate investment, net	1,015,212	721,034
Loan, net	150,894	
Cash and cash equivalents	16,088	6,508
Restricted cash	23,738	12,881
Deposits	13,758	6,435
Deferred financing fees, net	3,824	4,294
Intangible lease assets, net	21,351	27,584
Straight-line rent receivable	11,680	4,012
Receivables and other assets, net	2,470	1,077
Total assets	$ 1,259,015	$ 783,825
LIABILITIES, NONCONTROLLING INTERESTS AND MEMBER'S EQUITY		
Liabilities:		
Mortgage debt	$ 341,086	$ 299,769
Related party debt	247,743	106,660
Term debt	20,000	20,000
Lease obligations, net	51,918	26,816
Other liabilities	30,910	16,231
Total liabilities	691,657	469,476
Noncontrolling interests	44,808	56,342
Member's equity	522,550	258,007
Total liabilities, noncontrolling interests and member's equity	$ 1,259,015	$ 783,825

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

Combined Statements of Operations

	Year Ended December 31,	
	2007	2006
	($ in thousands)	
Revenues:		
Operating lease income	$ 95,191	$ 30,380
Interest and fee income	10,805	194
Total revenues	105,996	30,574
Expenses:		
Interest expense	46,262	13,373
Depreciation	31,955	11,464
General and administrative	10,460	3,809
Loss on impairment of assets	1,225	
Loss on debt extinguishment		2,497
Total expenses	89,902	31,143
Income (loss) before gain on sale of real estate and noncontrolling interests expense	16,094	(569)
Gain on sale of real estate	156	
Noncontrolling interests expense	(4,951)	(4,711)
Net income (loss)	$ 11,299	$ (5,280)

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

Combined Statements of Member's Equity
($ in thousands)

Total member's equity as of January 1, 2006	$
Net contributions	263,287
Net loss	(5,280)
Total member's equity as of December 31, 2006	258,007
Net contributions	253,244
Net income	11,299
Total member's equity as of December 31, 2007	$ 522,550

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

Combined Statements of Cash Flows

	Year Ended December 31, 2007	Year Ended December 31, 2006
	($ in thousands)	
Operating activities:		
Net income (loss)	$ 11,299	$ (5,280)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	31,955	11,464
Amortization of lease intangibles, net	472	185
Amortization of deferred financing fees	589	32
Amortization of deferred loan fees	(221)	
Non-cash loss on property disposals	15	
Loss on impairment of assets, net	1,069	
Loss on debt extinguishment		2,497
Increase in straight-line rent receivable	(7,668)	(4,012)
Increase in receivables and other assets, net	(1,389)	(3,676)
Decrease (increase) in other liabilities	11,068	(11,349)
Accretion of termination fee receivable	(673)	
Increase in loans held for sale	(150,000)	
Cash used in operating activities	(103,484)	(10,139)
Investing activities:		
Sale of real estate investments	5,047	
Acquisitions of real estate investments, net of cash acquired	(253,167)	(498,005)
Increase in deposits	(7,323)	(6,435)
Increase in restricted cash	(10,857)	(9,224)
Cash used in investing activities	(266,300)	(513,664)
Financing activities:		
Payments of deferred financing fees	(119)	(746)
(Repayments of) borrowings of mortgage debt, net	(3,310)	259,140
Borrowings of related party debt	141,083	183,034
Repayments of related party debt		(145,233)
Net contributions	241,710	234,116
Cash provided by financing activities	379,364	530,311
Increase in cash and cash equivalents	9,580	6,508
Cash and cash equivalents as of beginning of year	6,508	
Cash and cash equivalents as of end of year	$ 16,088	$ 6,508
Supplemental information:		
Cash paid during the year for interest	$ 35,508	$ 9,885
Noncash transactions from investing and financing activities:		
Acquisition of real estate investments	79,012	235,766
Assumption of lease obligations, net	30,476	
Assumption of debt	44,627	128,710
Conversion of noncontrolling interests	11,534	
Increase in noncontrolling interests in connection with acquisition of real estate investments		56,342
Issuance of common shares in connection with acquisition of real estate investments		29,171

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Note 1. Organization and Basis of Presentation

CapitalSource Inc. ("CapitalSource"), a Delaware corporation, is a commercial finance, investment and asset management company operating as a real estate investment trust ("REIT") and providing a broad array of financial products to middle market businesses. CapitalSource currently operates as three reportable segments: 1) Commercial Finance, 2) Healthcare Net Lease, and 3) Residential Mortgage Investment. The Commercial Finance segment comprises CapitalSource's commercial lending business activities; the Healthcare Net Lease segment comprises CapitalSource's direct real estate investment business activities; and the Residential Mortgage Investment segment comprises CapitalSource's residential mortgage investment activities.

CapitalSource completed its first healthcare-related facilities acquisition in January 2006. The real estate investments comprising CapitalSource's Healthcare Net Lease segment are primarily income producing healthcare-related facilities, principally skilled nursing facilities ("SNFs"), located in the United States. CapitalSource's real estate investments are generally leased to tenants 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.

CapitalSource intends to contribute all of the assets and liabilities of its Healthcare Net Lease segment along with a $150.0 million interest in a $375.0 million mezzanine loan to CapitalSource Healthcare REIT ("CHR"), a newly formed, wholly owned subsidiary of CapitalSource as part of a plan to complete an initial public offering ("IPO") of less than 50% of CHR's common shares of beneficial interest. All of the shares to be sold in this offering will be sold by CapitalSource.

These combined financial statements reflect the combined financial position and results of operations of CapitalSource's HealthCare Net Lease segment and the $150.0 million loan interest carved out of the accounts of CapitalSource (the "Carve-out Entity") as if the Carve-out Entity had been a separate stand-alone company owning these assets and related liabilities for the respective periods presented. All amounts presented herein have been reflected at CapitalSource's historical basis.

For all periods presented, certain management, administrative and operational services of CapitalSource were shared between the Carve-out Entity and other CapitalSource segments. For purposes of financial statement presentation, the costs for these shared services have been allocated to the Carve-out Entity based on actual direct costs incurred and an allocation of indirect costs. See Note 7, *Related Party Transactions,* 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 the Carve-out Entity had operated as an unaffiliated stand-alone entity.

In these combined financial statements, unless the context otherwise requires or indicates, references to "we," "our," and "us" refer to the Carve-out Entity.

Note 2. Summary of Significant Accounting Policies

Our financial reporting and accounting policies conform to U.S. generally accepted accounting principles ("GAAP").

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the combined financial statements in conformity with GAAP requires management to make estimates and assumptions that 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 income and expenses during the reporting period. Management has made significant estimates in certain areas, including valuing acquired leases and other assets, and assessing real estate and other assets for impairment. Actual results could differ from those estimates.

Principles of Combination

The accompanying financial statements reflect our combined accounts, including those of our majority owned subsidiaries. The portion of the net income or loss attributed to third parties owning noncontrolling interests in one of our subsidiaries is reported as noncontrolling interests expense on our combined statements of operations, and such parties' interests are reported on our combined balance sheets as noncontrolling interests. All significant intercompany accounts and transactions have been eliminated.

Real Estate Investments

We lease real estate investments through long-term, triple-net operating leases. Under these triple-net leases, the tenant agrees to pay all facility operating expenses, as well as make all capital improvements.

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 at the time of acquisition in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*, as amended. 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.

Depreciation is computed on a straight-line basis over the estimated useful lives ranging from 10 to 40 years for buildings. Furniture and equipment related to our direct real estate investments are depreciated over seven years.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

Asset Impairment

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; such assessment is performed not less than annually. Our assessment of the existence of impairment indicators is based on factors such as, but not limited to, market conditions, operator performance and the lessee's compliance with lease terms. 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. 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.

Assets Sold and Held for Sale, and Discontinued Operations

Pursuant to the provisions of Statement of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"), the operating results of specified real estate assets that have been sold, or that would otherwise qualify as held for disposition (as defined by SFAS No. 144), will be reflected as assets held for sale in our balance sheet. Assets that were sold or that qualify as held for sale may also be considered as a discontinued operation if, (a) the operation and cash flows of the asset have been or will be eliminated from future operations and (b) we will not have significant involvement with the asset after its disposition. For significant assets that would qualify as discontinued operations, we would reclassify the operations of those assets to discontinued operations in the consolidated statements of operations for all periods presented and assets held for sale in the consolidated balance sheet for all periods presented. As of and for the years ended December 31, 2007 and 2006, we had no assets classified as held for sale or discontinued operations.

Gains on sales of real estate assets are recognized pursuant to the provisions of SFAS No. 66, *Accounting for Sales of Real Estate* ("SFAS No. 66"). The specific timing of the recognition of the sale and the related gain is measured against the various criteria in SFAS No. 66 related to the terms of the transactions and any continuing involvement associated with the assets sold. To the extent the sales criteria are not met, we defer gain recognition until the sales criteria are met.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

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. As of December 31, 2007 and 2006, we recognized straight-line rent receivables, which relate to the timing difference between the rental revenue recognized on a straight-line basis and the amounts due to us on a contractual basis, of $11.7 million and $4.0 million, respectively, in our accompanying combined balance sheets. For the years ended December 31, 2007 and 2006, straight-line rental revenues totaling $7.7 million and $4.0 million, respectively, were recognized as a component of operating lease income in our accompanying combined statements of operations.

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.

Loans

The loan held in our portfolio is recorded at the principal amount outstanding, net of deferred loan costs or fees. Deferred loan costs or fees are amortized over the contractual term of the loan using the interest method. We use contractual payment terms to determine the constant yield needed to apply the interest method.

Loans held for sale are accounted for at the lower of cost or fair value, which is determined on an individual loan basis, and include loans we originated or purchased that we intend to sell all or part of that loan in the secondary market. Direct loan origination costs or fees, discounts and premiums are deferred at origination of the loan.

As part of our management of the loans held in our portfolio, we may occasionally reclassify loans from loans held for investment to loans held for sale. Upon transfer, the cost basis of those loans is reduced by the amount of any corresponding allowance allocable to the transferred loans. The loans are accounted for at the lower of cost or fair value, with valuation changes recorded in other income, net of expenses in the accompanying combined statements of operations. Gains or losses on these loans are also recorded in other income, net of expenses in the accompanying combined statements of operations. In certain circumstances, loans designated as held for sale may later be transferred back to the loan portfolio based upon our intent to retain the loan. We transfer these loans to our portfolio at the lower of cost or fair value.

Loan Impairment

We perform periodic and systematic detailed reviews of our loan portfolio to identify credit risks and to assess the overall collectibility of the portfolio. If necessary, a specific allowance for loan losses

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

is established for individual impaired commercial loans. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Once a loan has been identified as individually impaired, management measures impairment in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan* ("SFAS No. 114"). Individually impaired loans are measured based on the present value of payments expected to be received, observable market prices, or for loans that are solely dependent on the collateral for repayment, the estimated fair value of the collateral. If the recorded investment in impaired loans exceeds the present value of payments expected to be received, a specific allowance is established as a component of the allowance for loan losses.

When available information confirms that specific loans or portions thereof are uncollectible, these amounts are charged off against the allowance for loan losses. To the extent we later collect amounts previously charged off, we will recognize a recovery in income for the amount received.

Deferred Financing Fees

Deferred financing fees represent fees and other direct incremental costs incurred in connection with our borrowings. These amounts are amortized into income as interest expense over the estimated life of the borrowing using the interest method.

Interest and Fee Income Recognition

Interest and fee income, including income on impaired loans and fees due at maturity, is recorded on an accrual basis to the extent that such amounts are expected to be collected. Carrying value adjustments are amortized into earnings over the contractual life of a loan using the interest method.

Loan origination fees and exit fees are deferred and amortized as adjustments to the related loan's yield over the contractual life of the loan. In connection with the prepayment of a loan, any remaining unamortized deferred fees for that loan are accelerated and, depending upon the terms of the loan, there may be an additional fee that is charged based upon the prepayment and recognized in the period of the prepayment.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

Income Taxes

When CapitalSource filed its federal income tax return for the year ended December 31, 2006, they elected REIT status under the Internal Revenue Code (the "Code") effective for 2006 forward. As a REIT, CapitalSource is generally not subject to Federal corporate-level income tax on the earnings distributed to their shareholders that they derive from their qualified REIT subsidiaries. All of the assets, liabilities and operations of the Carve-out Entity occurred in qualified REIT subsidiaries of CapitalSource and, as such, the accompanying financial statements do not include any provision for income taxes.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

We intend to qualify as a REIT after the proposed IPO, as described in Note 1, *Organization*. As a REIT, we will generally not be subject to Federal corporate-level income tax on our earnings to the extent that our earnings are distributed to our shareholders and meet certain other requirements. 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. We may still be subject to state and local taxation in various state and local jurisdictions, including those in which we transact business or reside.

To qualify as a REIT, we will be required to meet certain asset tests and distribute at least 90% of our REIT taxable income to our shareholders and meet the various other requirements imposed by the Code, through actual operating results, asset holdings, distribution levels and diversity of stock ownership.

As a REIT, we will be permitted to own up to 100% of a taxable REIT subsidiary, or TRS. We may form a TRS to hold a portion of our initial assets. Our TRS would be taxable as a corporation and would pay federal, state and local income tax on its net 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.

Segment Reporting

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related* Information ("SFAS No. 131"), requires that a public business enterprise report financial and descriptive information about its reportable operating segments including a measure of segment profit or loss, certain specific revenue and expense items and segment assets. Since all of the activities of the Carve-out Entity are managed as a single portfolio, we operate as one reportable segment.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS No. 157 applies whenever other accounting standards require or permit fair value measurement. The effective date for SFAS No. 157 is the beginning of the first fiscal year beginning after November 15, 2007. In February 2008, the FASB issued FSP SFAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP SFAS 157-2"), which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until years beginning after November 15, 2008. Effective January 1, 2008, we adopted the provisions of SFAS No. 157, except for items covered by FSP SFAS 157-2 and it did not have a significant effect on fair value measurements in our combined financial statements. We have not completed our assessment of the impact of the adoption of FSP SFAS 157-2 on our combined financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141(R)"), which establishes principles and requirements for how the acquirer of a business

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The effective date for SFAS No. 141(R) is for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We plan to adopt SFAS No. 141(R) on January 1, 2009. We have not completed our assessment of the impact of the adoption of SFAS No. 141(R) on our combined financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* ("SFAS No. 160"), which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the combined entity that should be reported as equity in the combined financial statements. SFAS No. 160 also amends certain consolidation procedures for consistency with the requirements of FASB Statement No. 141(R). The effective date for SFAS No. 160 is the beginning of the first fiscal year beginning after December 15, 2008. We plan to adopt SFAS No. 160 on January 1, 2009. We have not completed our assessment of the impact of the adoption of SFAS No. 160 on our combined financial statements.

Note 3. Real Estate Investments

Our real estate investments primarily consist of long term care facilities generally leased through long-term, triple-net operating leases. As of December 31, 2007, our real estate investments included 180 SNFs, four assisted living facilities ("ALFs") and two long-term acute care hospitals ("LTACs").

As of December 31, 2007, real estate investments with total carrying values of $696.5 million were financed through either mortgage debt or term debt. See Note 7, *Borrowings*, for additional information.

The leases on our direct real estate investments expire at various dates through 2026 and typically include fixed rental payments that are subject to escalation over the life of the lease. As of December 31, 2007, we expected to receive future minimum rental payments from our non-cancelable operating leases as follows ($ in thousands):

2008	$ 96,564
2009	97,052
2010	98,325
2011	95,698
2012	93,837
Thereafter	473,381
Total	$954,857

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 3. Real Estate Investments (Continued)

Summary of Real Estate Investment Transactions

During the years ended December 31, 2007 and 2006, we completed the following acquisitions:

Acquisition	Closing Dates	Land	Buildings	Furniture and Equipment	In-place Leases, Net	Other(1)	Total Purchase Price(2)
				($ in thousands)			
38 SNFs and 1 ALF	January 2006	$ 35,210	$ 153,277	$ 10,300	$	$ 9,800	$ 208,587
3 SNFs and 1 LTAC	May 2006	2,160	20,332	1,700		(881)	23,311
1 SNF	June 2006	430	7,685	585		(1,535)	7,165
2 SNFs	June 2006	1,020	5,014	700			6,734
4 SNFs	August 2006	1,960	27,047	980		(359)	29,628
67 SNFs and 2 ALFs	December 2006	43,090	331,984	17,430	511	1,466	394,481
16 SNFs and 1 ALF	November 2006 April 2007 May 2007	11,310	131,977	5,400		2,250	150,937
11 SNFs	February 2007 March 2007 May 2007	4,280	71,170	3,250		(529)	78,171
2 SNFs	March 2007	790	11,435	750		(87)	12,888
36 SNFs	June 2007	10,990	135,263	10,190	(30,476)	(1,347)	124,620
1 SNF	July 2007	100	2,860	190		(24)	3,126
1 SNF	August 2007	100	3,691	320		(13)	4,098
Total		$ 111,440	$ 901,735	$ 51,795	$ (29,965)	$ 8,741	$ 1,043,746

(1) Other non-real estate assets and liabilities, net.

(2) Purchase price includes any debt assumed in connection with the acquisition.

In each acquisition, the purchase price was allocated to the assets acquired and liabilities assumed in the transaction, which were based on estimates of fair value at the date of acquisition. The assets and liabilities acquired included land, buildings, furniture and equipment, in-place leases, receivables, escrows and security deposits.

The acquired properties are included in our results of operations from their respective date of acquisition. The following unaudited pro forma results of operations reflect all of our transactions as if they had occurred on January 1 of the year of acquisition and the earliest year presented. We believe that all significant adjustments necessary to reflect the effects of the acquisition have been made.

	Pro Forma Year Ended December 31, 2007	Pro Forma Year Ended December 31, 2006
	($ in thousands)	
Pro forma revenue	$ 115,091	$ 105,094
Pro forma net income	16,539	7,689

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 3. Real Estate Investments (Continued)

The following is a summary of the significant acquisitions completed during the years ended December 31, 2007 and 2006:

In January 2006, CapitalSource acquired 39 long-term care facilities (38 properties in Florida and one property in Pennsylvania). 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). The contractual rent due from the facilities during the first year was $21.5 million. The five leases have an initial term of ten years and rents are subject to an annual escalation of 3.0%. A significant portion of the purchase price was paid in the form of 1.3 million shares of CapitalSource common stock, assumptions of pre-existing loans and non-managing member units in a majority owned subsidiary of CapitalSource. These non-managing member units, which have no voting interest in the wholly owned subsidiary of CapitalSource, are redeemable at the option of the holders for cash or, at CapitalSource's option, for shares of CapitalSource's common stock and receive dividends as if they were outstanding shares of CapitalSource's common stock. CapitalSource reserved 2.5 million shares for issuance upon redemption of the non-managing member units. During the year ended December 31, 2007, 513,963 non-managing member units were redeemed for shares of CapitalSource common stock. Upon exchange of the non-managing member units, the carrying amount of the units was reclassified to member's equity and included in net contributions. No non-managing member units were redeemed during the year ended December 31, 2006. 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 $96.1 million of outstanding mortgage debt, which CapitalSource recognized at estimated fair value, which totaled $106.2 million, $69.3 million of which was repaid during the three months ended March 31, 2006. CapitalSource recorded a loss of $2.3 million upon extinguishment of the related debt. The remainder of this assumed debt was repaid in July 2006 and CapitalSource recorded a loss of $0.2 million on the extinguishment of this debt.

During 2007 and 2006, CapitalSource acquired 17 long-term care facilities (twelve properties in Florida and five properties in Mississippi) from REIT Solutions, Inc. in three separate closings. The first closing on nine properties occurred on November 30, 2006, the second closing on six properties occurred on April 30, 2007 and the last closing on two properties took place on May 31, 2007. 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 an initial term of 15 years, and rents are subject to annual escalation of 2.0%. As part of the purchase price, CapitalSource assumed mortgage debt with a total principal balance of $55.4 million as of the date of acquisition and issued a total of $20.0 million in notes payable as consideration for the facilities acquired, which CapitalSource recognized at estimated fair value, which totaled $57.2 million. For additional information about these borrowings, see Note 7, *Borrowing*s.

In November 2006, CapitalSource completed the purchase of 69 long-term care facilities located in 22 states from another healthcare REIT. All the properties are owned subject to triple-net leases with 27 separate tenant groups. The total purchase price for the 7,362 SNF beds (including 39 ALF units and 26 LTAC 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 have an average remaining term of 8.0 years, and rents are subject to an average annual escalation of 2.1%.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 3. Real Estate Investments (Continued)

During 2007, CapitalSource acquired, in three separate closings, eleven long-term care facilities (seven properties in Tennessee, one each in Ohio, Massachusetts, Indiana, and Colorado). The first closing on nine properties occurred on February 1, 2007, the second closing on one property occurred on March 1, 2007 and the last closing on one property took place on May 1, 2007. The properties are 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. The ten facilities located in Indiana, Massachusetts, Ohio and Tennessee with 1,574 licensed beds are under a master lease for an initial term of ten years and rents are subject to an annual escalation of 2.5%. The eleventh facility in Colorado with 180 licensed beds is operated under a lease agreement with an initial term of five years.

In June 2007, CapitalSource completed the asset purchase of 36 long-term care facilities (35 properties in Texas and one in Pennsylvania). The properties are operated under a 35-facility triple-net master lease and a one-facility triple-net stand alone lease. The 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 is set to expire June 30, 2017, and rent is subject to an average annual escalation of 2.4%. The stand alone lease expires December 31, 2009, and rent is subject to an annual escalation of 2.0%.

During the year ended December 31, 2007, we recognized a $1.2 million impairment related to one of our SNFs, which was recorded as an expense in our accompanying combined statement of operations for the year ended December 31, 2007. In November 2007, we sold this property and recognized a $0.2 million gain in our accompanying combined statement of operations for the year ended December 31, 2007. We did not present this real estate investment as a discontinued operation since the operations of this real estate investment were not significant for the years ended December 31, 2007 and 2006.

Note 4. Intangible Lease Asset and Lease Obligations

As of December 31, 2007 and 2006, intangible lease assets totaled $21.4 million and $27.6 million, respectively, net of $6.3 million and $0.5 million, respectively, in accumulated amortization. The weighted average amortization periods of these intangible assets as of December 31, 2007 and 2006, were approximately 7.6 years and 7.0 years, respectively. As of December 31, 2007 and 2006, our lease obligations totaled $51.9 million and $26.8 million, respectively, net of $5.7 million and $0.3 million, respectively, in accumulated amortization. The weighted average amortization periods of these lease obligations as of December 31, 2007 and 2006, were approximately 9.1 years and 8.1 years, respectively.

For the year ended December 31, 2007, operating lease income was reduced by $0.5 million due to the amortization of our intangible lease assets and lease obligations, which totaled $5.8 million and $5.3 million, respectively. For the year ended December 31, 2006, operating lease income was reduced by $0.2 million due to the amortization of our intangible lease assets and lease obligations, which totaled $0.5 million and $0.3 million, respectively.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 4. Intangible Lease Asset and Lease Obligations (Continued)

As of December 31, 2007, estimated aggregate amortization of intangible assets and lease obligations for each of the five succeeding fiscal years and thereafter follows:

	Intangible Lease Assets	Lease Obligations	Net Lease Obligations
		($ in thousands)	
2008	$ 4,628	$ 7,097	$ 2,469
2009	3,630	7,097	3,467
2010	3,565	6,550	2,985
2011	2,767	6,160	3,393
2012	2,143	5,661	3,518
Thereafter	4,618	19,353	14,735
Total	$21,351	$ 51,918	$ 30,567

Note 5. Loan

As of December 31, 2007, we held a $150.0 million interest in a $375.0 million mezzanine loan (the "Mezzanine Loan"), which was originated by CapitalSource in July 2007. The Mezzanine Loan was made to FC Gen Acquisition Inc., in connection with the financing of its acquisition of Genesis Healthcare, Inc., a large owner/operator of SNFs in the northeast and mid-Atlantic region of the United States. As of December 31, 2007, the Mezzanine Loan ranked junior to a $1.4 billion senior secured term loan, of which $50.0 million was provided by CSE Mortgage LLC, a wholly owned subsidiary of CapitalSource ("CSE Mortgage") and $1.35 billion was provided by unaffiliated commercial finance companies. The Mezzanine Loan matures in July 2012 and bears interest at a rate of 30-day LIBOR, plus 7.5%, which totaled 12.73% as of December 31, 2007. Interest on the Mezzanine Loan is payable monthly in arrears. There is also a $3.75 million termination fee due at the time of repayment of the Mezzanine Loan, of which we are entitled to $1.5 million. In addition, there is an additional termination fee (the "Additional Termination Fee") that accrues monthly at the rate of 1% per annum on the outstanding principal balance of the Mezzanine Loan and is payable at the time of the repayment of the Mezzanine Loan. There are no regularly scheduled payments of principal under the Mezzanine Loan until maturity. As of December 31, 2007, this loan was paying in accordance with the terms of the loan agreement and the Additional Termination Fee continued to accrue. During the year ended December 31, 2007, we transferred this loan which was originally designated as held for sale to the loan portfolio based upon our intent to retain this loan for investment.

As of December 31, 2007, the components of the Mezzanine Loan, net, on the combined balance sheet, were as follows ($ in thousands):

Loan	$150,000
Termination fee receivable	2,252
Deferred fees	(1,358)
Loan, net	$150,894

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 6. Restricted Cash

As of December 31, 2007 and 2006, restricted cash was as follows:

	December 31,	
	2007	2006
	($ in thousands)	
Escrows(1)	$11,970	$ 5,748
Security deposits(2)	3,560	2,803
Cash held for demand note payments(3)	2,188	2,271
Loan interest reserve(4)	1,656	
Other	4,364	2,059
Total	$23,738	$12,881

(1) Tax, insurance, debt service and other related escrow accounts.

(2) Security deposits collected from our tenants.

(3) Outstanding accrued interest under our related party promissory notes.

(4) An amount equivalent to approximately one month of interest was collected from the borrower under the Mezzanine Loan to cover unpaid interest or other fees that may arise under the terms of the loan agreement.

Certain of our cash accounts may be restricted under the terms of their respective underlying loan agreements. The funds in these accounts may hold lease collections from, and escrow payments for, some of our properties and are used to pay debt service and property related expenses such as taxes, capital expenditures and insurance.

Some of our accounts have been established as required by the U.S. Department of Housing and Urban Development ("HUD"), which guarantees certain of our debt used to finance some of our properties and imposes restrictions on the activity of these accounts. The restrictions may include, amongst other activities, the number of times per annum that draws can be made and payment for the approved expenditures for replacement of capital items.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 7. Borrowings

As of December 31, 2007 and 2006, our borrowings were as follows:

	December 31,		Interest	Maturity
	2007	2006	Rate(1)	Date
	($ in thousands)			
Mortgage debt:				
Senior secured note	$248,447	$287,183	LIBOR + 1.54%	April 2009(2)
Mezzanine note	35,916		LIBOR + 4.00%	April 2009(2)
Senior secured notes guaranteed by HUD	56,723	12,586	6.61%(3)	January 2036-May 2040
Total mortgage debt	341,086	299,769		
Term debt:				
Junior subordinated seller notes	20,000	20,000	9.00%	December 2021
Related party debt:				
Promissory notes	106,660	106,660	LIBOR + 3.00%	Upon demand
Mortgage notes	141,083		LIBOR + 2.30%	April 2017
Total related party debt	247,743	106,660		
Total borrowings	$608,829	$426,429		

(1) Interest rates are as of December 31, 2007. As of December 31, 2007, 30-day LIBOR was 4.60%.

(2) These loans have three one-year extensions that can be exercised at our option.

(3) Interest rates on these notes are fixed at rates that are range from 5.20% to 7.33% and have a weighted average fixed interest rate of 6.61%.

Mortgage Debt

In December 2006, we entered into a $287.2 million loan agreement with Column Financial Inc. ("Column") to finance the acquisition of 65 healthcare properties. Under the terms of this agreement, we were required to make constant monthly payments of principal and interest based upon a 25-year amortization of principal and an interest rate fixed at 7.25% until December 28, 2006 and thereafter at a fixed rate equal to the 10-year US Treasury swap rate plus 1.90%. In March 2007, we amended this loan agreement to, among other things, modify the interest rate to 30-day LIBOR plus 1.85% and change the maturity date from January 11, 2017 to April 9, 2009, with three one-year extensions at our option and without additional cost. On July 31, 2007, we further modified this loan agreement with Column to divide the loan into a $250.0 million senior loan and a $36.1 million mezzanine loan. The interest rate under the senior loan is 30-day LIBOR plus 1.54% and the interest rate under the mezzanine loan is 30-day LIBOR plus 4% (with the effect that the weighted average interest rate under the two loans taken together was unchanged after the modification). As of December 31, 2007, 65 properties, with a total carrying value of $363.2 million, collateralized this mortgage debt. Because the terms of the $250.0 million senior loan and a $36.1 million mezzanine loan are not substantially different from the original $287.2 million loan agreement, as defined by EITF 96-19, *Debtor's*

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 7. Borrowings (Continued)

Accounting for a Modification or Exchange of Debt Instruments, we considered the consummation of the exchange offers as a modification and, therefore, continued to amortize the remaining unamortized deferred financing fees over the remaining estimated lives of the $250.0 million senior loan and a $36.1 million mezzanine loan. Additionally, all costs associated with the amendments were expensed as incurred.

In connection with the property acquisition from REIT Solutions, Inc. described in Note 3, *Real Estate Investments*, we assumed mortgage debt with a total fair value of $57.2 million as of the date of acquisition. The assumed debt agreements, which bear interest at a weighted average rate of 6.61%, are with Highland Mortgage Company ("Highland") and are guaranteed by HUD. As of December 31, 2007, eleven properties, with a total carrying value of $101.1 million, collateralize this mortgage debt.

Term Debt

In November 2006, in connection with the property acquisition from REIT Solutions described in Note 3, *Real Estate Investments*, we entered into five $4.0 million junior subordinated unsecured seller notes. The term of the notes is 15 years, and interest is payable quarterly at a fixed rate of 9.00%. The interest on these notes is due and payable only to the extent that there is rent being received from the tenants of the acquired properties to cover the interest expense related to this debt. Principal is due at the end of the 15 year period only to the extent that all rent has been paid for the 15 year term of the debt.

Related Party Debt

In March 2006, we entered into four promissory notes, totaling $74.3 million, with CSE Mortgage. Interest was payable quarterly at a variable rate of 30-day LIBOR plus 3.00%, and principal was payable upon CSE Mortgage's demand. In July 2006, we repaid all amounts outstanding under these notes.

In July 2006, we entered into four promissory notes totaling $106.7 million with CSE Mortgage. Interest is payable quarterly at a variable rate of 30-day LIBOR plus 3.00%, and principal is payable upon CSE Mortgage's demand.

In November 2007, we entered into seven 10-year mortgage loans totaling $141.1 million with CSE Mortgage. Interest is payable monthly at a variable rate of 30-day LIBOR plus 2.30%. The 30-day LIBOR is subject to a floor of 4.50%. Principal is payable at maturity in November 2017 and the loans are prepayable at our option and without penalty. As of December 31, 2007, 49 properties, with a total carrying value of $232.2 million, and the cash flows generated by these properties collateralized this mortgage debt.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 7. Borrowings (Continued)

Debt Maturities

As of December 31, 2007, the contractual obligations under our mortgage debt and term debt were as follows:

	Mortgage Debt(1)	Term Debt	Related Party Debt	Total
	($ in thousands)			
2008	$ 5,117	$	$ 106,660	$ 111,777
2009	5,491			5,491
2010	5,894			5,894
2011	6,326			6,326
2012	265,127			265,127
Thereafter	51,347	20,000	141,083	212,430
Total	$ 339,302	$ 20,000	$ 247,743	$ 607,045

(1) The contractual obligations of our mortgage debt with Column are computed based on the assumption that we will exercise the three one-year extension options. The contractual obligations of our mortgage debt with Highland exclude the unamortized net premium, which was approximately $1.8 million as of December 31, 2007.

Deferred Financing Fees

As of December 31, 2007 and 2006, deferred financing fees were as follows:

	December 31, 2007	December 31, 2006
	($ in thousands)	
Deferred financing fees	$ 4,445	$ 4,326
Accumulated amortization	(621)	(32)
Deferred financing fees, net	$ 3,824	$ 4,294

Covenants

We are required to comply with financial and non-financial covenants related to our debt financings, including debt service coverage covenants. Failure by us to meet the covenants could result in an event of default and the commencement of foreclosure proceedings on the mortgages securing payment of the debt. Under the covenants of our mortgage debt with Column, CapitalSource is required to maintain a minimum net worth of $500.0 million. Failure by CapitalSource to meet this covenant could result in an event of default and the commencement of foreclosure proceedings on the mortgages securing payment of the debt.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 8. Commitments and Contingencies

As of December 31, 2007 and 2006, we had identified conditional asset retirement obligations primarily related to the future removal and disposal of asbestos that is contained within certain of our real estate investment properties. The asbestos is appropriately contained, and we believe we are compliant with current environmental regulations. If these properties undergo major renovations or are demolished, certain environmental regulations are in place, which specify the manner in which asbestos must be handled and disposed. Under FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations An Interpretation of FASB No. 143*, we are required to record the fair value of these conditional liabilities if they can be reasonably estimated. As of December 31, 2007 and 2006, sufficient information was not available to estimate our liability for conditional asset retirement obligations as the obligations to remove the asbestos from these properties have indeterminable settlement dates. As such, no liability for conditional asset retirement obligations was recorded on our accompanying combined balance sheet as of December 31, 2007 and 2006.

As of December 31, 2007 and 2006, we had outstanding commitments related to lease incentives of $2.3 million and $0.5 million, respectively.

From time to time we may be party to legal proceedings. We do not believe that any currently pending or threatened proceeding, if determined adversely to us, would have a material adverse effect on our business, financial condition or results of operations, including our cash flows.

Note 9. Related Party Transactions

As of December 31, 2007 and 2006, we had outstanding related party debt of $247.7 million and $106.7 million, respectively. The related party debt had outstanding accrued interest of $3.1 million and $2.3 million as of December 31, 2007 and 2006, respectively. For additional information about these borrowings, see Note 7, *Borrowing*s.

For the years ended December 31, 2007 and 2006, we received contributions from CapitalSource totaling approximately $343.8 million and $280.1 million, respectively. For the years ended December 31, 2007 and 2006, we made distributions to CapitalSource totaling approximately $90.6 million and $16.8 million, respectively.

Our combined statements of operations for the years ended December 31, 2007 and 2006, include the following related party income and expenses:

	Year Ended December 31,	
	2007	**2006**
	($ in thousands)	
Allocated interest income(1)	$ 592	$ 194
Related party interest expense(2)	20,469	9,292
Allocated general and administrative expense(3)	7,395	2,913

(1) Represents an allocation of interest income earned on cash held and managed by CapitalSource Inc. on our behalf.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 9. Related Party Transactions (Continued)

(2) Includes interest expense on our related party debt issued by CapitalSource Inc. and an allocated cost to finance certain other assets of the Carve-out Entity by CapitalSource Inc.

(3) To facilitate operating efficiency, CapitalSource Inc. provides office space, equipment, certain administrative support, and other assistance to the Carve-out Entity. As a result, overhead expenses (including compensation and benefits) have been allocated to the Carve-out Entity at cost based on the relative value of its real estate and loan assets to CapitalSource's portfolio.

CapitalSource's management believes that the aforementioned allocations are reasonable. However, actual expenses may have been materially different from the allocated expenses if the Carve-out Entity had operated as an unaffiliated stand-alone entity.

Note 10. Concentrations of Risk

As of December 31, 2007, the single largest industry concentration in our real estate investments was SNFs, which made up approximately 99% of our real estate investments. As of December 31, 2007, the largest geographical concentration in real estate investments was Florida, which made up approximately 34% of the investments' carrying value.

We may lease an individual property to a single tenant as part of an individual lease or we may lease multiple properties to a single tenant as part of a master lease. We may also enter into multiple leases with a single tenant. In addition, certain of our individual tenants may be different subsidiaries of a common parent company or may have received guarantees from a common guarantor. Therefore, for determining concentrations of risk, we aggregate properties into tenant groups based upon the following:

(i) related acquired properties under leases that share the same tenant or guarantor, or

(ii) a single entity that may be held liable for the rental payments on two or more properties as either tenant or guarantor (cross-collateralization or cross-default provisions).

Based on the tenant groupings described above, we have two tenant groups that accounted for greater than 10% of our revenues for the year ended December 31, 2007. For the year ended December 31, 2007, the properties leased to Florida Institute for Long Term Care, LLC accounted for approximately 13% of our revenues, and the properties leased to the tenant group consisting of the Delta Health Group, Inc., Pensacola Health Trust, Inc. and Cordova Rehab, Inc. (the "Delta Tenant Group") accounted for approximately 11% of our revenues.

Note 11. Estimated Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* ("SFAS No. 107"), requires the disclosure of the estimated fair value of on- and off-balance sheet financial instruments. A financial instrument is defined by SFAS No. 107 as cash, evidence of an ownership interest in an entity, or a contract that creates a contractual obligation or right to deliver to or receive cash or another financial instrument from a second entity on potentially favorable terms.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 11. Estimated Fair Value of Financial Instruments (Continued)

Fair value estimates are made at a point in time, based on relevant market data and information about the financial instrument. SFAS No. 107 specifies that fair values should be calculated based on the value of one trading unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, estimated transaction costs that may result from bulk sales or the relationship between various financial instruments. Fair value estimates are based on judgments regarding current economic conditions, interest rate risk characteristics, loss experience and other factors. Many of these estimates involve uncertainties and matters of significant judgment and cannot be determined with precision. Therefore, the estimated fair value may not be realizable in a current sale of the instrument. Changes in assumptions could significantly affect the estimates.

Fair value estimates, methods and assumptions are set forth below for our financial instruments:

Cash and cash equivalents The carrying amount is a reasonable estimate of fair value due to the short maturity of these instruments.

Restricted cash The carrying amount is a reasonable estimate of fair value due to the nature of this instrument.

Loan The carrying amount is a reasonable estimate of fair value due to the adjustable rate nature of the loan and consideration of terms being offered for similar loans to borrowers with similar credit attributes.

Mortgage debt The fair value of the mortgage debt is estimated by discounting estimate future cash flows, using interest rates being offered for similar debt types.

Term debt The fair value of the term debt is estimated by discounting estimate future cash flows, using interest rates being offered for similar debt types.

Related party debt The carrying amount is a reasonable estimate of fair value due to the adjustable rate nature of the borrowings and based on interest rates currently available on similar borrowings.

The carrying value approximates fair value for all financial instruments discussed above as of December 31, 2007 and 2006, except as follows:

	December 31,			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	($ in thousands)			
Liabilities:				
Mortgage debt	$ 341,086	$ 332,202	$ 299,769	$ 291,169
Term debt	20,000	20,830	20,000	19,324

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 12. Unaudited Quarterly Information

Unaudited quarterly information for each of the three month periods in the years ended December 31, 2007 and 2006, was as follows:

	Three Months Ended			
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
	($ in thousands)			
Operating lease income	$ 26,865	$ 26,873	$ 21,786	$ 19,667
Interest and fee income	5,491	4,981	148	185
Interest expense	11,799	13,658	11,637	9,168
Depreciation expense	8,916	8,912	7,378	6,749
General and administrative expense	3,200	2,242	2,199	2,819
Loss on impairment of assets		1,225		
Gain on sale of real estate	156			
Noncontrolling interests expense	1,198	1,200	1,201	1,352
Net income (loss)	$ 7,399	$ 4,617	$ (481)	$ (236)

	Three Months Ended			
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
	($ in thousands)			
Operating lease income	$ 11,568	$ 7,809	$ 6,648	$ 4,355
Interest and fee income	49	48	49	48
Interest expense	4,682	3,209	2,764	2,718
Depreciation expense	4,114	3,087	2,628	1,635
General and administrative expense	1,369	962	708	770
Gain (loss) on debt extinguishment		(185)		(2,312)
Noncontrolling interests expense	1,383	1,233	1,234	861
Net income (loss)	$ 69	$ (819)	$ (637)	$ (3,893)

Note 13. Significant Tenant

We have one tenant group, based on properties subject to lease agreements, that occupies between 10% and 20% of our total assets.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)

Note 13. Significant Tenant (Continued)

The following table summarizes the Delta Tenant Group's unaudited combined financial information as of and for the year ended December 31, 2007 ($ in thousands):

Current assets	$ 46,075
Non-current assets	24,349
Current liabilities	62,230
Non-current liabilities	13,946
Stockholders' deficit	(5,752)
Revenue	$ 364,607
Operating expenses	354,554
Income from operations	10,053
Other expense	2,026
Net income	$ 8,027
Net cash provided by operating activities	$ 1,137
Net cash provided by investing activities	761
Net cash used in financing activities	(11,173)

The Delta Tenant Group leases 17 of our properties, representing approximately 12% of our total assets as of December 31, 2007, and 11% of our total revenues for the year ended December 31, 2007.

Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by the Delta Tenant Group, or any of our lessees, including any bankruptcies, inability to emerge from bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or our borrowers when it expires.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Description				Initial Cost to Company	Cost Capitalized Subsequent to Acquisition			Gross Amount of Which Carried at Close of Period(1) Buildings, Land and Furniture and Equipment				Life on Which Depreciation in Latest Income Statement is Computed(2)
Type	City	State	Encumbrances	Buildings, Land and Furniture and Equipment	Improvements	Impairment	Other	Total	Accumulated Depreciation	Date of Construction	Date Acquired	
					($ in thousands)							
Assisted Living Facilities:												
	Clearwater	Florida		$ 1,315	$	$	$	$ 1,315	$ (95)	1973	January 2006	10
	(6) Marianna	Florida		4,826				4,826	(186)	1942	December 2006	35
	(7) Winter Haven	Florida	(3)							1964	December 2006	N/A
	Jeffersonville	Indiana	(3)	2,176				2,176	(72)	1999	December 2006	40
Total Assisted Living Facilities				8,317				8,317	(353)			
Long Term Acute Care Facilities:												
	(8) Wichita	Kansas	(3)	1,547				1,547	(66)	1979	December 2006	40
	Las Vegas	Nevada	(5)	3,084				3,084	(259)	1972	May 2006	25
Total Long Term Acute Care Facilities				4,631				4,631	(325)			
Skilled Nursing Facilities:												
	Mobile	Alabama	(3)	8,674				8,674	(254)	1968	December 2006	40
	Douglas	Arizona	(3)	4,132				4,132	(126)	1985	December 2006	40
	Safford	Arizona	(3)	6,079				6,079	(192)	1985	December 2006	40
	Dumas	Arkansas	(3)	968				968	(45)	1968	December 2006	40
	Piggott	Arkansas	(3)	888				888	(43)	1966	December 2006	40
	Claremont	California	(3)	4,931				4,931	(95)	1958	December 2006	35
	Denver	Colorado	(3)	3,534				3,534	(71)	1971	December 2006	40
	Denver	Colorado		2,231				2,231	(54)	1973	March 2007	40
	Lakewood	Colorado	(3)	3,564				3,564	(77)	1959	December 2006	32
	Bartow	Florida		3,554				3,554	(368)	1972		25

							January 2006	
Boca Raton	Florida		7,693	7,693	(571)	1969	January 2006	20
Bradenton	Florida		11,220	11,220	(873)	1977	January 2006	30
Cape Coral	Florida		6,727	6,727	(513)	1978	January 2006	30
Clearwater	Florida		2,255	2,255	(162)	1973	January 2006	10
Clearwater	Florida		5,851	5,851	(598)	1970	January 2006	15
Crestview	Florida	(4)	5,273	5,273	(105)	1988	April 2007	35
Deland	Florida		1,497	1,497	(153)	1970	January 2006	15
Deland	Florida		1,950	1,950	(207)	1974	January 2006	15
(6) Destin	Florida	(4)	9,027	9,027	(173)	1988	April 2007	35
Fort Meyers	Florida		7,028	7,028	(533)	1995	January 2006	35
Fort Walton Beach	Florida		4,866	4,866	(491)	1973	January 2006	20
(6) Gulf Breeze	Florida	(4)	10,033	10,033	(206)	1984	April 2007	35
Gulfport	Florida		4,252	4,252	(429)	1970	January 2006	20
Hudson	Florida		3,978	3,978	(308)	1987	January 2006	29
Jacksonville	Florida		7,096	7,096	(823)	1963	January 2006	30
Lake City	Florida	(3)	6,129	6,129	(186)	1967	December 2006	40
Lake Wales	Florida		4,749	4,749	(491)	1971	January 2006	20
Lake Worth	Florida	(3)	10,132	10,132	(251)	1984	December 2006	40
Lakeland	Florida		5,050	5,050	(514)	1970	January 2006	15
Live Oak	Florida		13,651	13,651	(473)	1983	December 2006	35
Live Oak	Florida	(3)	6,858	6,858	(193)	1987	December 2006	40
Maitland	Florida		8,363	8,363	(274)	1983	December 2006	35
Margate	Florida	(4)	17,711	17,711	(302)	1984	May 2007	35
Melbourne	Florida		8,363	8,363	(265)	1969	December 2006	35
North Bay Village	Florida		5,720	5,720	(654)	1951	January 2006	15
Orange Park	Florida	(3)	1,278	1,278	(46)	1987	December 2006	40
Orlando	Florida	(3)	7,746	7,746	(203)	1971	December 2006	40
Orlando	Florida	(3)	14,824	14,824	(423)	1987	December 2006	40
Panama City	Florida		6,056	6,056	(198)	1967	December 2006	35
Panama City	Florida		3,584	3,584	(337)	1960/72	January 2006	17
Pensacola	Florida	(4)	8,432	8,432	(182)	1963	April 2007	35
Pensacola	Florida	(4)	8,740	8,740	(175)	1973	April 2007	35
Pensacola	Florida	(4)	9,866	9,866	(204)	1991	April 2007	35
Plant City	Florida		3,408	3,408	(434)	1969	January 2006	30
Pompano Beach	Florida		4,355	4,355	(321)	1965	January 2006	12
Pompano Beach	Florida		7,918	7,918	(610)	1975	January 2006	20

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Type	Description City	State	Encumbrances	Initial Cost to Company Buildings, Land and Furniture and Equipment	Cost Capitalized Subsequent to Acquisition Improvements	Impairment	Other	Gross Amount of Which Carried at Close of Period(1) Buildings, Land and Furniture and Equipment Total	Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation in Latest Income Statement is Computed(2)
Skilled Nursing Facilities:												
	Port St. Lucie	Florida	(3)	$ 14,424	$	$	$	$ 14,424	$ (372)	1987	December 2006	40
	Sanford	Florida		5,320				5,320	(404)	1965	January 2006	25
	Sarasota	Florida		2,944				2,944	(225)	1967	January 2006	10
	Spring Hill	Florida		7,865				7,865	(597)	1988	January 2006	35
	St Petersburg	Florida		7,563				7,563	(954)	1961	January 2006	10
	St Petersburg	Florida		3,713				3,713	(282)	1962	January 2006	25
	St Petersburg	Florida		1,655				1,655	(192)	1961	January 2006	15
	St Petersburg	Florida		1,837				1,837	(214)	1966	January 2006	15
	St Petersburg	Florida		3,730				3,730	(360)	1968	January 2006	15
	St Petersburg	Florida		1,253				1,253	(147)	1968	January 2006	15
	St Petersburg	Florida		3,795				3,795	(451)	1969	January 2006	30
	St Petersburg	Florida		4,337				4,337	(327)	1984	January 2006	23
	Tampa	Florida		10,670				10,670	(822)	1969	January 2006	30
	Tampa	Florida		6,313				6,313	(481)	1986	January 2006	30
	Tarpon Springs	Florida		5,100				5,100	(475)	1965	January 2006	15
	Titusville	Florida		4,561				4,561	(353)	1966	January 2006	20
	West Palm Beach	Florida		4,369				4,369	(321)	1999	January 2006	38
	Winter Haven	Florida		11,021				11,021	(1,263)	1964	January 2006	10
	Winter Haven	Florida	(3)	3,683				3,683	(71)	1983	December 2006	40
	Chesterton	Indiana	(3)	11,419				11,419	(329)	1985	December 2006	40
	Fort Wayne	Indiana	(3)	1,966				1,966	(72)	1973	December 2006	40
	Indianapolis	Indiana	(3)	639				639	(33)	1968	December 2006	40
	Indianapolis	Indiana	(3)	5,201				5,201	(154)	1973	December 2006	40

Jeffersonville	Indiana	(3)	2,695		2,695	(130)	1968	December 2006	40
Ligonier	Indiana	(3)	4,632		4,632	(142)	1985	December 2006	40
Logansport	Indiana	(3)	1,867		1,867	(72)	1974	December 2006	40
Lowell	Indiana	(3)	2,196		2,196	(95)	1933	December 2006	30
Richmond	Indiana	(3)	1,817		1,817	(39)	1987	December 2006	40
Upland	Indiana	(3)	4,312		4,312	(141)	1975	December 2006	40
Vincennes	Indiana		2,491		2,491	(86)	1968	February 2007	40
Williamsport	Indiana	(5)	3,150		3,150	(41)	1971	July 2007	40
Yorktown	Indiana	(3)	13,455		13,455	(395)	1983	December 2006	40
Cedar Rapids	Iowa	(3)	11,838		11,838	(355)	1973	December 2006	40
Salina	Kansas	(3)	2,937		2,937	(96)	1967	December 2006	40
Albany	Kentucky	(3)	5,201		5,201	(163)	1964	December 2006	40
Augusta	Kentucky	(3)	2,086		2,086	(77)	1964	December 2006	40
Bedford	Kentucky	(3)	2,336		2,336	(82)	1976	December 2006	40
Georgetown	Kentucky	(3)	5,819		5,819	(159)	1968	December 2006	40
Taylorsville	Kentucky	(3)	8,544		8,544	(267)	1989	December 2006	40
Cambridge	Maryland	(3)	11,399		11,399	(356)	1976	December 2006	40
Elkton	Maryland	(3)	11,709		11,709	(348)	1977	December 2006	40
Lexington Park	Maryland	(3)	4,811		4,811	(149)	1982	December 2006	40
Chelmsford	Massachussetts	(3)	11,998		11,998	(272)	1967	December 2006	40
Fairhaven	Massachussetts		3,901		3,901	(69)	1900	May 2007	40
Clarksdale	Mississippi		4,038		4,038	(142)	1966	December 2006	35
Gulfport	Mississippi	(4)	10,661		10,661	(343)	1979	December 2006	35
Ocean Springs	Mississippi	(4)	10,435		10,435	(337)	1972	December 2006	35
Pass Christian	Mississippi	(4)	5,201		5,201	(162)	1967	December 2006	35
Waynesboro	Mississippi	(4)	8,010		8,010	(145)	1963	May 2007	35
West Point	Mississippi		7,337		7,337	(236)	1976	December 2006	40
Boulder City	Nevada	(5)	3,959		3,959	(272)	1979	May 2006	25
Las Vegas	Nevada	(5)	7,914		7,914	(585)	1972	May 2006	25
N. Las Vegas	Nevada	(5)	9,236		9,236	(645)	1978	May 2006	25
Las Vegas	New Mexico	(3)	3,364		3,364	(107)	1969	December 2006	40
Arden	North Carolina	(3)	7,281		7,281	(244)	1996	December 2006	40
King	North Carolina	(3)	4,801		4,801	(164)	1993	December 2006	40
Knightdale	North Carolina	(3)	5,618	(30)	5,588	(162)	1993	December 2006	40

CapitalSource Healthcare Net Lease Segment and Loan
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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Description				Initial Cost to Company	Cost Capitalized Subsequent to Acquisition			Gross Amount of Which Carried at Close of Period(1)				
Type	City	State	Encumbrances	Buildings, Land and Furniture and Equipment	Improvements	Impairment	Other	Buildings, Land and Furniture and Equipment Total	Accumulated Depreciation	Date of Construction	Date Acquired	Life on Which Depreciation in Latest Income Statement is Computed(2)
Skilled Nursing Facilities:												
	Lenoir	North Carolina	(3)	$ 9,244	$	$	$	$ 9,244	$ (278)	1990	December 2006	40
	Walnut Cove	North Carolina	(3)	8,321				8,321	(251)	1973	December 2006	40
	Woodfin	North Carolina	(3)	7,709				7,709	(236)	1993	December 2006	40
	Canton	Ohio	(3)	7,696				7,696	(246)	1973	December 2006	40
	Hilliard	Ohio	(3)	8,345				8,345	(259)	1965	December 2006	40
	Whitehouse	Ohio		5,446				5,446	(135)	1979	February 2007	40
	Moore	Oklahoma	(3)	3,184				3,184	(110)	1985	December 2006	40
	Ponca City	Oklahoma	(3)	3,853				3,853	(131)	1963	December 2006	40
	Seminole	Oklahoma	(3)	409				409	(38)	1965	December 2006	40
	Shawnee	Oklahoma	(3)	6,977				6,977	(220)	1973	December 2006	40
	Stillwater	Oklahoma	(3)	5,640				5,640	(176)	1969	December 2006	40
	Bristol	Pennsylvania		8,677				8,677	(1,094)	1969	January 2006	15
	Hillsdale	Pennsylvania		1,244				1,244	(54)	1900	December 2006	35
	Philadelphia	Pennsylvania	(5)	8,700				8,700	(674)	1977	June 2006	21
	State College	Pennsylvania	(5)	7,685				7,685	(115)	1962/64	June 2007	40
	Blountville	Tennessee		1,999				1,999	(71)	1981	February 2007	40
	Bolivar	Tennessee		10,120				10,120	(267)	1974	February 2007	40
	Camden	Tennessee		5,186				5,186	(138)	1975	February 2007	40
	Huntingdon	Tennessee		8,739				8,739	(221)	1978	February 2007	40
	Huntsville	Tennessee	(3)	10,770				10,770	(315)	1983	December 2006	40
	Jefferson City	Tennessee		13,412				13,412	(343)	1974	February 2007	40
	Kingsport	Tennessee	(3)	13,416				13,416	(392)	1980	December 2006	40
	Lawrenceburg	Tennessee	(3)	10,531				10,531	(319)	1969	December 2006	40
	Memphis	Tennessee		18,328				18,328	(462)	1978	February 2007	40

Ripley	Tennessee		6,847		6,847	(175)	1980	February 2007	40
Albany	Texas	(5)	525		525	(15)	1978	June 2007	40
Amarillo	Texas	(3)	1,048		1,048	(35)	1969	December 2006	40
(7) Austin	Texas	(5)	1,000	(600)	400		1977/90	June 2007	N/A
Balch Springs	Texas	(5)	4,659		4,659	(73)	1971	June 2007	40
Bowie	Texas	(5)	4,964		4,964	(90)	1955	June 2007	40
Clarksville	Texas	(5)	5,575		5,575	(89)	1965	June 2007	40
Cleburne	Texas	(5)	4,076		4,076	(72)	1972	June 2007	40
Clyde	Texas	(5)	1,117		1,117	(24)	1963	June 2007	30
Corpus Christi	Texas	(5)	9,680		9,680	(419)	1964	August 2006	35
Crane	Texas	(5)	2,095		2,095	(57)	1996	March 2007	40
Crowell	Texas	(5)	1,012		1,012	(21)	1975	June 2007	40
Dallas	Texas	(5)	6,997		6,997	(89)	1976	June 2007	40
El Paso	Texas	(5)	8,649		8,649	(124)	1979	June 2007	40
El Paso	Texas	(5)	7,036		7,036	(100)	1975	June 2007	40
Frankston	Texas	(3)	240		240	(30)	1972	December 2006	40
Ft Worth	Texas	(5)	5,021		5,021	(82)	1970	June 2007	35
Ft Worth	Texas	(5)	5,737		5,737	(82)	1972	June 2007	40
Greenville	Texas	(5)	6,749		6,749	(100)	1976	June 2007	40
Henderson	Texas	(5)	8,678		8,678	(135)	1966	June 2007	40
Houston	Texas	(5)	10,109		10,109	(586)	1955	August 2006	25
Houston	Texas	(5)	8,962		8,962	(428)	1960	August 2006	30
Houston	Texas	(5)	1,236		1,236	(72)	1959	August 2006	30
Houston	Texas	(5)	5,518		5,518	(85)	1973/84	June 2007	40
Jacksonville	Texas	(5)	897		897	(28)	1973	June 2007	40
Kerrville	Texas	(5)	10,880		10,880	(238)	2006	March 2007	40
Lubbock	Texas	(5)	5,241		5,241	(73)	1977	June 2007	40
Mcallen	Texas	(5)	2,062		2,062	(29)	1963	June 2007	37
Mcallen	Texas	(5)	8,926		8,926	(124)	1986/91/95	June 2007	40
Mesquite	Texas	(5)	9,480		9,480	(137)	1975	June 2007	40
Mineral Wells	Texas	(5)	7,227		7,227	(101)	1975	June 2007	40
Munday	Texas	(5)	401		401	(13)	1977	June 2007	40
Pilot Point	Texas	(3)	3,723		3,723	(128)	1986	December 2006	40

CapitalSource Healthcare Net Lease Segment and Loan
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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

Description				Initial Cost to Company	Cost Capitalized Subsequent to Acquisition			Gross Amount of Which Carried at Close of Period(1)				
				Buildings, Land and Furniture and				Buildings, Land and Furniture and Equipment				Life on Which Depreciation in Latest Income Statement is
Type	City	State	Encumbrances	Equipment	Improvements	Impairment	Other	Total	Accumulated Depreciation	Date of Construction	Date Acquired	Computed(2)
Skilled Nursing Facilities:												
	Pittsburg	Texas	(3)	$ 5,610	$	$	$	$ 5,610	$ (206)	1969	December 2006	35
	Plainvew	Texas	(5)	7,866				7,866	(113)	1993	June 2007	40
	Rosenburg	Texas	(5)	5,566				5,566	(89)	1977	June 2007	40
	Rusk	Texas	(5)	592				592	(21)	1970	June 2007	40
	San Antonio	Texas	(5)	4,277				4,277	(68)	1976	June 2007	40
	San Antonio	Texas	(5)	2,654				2,654	(45)	1965	June 2007	40
	Sulphur Springs	Texas	(5)	3,580				3,580	(68)	1969	June 2007	35
	Texarkana	Texas		3,623				3,623	(123)	1972	December 2006	40
	Texas City	Texas	(3)	5,530				5,530	(182)	1972	December 2006	40
	Texas City	Texas	(5)	2,959				2,959	(59)	1967	June 2007	35
	Vernon	Texas	(5)	907				907	(21)	1954	June 2007	40
	Weatherford	Texas	(5)	2,740				2,740	(48)	1967	June 2007	35
	White Settlement	Texas	(5)	3,370				3,370	(55)	1969	June 2007	40
	Wichita Falls	Texas	(5)	1,594				1,594	(31)	1963	June 2007	35
	Wichita Falls	Texas	(5)	1,107				1,107	(28)	1969	June 2007	35
	Green Bay	Wisconsin	(3)	6,523				6,523	(212)	1970	December 2006	40
	Omro	Wisconsin	(3)	4,268				4,268	(141)	1974	December 2006	40
	Rhinelander	Wisconsin		3,856				3,856	(353)	1967	June 2006	20
	Rhinelander	Wisconsin		2,877				2,877	(172)	1981	June 2006	25
	(6) Ripon	Wisconsin	(5)	4,111				4,111	(70)	1964	August 2007	30
Total Skilled Nursing Facilities				1,046,269			(630)	1,045,639	(42,687)			
Total				$ 1,059,217	$	$	$ (630)	$ 1,058,587	$ (43,365)			

(1)

	Year Ended December 31, 2006	2007
	($ in thousands)	
Balance at beginning of period	$	$ 732,498
Additions during year:		
Acquisitions	732,498	332,471
Deductions during year:		
Cost of real estate sold		(5,217)
Impairments		(1,140)
Land seized via consent judgment		(30)
Balance at close of period	$ 732,498	$ 1,058,582

(2) Period listed is for buildings only. Furniture and equipment is depreciated over 7 years for all properties. Land is not depreciated.

(3) These properies collateralize our mortgage debt with Column Financial Inc., which totaled $284.4 million as of December 31, 2007.

(4) These properties collaterize our mortgage debt with Highland Mortgage Company, which totaled $56.7 million as of December 31, 2007.

(5) These properties collateralize our related party mortgage debt, which totaled $141.1 million as of December 31, 2007.

(6) These properties are both a Skilled Nursing Facility and an Assisted Living Facility.

(7) These properties are currently closed.

(8) This property also has SNF beds, which are not currently utilized.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

Combined Balance Sheets

	June 30, 2008 (Unaudited)	December 31, 2007
	($ in thousands)	
ASSETS		
Real estate investments:		
Buildings and improvements	$ 910,413	$ 900,417
Land	106,797	106,620
Furniture and equipment	51,814	51,545
Less accumulated depreciation	(61,325)	(43,370)
Real estate investment, net	1,007,699	1,015,212
Loan, net	151,875	150,894
Cash and cash equivalents	9,863	16,088
Restricted cash	16,322	23,738
Deposits	9,334	13,758
Deferred financing fees, net	3,394	3,824
Intangible lease assets, net	18,652	21,351
Straight-line rent receivable	15,512	11,680
Receivables and other assets, net	2,849	2,470
Total assets	$ 1,235,500	$ 1,259,015
LIABILITIES, NONCONTROLLING INTERESTS AND MEMBER'S EQUITY		
Liabilities:		
Mortgage debt	$ 332,988	$ 341,086
Related party debt	247,743	247,743
Term debt	20,000	20,000
Lease obligations, net	48,369	51,918
Other liabilities	28,674	30,910
Total liabilities	677,774	691,657
Noncontrolling interests	14,666	44,808
Member's equity	543,060	522,550
Total liabilities, noncontrolling interests and member's equity	$ 1,235,500	$ 1,259,015

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

Combined Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Unaudited) ($ in thousands)			
Revenues:				
Operating lease income	$ 27,441	$21,787	$ 54,150	$41,454
Interest and fee income	4,467	148	9,418	333
Total revenues	31,908	21,935	63,568	41,787
Expenses:				
Interest expense	9,921	11,638	20,921	20,806
Depreciation	8,990	7,378	17,959	14,127
General and administrative expenses	2,388	2,198	5,046	5,017
Total expenses	21,299	21,214	43,926	39,950
Income before noncontrolling interests expense	10,609	721	19,642	1,837
Gain on sale of real estate	105		105	
Noncontrolling interests expense	(392)	(1,201)	(1,545)	(2,553)
Net income (loss)	$ 10,322	$ (480)	$ 18,202	$ (716)

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

Combined Statement of Member's Equity
(Unaudited)
($ in thousands)

Total member's equity as of December 31, 2007	$	522,550
Net contributions		2,308
Net income		18,202
Total member's equity as of June 30, 2008	$	543,060

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

Combined Statements of Cash Flows

	Six Months Ended June 30, 2008	2007
	(Unaudited)	
	($ in thousands)	
Operating activities:		
Net income (loss)	$ 18,202	$ (716)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	17,959	14,127
Amortization of lease intangible, net	(649)	1,197
Amortization of deferred financing fees	458	573
Amortization of deferred loan fees	(149)	
Accretion of termination fee receivable	(832)	
Increase in straight-line rent receivable	(3,832)	(3,311)
Increase in receivables and other assets	(328)	(122)
(Decrease) increase in other liabilities	(2,791)	3,607
Cash provided by operating activities	28,038	15,355
Investing activities:		
Acquisitions of real estate investments, net of cash acquired	(10,120)	(246,060)
Decrease (increase) in deposits	4,424	(3,092)
Decrease (increase) in restricted cash	7,416	(4,116)
Cash provided by (used in) investing activities	1,720	(253,268)
Financing activities:		
Payments of deferred financing fees		(119)
Repayments of mortgage debt	(8,149)	(838)
Net (distributions) contributions	(27,834)	245,564
Cash (used in) provided by financing activities	(35,983)	244,607
(Decrease) increase in cash and cash equivalents	(6,225)	6,694
Cash and cash equivalents as of beginning of period	16,088	6,508
Cash and cash equivalents as of end of period	$ 9,863	$ 13,202
Supplemental information:		
Noncash transactions from investing and financing activities:		
Acquisition of real estate investments	$	$ 79,069
Assumption of lease obligations, net		30,476
Assumption of debt		44,627
Conversion of noncontrolling interests	30,142	11,533

See accompanying notes.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS

Note 1. Organization and Basis of Presentation

CapitalSource Inc. ("CapitalSource"), a Delaware corporation, is a commercial finance, investment and asset management company operating as a real estate investment trust ("REIT") and providing a broad array of financial products to middle market businesses. CapitalSource currently operates as three reportable segments: 1) Commercial Finance, 2) Healthcare Net Lease, and 3) Residential Mortgage Investment. The Commercial Finance segment comprises CapitalSource's commercial lending business activities; the Healthcare Net Lease segment comprises CapitalSource's direct real estate investment business activities; and the Residential Mortgage Investment segment comprises CapitalSource's residential mortgage investment activities.

CapitalSource completed its first healthcare-related facilities acquisition in January 2006. The real estate investments comprising CapitalSource's Healthcare Net Lease segment are primarily income producing healthcare-related facilities, principally skilled nursing facilities ("SNFs"), located in the United States. CapitalSource's real estate investments are generally leased to tenants 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.

CapitalSource intends to contribute all of the assets and liabilities of its Healthcare Net Lease segment along with a $150.0 million interest in a $375.0 million mezzanine loan to CapitalSource Healthcare REIT ("CHR"), a newly formed, wholly owned subsidiary of CapitalSource as part of a plan to complete an initial public offering of less than 50% of CHR's common shares of beneficial interest. All of the shares to be sold in this offering will be sold by CapitalSource.

These combined financial statements reflect the combined financial position and results of operations of CapitalSource's HealthCare Net Lease segment and the $150.0 million loan interest carved out of the accounts of CapitalSource (the "Carve-out Entity") as if the Carve-out Entity had been a separate stand-alone company owning these assets and related liabilities for the respective periods presented. All amounts presented herein have been reflected at CapitalSource's historical basis.

For all periods presented, certain management, administrative and operational services of CapitalSource were shared between the Carve-out Entity and other CapitalSource segments. For purposes of financial statement presentation, the costs for these shared services have been allocated to the Carve-out Entity based on actual direct costs incurred and an allocation of indirect costs. See Note 7, *Related Party Transactions,* 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 the Carve-out Entity had operated as an unaffiliated stand-alone entity.

In these combined financial statements, unless the context otherwise requires or indicates, references to "we," "our," and "us" refer to the Carve-out Entity.

Note 2. Summary of Significant Accounting Policies

Unaudited Interim Combined Financial Statements Basis of Presentation

Our interim combined financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the requirements of Article 10 of Regulation S-X on interim financial statements. Accordingly, certain

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

disclosures accompanying interim combined financial statements prepared in accordance with GAAP are omitted. In the opinion of management, all adjustments and eliminations, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods, have been included. The current period's results of operations are not necessarily indicative of the results that ultimately may be achieved for the year. The interim unaudited combined financial statements and notes thereto should be read in conjunction with the audited combined financial statements for the year ended December 31, 2007 and notes thereto.

The accompanying financial statements reflect our combined accounts, including those of our majority-owned subsidiaries. The portion of the net income or loss attributable to third parties owning noncontrolling interests in one of our subsidiaries is reported as noncontrolling interests expense on our combined statements of operations and such parties' portion of the net equity in such subsidiaries is reported on our combined balance sheets as noncontrolling interests. All significant intercompany accounts and transactions have been eliminated.

Except as discussed below, our accounting policies are described in Note 2, *Summary of Significant Accounting Policies,* of our audited combined financial statements as of December 31, 2007 included elsewhere in this prospectus. The following accounting policy became a significant accounting policy during the six months ended June 30, 2008:

Fair Value Measurements

We adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"), effective January 1, 2008. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (the "exit price") in an orderly transaction between market participants.

SFAS No. 157 establishes a fair value hierarchy which prioritizes the inputs into valuation techniques used to measure fair value. The hierarchy prioritizes observable data from active markets, placing measurements using those inputs in Level 1 of the fair value hierarchy, and gives the lowest priority to unobservable inputs and classifies these as Level 3 measurements. The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date;

Level 2 Valuations based on quoted prices for similar assets or in markets that are not active or for which all significant inputs are observable either directly or indirectly; and

Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measurement. Therefore, even when market assumptions are not readily available, management's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, which establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS No. 157 applies whenever other accounting standards require or permit fair value measurement. In February 2008, the FASB issued FSP SFAS 157-2, *Effective Date of FASB Statement No.* 157 ("FSP SFAS 157-2"), which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until years beginning after November 15, 2008. Therefore, we have not yet applied the provisions of SFAS No. 157 to items such as real estate investments and intangible lease assets measured at fair value for impairment assessment. Effective January 1, 2008, we adopted the provisions of SFAS No. 157, except for items covered by FSP SFAS 157-2, and it did not have a significant effect on fair value measurements in our combined financial statements. We have not completed our assessment of the impact of the adoption of FSP SFAS 157-2 on our combined financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141(R)"), which establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141(R) also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The effective date for SFAS No. 141(R) is for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We plan to adopt SFAS No. 141(R) on January 1, 2009. We have not completed our assessment of the impact of the adoption of SFAS No. 141(R) on our combined financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* ("SFAS No. 160"), which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the combined entity that should be reported as equity in the combined financial statements. SFAS No. 160 also amends certain consolidation procedures for consistency with the requirements of FASB Statement No. 141(R). The effective date for SFAS No. 160 is the beginning of the first fiscal year beginning after December 15, 2008. We plan to adopt SFAS No. 160 on January 1, 2009. We have not completed our assessment of the impact of the adoption of SFAS No. 160 on our combined financial statements.

Note 3. Real Estate Investments

Our real estate investments primarily consist of long-term care facilities generally leased through long-term, triple-net operating leases. As of June 30, 2008, our real estate investments included 180 SNFs, four assisted living facilities ("ALFs") and two long-term acute care hospitals.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

Note 3. Real Estate Investments (Continued)

As of June 30, 2008 and December 31, 2007, real estate investments with total carrying values of $685.2 million and $696.5 million, respectively, were financed through either mortgage debt or term debt. See Note 5, *Borrowing*s, for additional information.

Note 4. Intangible Lease Asset and Lease Obligations

As of June 30, 2008 and December 31, 2007, intangible lease assets totaled $18.7 million and $21.4 million, respectively, net of $7.9 million and $6.3 million, respectively, in accumulated amortization. The weighted average amortization periods of these intangible assets as of June 30, 2008 and December 31, 2007 were approximately 8.0 years and 7.6 years, respectively. As of June 30, 2008 and December 31, 2007, our lease obligations totaled $48.4 million and $51.9 million, respectively, net of $9.2 million and $5.7 million, respectively, in accumulated amortization. The weighted average amortization periods of these lease obligations as of June 30, 2008 and December 31, 2007 was approximately 9.1 years.

For the three and six months ended June 30, 2008, operating lease income was increased by $0.5 million and $0.7 million, respectively. The increase was due to the amortization of our intangible lease assets and lease obligations, which totaled $1.3 million and $1.8 million, respectively, for the three months ended June 30, 2008 and $1.7 million and $2.4 million, respectively, for the six months ended June 30, 2008. For the three and six months ended June 30, 2007, operating lease income was reduced by $0.5 million and $1.2 million, respectively. The decrease was due to the amortization of our intangible lease assets and lease obligations, which totaled $1.5 million and $1.0 million, respectively, for the three months ended June 30, 2007 and $3.0 million and $1.8 million, respectively, for the six months ended June 30, 2007.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

Note 5. Borrowings

As of June 30, 2008 and December 31, 2007, our borrowings were as follows:

	June 30, 2008	December 31, 2007	Interest Rate(1)	Maturity Date
	($ in thousands)			
Mortgage debt:				
Senior secured note(2)	$240,945	$ 248,447	LIBOR + 1.54%	April 2009(3)
Mezzanine note(2)	35,638	35,916	LIBOR + 4.00%	April 2009(3)
Senior secured notes guaranteed by HUD(4)	56,405	56,723	6.61%(5)	January 2036-May 2040
Total mortgage debt	332,988	341,086		
Term debt:				
Junior subordinated seller notes	20,000	20,000	9.00%	December 2021
Related party debt:				
Promissory notes	106,660	106,660	LIBOR + 3.00%	Upon demand
Mortgage notes(6)	141,083	141,083	LIBOR + 2.30%	April 2017
Total related party debt	247,743	247,743		
Total borrowings	$600,731	$ 608,829		

(1) Interest rates are as of June 30, 2008. As of June 30, 2008, 30-day LIBOR was 2.46%.

(2) As of June 30, 2008, 65 properties, with a total carrying value of $358.0 million, collateralized this mortgage debt.

(3) These loans have three one-year extensions that can be exercised at our option.

(4) As of June 30, 2008, 11 properties, with a total carrying value of $99.5 million, collateralized this mortgage debt.

(5) Interest rates on these notes are fixed at rates that are between 5.20% and 7.33% and have a weighted average fixed interest rate of 6.61%.

(6) As of June 30, 2008, 48 properties, with a total carrying value of $227.7 million, and the cash flows generated by these properties collateralized this mortgage debt.

Covenants

We are required to comply with financial and non-financial covenants related to our debt financings, including debt service coverage covenants. Failure by us to meet the covenants could result in an event of default and the commencement of foreclosure proceedings on the mortgages securing payment of the debt. Under the covenants of our mortgage debt with Column Financial, Inc., CapitalSource is required to maintain a minimum net worth of $500.0 million. Failure by CapitalSource to meet this covenant could result in an event of default and the commencement of foreclosure proceedings on the mortgages securing payment of the debt.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

Note 6. Commitments and Contingencies

As of June 30, 2008, we had identified conditional asset retirement obligations primarily related to the future removal and disposal of asbestos that is contained within certain of our real estate investment properties. The asbestos is appropriately contained, and we believe we are compliant with current environmental regulations. If these properties undergo major renovations or are demolished, certain environmental regulations are in place, which specify the manner in which asbestos must be handled and disposed. Under FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations An Interpretation of FASB No. 143,* we are required to record the fair value of these conditional liabilities if they can be reasonably estimated. As of June 30, 2008, sufficient information was not available to estimate our liability for conditional asset retirement obligations as the obligations to remove the asbestos from these properties have indeterminable settlement dates. As such, no liability for conditional asset retirement obligations was recorded on our accompanying combined balance sheet as of June 30, 2008.

As of June 30, 2008 and December 31, 2007, we had outstanding commitments related to lease incentives of $1.6 million and $2.3 million, respectively.

From time to time we are party to legal proceedings. We do not believe that any currently pending or threatened proceeding, if determined adversely to us, would have a material adverse effect on our business, financial condition or results of operations, including our cash flows.

Note 7. Related Party Transactions

As of June 30, 2008 and December 31, 2007, we had outstanding related party debt of $247.7 million. The related party debt had outstanding accrued interest totaling $0.8 million and $3.1 million as of June 30, 2008 and December 31, 2007, respectively.

For the three and six months ended June 30, 2008, we received contributions from CapitalSource totaling approximately $42.4 million and $68.8 million, respectively, and made distributions to CapitalSource totaling approximately $29.3 million and $66.5 million, respectively.

Our combined statements of operations for the three and six months ended June 30, 2008 and 2007, include the following related party income and expenses:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	($ in thousands)			
Allocated interest income(1)	$ 111	$ 148	$ 275	$ 296
Related party interest expense(2)	5,175	4,922	10,617	8,151
Allocated general and administrative expenses(3)	1,874	1,891	4,379	3,126

(1) Represents an allocation of interest income earned on cash held and managed by CapitalSource on our behalf.

(2) Includes interest expense on our related party debt issued by CapitalSource and an allocated cost to finance certain other assets of the Carve-out Entity by CapitalSource.

CapitalSource Healthcare Net Lease Segment and Loan
(A Carve-out of CapitalSource Inc.)

NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

Note 7. Related Party Transactions (Continued)

(3) To facilitate operating efficiency, CapitalSource provides office space, equipment, certain administrative support, and other assistance to the Carve-out Entity. As a result, overhead expenses (including compensation and benefits) have been allocated to the Carve-out Entity at cost based on the relative value of its real estate and loan assets to CapitalSource's portfolio.

CapitalSource's management believes that the aforementioned allocations are reasonable. However, actual expenses may have been materially different from the allocated expenses if the Carve-out Entity had operated as an unaffiliated stand-alone entity.

Note 8. Concentrations of Risk

As of June 30, 2008, the single largest industry concentration in our real estate investments was SNFs, which made up approximately 99% of the investments carrying value. As of June 30, 2008, the largest geographical concentration in real estate investments was Florida, which made up approximately 33% of the investments carrying value.

We may lease an individual property to a single tenant as part of an individual lease or we may lease multiple properties to a single tenant as part of a master lease. We may also enter into multiple leases with a single tenant. In addition, certain of our individual tenants may be different subsidiaries of a common parent company or may have received guarantees from a common guarantor. Therefore, for determining concentrations of risk, we aggregate properties into tenant groups based upon the following:

(1) related acquired properties under leases that share the same tenant or guarantor, or

(2) a single entity that may be held liable for the rental payments on two or more properties as either tenant or guarantor (cross-collateralization or cross-default provisions).

Based on the tenant groupings described above, we have three tenant groups that accounted for greater than 10% of our revenues for the six months ended June 30, 2008. For the six months ended June 30, 2008, the properties leased to Florida Institute for Long Term Care, LLC and the properties leased to New Bell Facilities Services, L.P. accounted for approximately 10% of our revenues, respectively; and the properties leased to the tenant group consisting of the Delta Health Group, Inc., Pensacola Health Trust, Inc. and Cordova Rehab, Inc. (the "Delta Tenant Group") accounted for approximately 12% of our revenues.

As of June 30, 2008, we had a $150.0 million interest in a $375.0 million mezzanine loan made in July 2007 by an affiliate of CapitalSource to FC Gen Acquisition Inc. For the six months ended June 30, 2008, this loan accounted for approximately 14% of our total revenues.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholder of CapitalSource Healthcare REIT

We have audited the accompanying balance sheet of CapitalSource Healthcare REIT (the "Company") as of July 31, 2008. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet, assessing the accounting principles used and significant estimates made by management, and evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of the Company at July 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

McLean, Virginia
September 26, 2008

CapitalSource Healthcare REIT

Balance Sheet
As of July 31, 2008

ASSETS		
Assets	$	
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities	$	
Shareholder's Equity:		
Preferred stock, $0.01 par value, 1,000 shares authorized, 0 shares issued and outstanding		
Common stock, $0.01 par value, 1,000 shares authorized, 100 shares issued and outstanding		1
Subscription receivable		(1)
Total shareholder's equity		
Total liabilities and shareholder's equity	$	

See accompanying notes.

CapitalSource Healthcare REIT
July 31, 2008
NOTES TO BALANCE SHEET

1. Organization and Basis of Presentation

CapitalSource Healthcare REIT was formed as a Maryland real estate investment trust ("REIT), on May 30, 2008. We are managed by CapitalSource Finance LLC ("CapitalSource"), a wholly owned subsidiary of CapitalSource Inc. ("CapitalSource"). Under our Declaration of Trust, we are authorized to issue up to 1,000 preferred shares. We have not conducted any operations since our formation and, therefore, have not presented the related statements of operations, shareholder's equity or cash flows for the period from May 30, 2008 (date of formation) to July 31, 2008, as we have determined that they would not be meaningful to investors.

2. Formation of the Company / Initial Public Offering

We were formed as a wholly owned subsidiary of CapitalSource for the purpose of completing an initial public offering of our common shares of beneficial interest and thereafter conducting CapitalSource's healthcare net lease business. To that end, immediately prior to consummation of this offering CapitalSource has agreed to contribute to us a portfolio of 186 facilities located in 23 states, which are leased by 41 operator groups. Approximately 99% of these facilities are skilled nursing facilities, with the remainder being either long-term acute care facilities or assisted living facilities. These assets constitute all of the assets and liabilities of CapitalSource's Healthcare Net Lease segment. In addition, CapitalSource has agreed to contribute to us a $150.0 million interest in a $375.0 million mezzanine loan it originated in 2007.

In exchange for these assets, we will issue to CapitalSource a number of our common shares equal to the quotient of the difference between the total assets we will acquire and the related indebtedness we will assume in the contribution transactions, divided by the initial public offering price. CapitalSource will sell all of the shares to be offered for sale in the offering, and will receive all of the proceeds therefrom. Following completion of the offering, we anticipate that we will be a majority owned subsidiary of CapitalSource and we expect to invest primarily in income producing healthcare-related facilities, principally skilled nursing facilities located in the United States, through triple-net lease structures.

We cannot assure you that any offering will be consummated and, if it is not consummated, the contribution of our initial assets will not occur.

3. Summary of Significant Accounting Policies

The balance sheet has been prepared by management in accordance with U.S. generally accepted accounting principles ("GAAP").

Shares

Common Shares of Beneficial Interest

Prospectus
, 2008

Banc of America Securities LLC   Citi   Deutsche Bank Securities

Until , 2008 all dealers that buy, sell or trade the common shares may be required to deliver a prospectus, regardless of whether they are participating in this offering. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 31. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses expected to be incurred in connection with the issuance and distribution of the securities being registered, all of which are being borne by CapitalSource. All amounts except the SEC registration fee, the FINRA filing fee and the NYSE listing fee are estimates.

SEC registration fee	$13,559
FINRA filing fee	$35,000
NYSE listing fee	$
Printing and engraving expenses	$
Transfer agent and registrar fees	$
Legal fees and expenses	$
Blue sky fees and expenses	$
Accounting fees and expenses	$
Miscellaneous	$
Total	$

Item 32. Sales to Special Parties.

Not applicable.

Item 33. Recent Sales of Unregistered Securities.

In connection with the contribution to us of our initial assets, we have agreed to issue common shares to CapitalSource in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

Item 34. Indemnification of Directors and Officers.

The Maryland REIT Law permits a Maryland real estate investment trust to indemnify and advance expenses to its trustees, officers, employees and agents to the same extent as permitted by the Maryland General Corporation Law, or the MGCL, for directors and officers of Maryland corporations. The MGCL permits a corporation to indemnify its present and former directors and officers against judgments, penalties, fines, settlements and reasonable expenses incurred in connection with any proceeding to which they may be made, or are threatened to be made, a party by reason of their service in those capacities or in the defense of any claim, issue or matter in any such proceeding. However, a Maryland corporation is not permitted to provide this type of indemnification if the following is established:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty;

- the director or officer actually received an improper personal benefit in money, property or services; or

- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

According to Maryland law, a court may also order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that personal benefit was improperly received. However, a Maryland corporation may not indemnify a director or officer for an adverse judgment in a suit by or in the right of that corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. The MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of the following:

- a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the corporation; and

- a written undertaking by him or on his behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that this standard of conduct was not met.

To the maximum extent permitted by Maryland law, our declaration of trust and bylaws include provisions limiting the liability of our present and former trustees and officers or any individual who, at our request, serves or has served another real estate investment trust, corporation, partnership, joint venture, trust, employee benefit plan or other enterprise as a trustee, director, officer or partner (each, an "Indemnified Party"), from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status in any of the foregoing capacities and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. In addition, our bylaws, to the maximum extent permitted by Maryland law, require us to indemnify any of our present and former trustees and officers or any individual who, at our request, serves or has served another real estate investment trust, corporation, partnership, joint venture, trust, employee benefit plan or other enterprise as a trustee, director, officer or partner from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her status in that capacity and to pay or reimburse their reasonable expenses in advance of final disposition of the proceeding.

We have also entered into indemnification agreements with our trustees and our officers providing for procedures for indemnification by us to the fullest extent permitted by law and advancements by us of certain expenses and costs relating to claims, suits or proceedings arising from their service to us.

We have obtained an insurance policy under which our trustees and executive officers will be insured, subject to the limits of the policy, against certain losses arising from claims made against such trustees and officers by reason of any acts or omissions covered under such policy in their respective capacities as trustees or officers, including certain liabilities under the Securities Act of 1933.

We have been advised that the SEC has expressed the opinion that indemnification of trustees, officers or persons otherwise controlling a company for liabilities arising under the Securities Act of 1933 is against public policy and is therefore unenforceable.

Item 35. Treatment of Proceeds From Stock Being Registered.

None of the proceeds will be credited to an account other than the appropriate capital share account.

Item 36. Financial Statements and Exhibits.

(a) *Financial Statements.* See page F-1 for an index of the financial statements that are being filed as part of this Registration Statement.

(b) *Exhibits.* Incorporated by reference to the Exhibit Index attached hereto and made a part hereof by reference.

Item 37. Undertakings.

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes to provide to the underwriters at the closing, specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(c) The undersigned registrant hereby undertakes that:

(i) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(ii) For the purposes determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Westlake Village, State of California, on September 26, 2008.

CapitalSource Healthcare REIT

By: /s/ JAMES J. PIECZYNSKI

Name: James J. Pieczynski
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on September 26, 2008.

Signature	Title
/s/ JAMES J. PIECZYNSKI James J. Pieczynski	President, Chief Executive Officer and Trustee (Principal Executive Officer)
* John K. Delaney	Chairman of the Board of Trustees
* Alexander J. Chavez	Chief Financial Officer (Principal Financial Officer)
* Imran Javaid	Controller (Principal Accounting Officer)

* Pursuant to Power of Attorney

By: /s/ JAMES J. PIECZYNSKI

James J. Pieczynski
Attorney-in-Fact

EXHIBIT INDEX

Exhibit Number	Description
1.1	Form of Underwriting Agreement.++
2.1	Form of Master Transaction Agreement between CapitalSource Inc. and CapitalSource Healthcare REIT.++
3.1	Form of Articles of Amendment and Restatement of Declaration of Trust.++
3.2	Form of Amended and Restated Bylaws.++
5.1	Opinion of Hogan & Hartson LLP regarding the legality of the securities being registered.++
8.1	Opinion of Hogan & Hartson LLP regarding tax matters.++
10.1	Form of Registration Rights Agreement between CapitalSource Healthcare REIT and CapitalSource Inc.++
10.2	Form of Management Agreement between CapitalSource Healthcare REIT and CapitalSource Finance LLC.++
10.3.1*	Form of CapitalSource Healthcare REIT Equity Plan.++
10.3.2*	Form of Restricted Share Award Agreement for Executive Officers.++
10.3.3*	Form of Restricted Share Award Agreement for Trustees.++
10.3.4*	Form of RSU Award Agreement for Executive Officers.++
10.3.5*	Form of RSU Award Agreement for Trustees.++
10.3.6*	Form of Option Agreement for Executive Officers.++
10.3.7*	Form of Option Agreement for Trustees.++
10.4	Form of Indemnification Agreement between CapitalSource Healthcare REIT and its trustees and officers.++
10.5	Form of Co-Lender Agreement.++
10.6*	Form of CapitalSource Healthcare REIT Deferred Compensation Plan.++
10.7	Form of Credit Agreement among CapitalSource Healthcare REIT, Bank of America, N.A. and KeyBank National Association.++
10.8*	Summary of Non-officer Trustee Compensation.++
21.1	Subsidiaries of CapitalSource HealthCare REIT.
23.1	Consent of Ernst & Young LLP.
23.2	Consent of Hogan & Hartson LLP (contained in Exhibit 5.1).++
23.3	Consent of Hogan & Hartson LLP (contained in Exhibit 8.1).++
24.1	Powers of Attorney (contained on signature page to initial filing of Form S-11.).
99.1	Consents of Trustee Nominees Bary G. Bailey and William C. Scott.+

* Denotes management agreement or compensatory plan or arrangement.

\+ Previously filed.

++ To be filed by amendment.

QuickLinks

TABLE OF CONTENTS
PROSPECTUS SUMMARY
SUMMARY FINANCIAL AND PRO FORMA INFORMATION
RISK FACTORS
CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS
USE OF PROCEEDS
DISTRIBUTION POLICY
CAPITALIZATION
UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS
CapitalSource Healthcare Net Lease Segment and Loan Unaudited Pro Forma Combined Balance Sheet As of June 30, 2008 ($ in thousands)
NOTES TO UNAUDITED PRO FORMA COMBINED BALANCE SHEET
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)
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)
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)
NOTES TO UNAUDITED PRO FORMA COMBINED STATEMENTS OF OPERATIONS
SELECTED COMBINED FINANCIAL DATA
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
BUSINESS
MANAGEMENT AGREEMENT
CONFLICTS OF INTEREST IN OUR RELATIONSHIP WITH CAPITALSOURCE
MANAGEMENT
PRINCIPAL AND SELLING SHAREHOLDERS
OTHER ARRANGEMENTS BETWEEN CAPITALSOURCE AND US
DESCRIPTION OF SHARES OF BENEFICIAL INTEREST
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS
UNDERWRITING
LEGAL MATTERS
EXPERTS
WHERE YOU CAN FIND MORE INFORMATION
INDEX TO FINANCIAL STATEMENTS
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) Combined Balance Sheets
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) Combined Statements of Operations
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) Combined Statements of Member's Equity ($ in thousands)
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) Combined Statements of Cash Flows
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) NOTES TO THE COMBINED FINANCIAL STATEMENTS
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) Combined Balance Sheets
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) Combined Statements of Operations

CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) Combined Statement of Member's Equity (Unaudited) ($ in thousands)
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) Combined Statements of Cash Flows
CapitalSource Healthcare Net Lease Segment and Loan (A Carve-out of CapitalSource Inc.) NOTES TO THE UNAUDITED COMBINED FINANCIAL STATEMENTS
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
CapitalSource Healthcare REIT Balance Sheet As of July 31, 2008
CapitalSource Healthcare REIT July 31, 2008 NOTES TO BALANCE SHEET
PART II INFORMATION NOT REQUIRED IN PROSPECTUS

Item 31. Other Expenses of Issuance and Distribution.
Item 32. Sales to Special Parties.
Item 33. Recent Sales of Unregistered Securities.
Item 34. Indemnification of Directors and Officers.
Item 35. Treatment of Proceeds From Stock Being Registered.
Item 36. Financial Statements and Exhibits.
Item 37. Undertakings.
SIGNATURES
EXHIBIT INDEX