PRINCIPAL FINANCIAL GROUP INC
Form 8-K
February 26, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report: **February 26, 2008**

(Date of earliest event reported)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**1-16725**	**42-1520346**
(State of other jurisdiction of incorporation)	**(Commission file number)**	**(I.R.S. Employer Identification Number)**

711 High Street, Des Moines, Iowa 50392

(Address of principal executive offices)

(515) 247-5111

(Registrant’s telephone number, including area code)

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:

[ ] 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 1.01. Entry into a Material Definitive Agreement

In connection with action taken by the Board of Directors of Principal Financial Group, Inc. (the "Company"), more fully described below and in the attached exhibit to this report, the Company plans to amend the existing employment agreement effective as of May 1, 2008 with Larry D. Zimpleman. Pursuant to the amendment, Mr. Zimpleman's annual salary will be $800,000, subject to periodic adjustment in accordance with the Company's regular salary review policy.

In addition, Mr. Zimpleman will continue to participate in the Company's annual and long-term incentive compensation plans, qualified and non-qualified savings and retirement plans and other benefits as described in the Company's current proxy statement filed with the Securities and Exchange Commission ("SEC") on April 9, 2007. Mr. Zimpleman's long-term incentive award opportunity has been increased from 400% to 500% of his current base salary for target performance. Realized compensation may vary considerably above or below the target award opportunity based on the operational and share price performance objectives over a three-year performance cycle.

Mr. Zimpleman's amended employment agreement will be filed as an exhibit to a future Company quarterly report filed with the SEC.

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers

On February 26, 2008, the Company announced the promotion of Larry D. Zimpleman to the position of president and chief executive officer, effective May 1, 2008. Mr. Zimpleman currently holds the position of president and chief operating officer. J. Barry Griswell currently serves as the Company's chairman and chief executive officer. Mr. Griswell will continue to serve as chairman after May 1, 2008. The text of the announcement is included with this report as Exhibit 99.

Item 9.01 Financial Statements and Exhibits

99 Press Release Announcing Zimpleman Promotion

SIGNATURE

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

PRINCIPAL FINANCIAL GROUP, INC.

By: /s/ Joyce N. Hoffman
Name: Joyce N. Hoffman
Title: Senior Vice President and Corporate Secretary

Date: February 26, 2008

Exhibit 99

RELEASE: On Receipt, February 26, 2008
CONTACT: Eva Quinn, The Principal, 515.247.7468, quinn.eva@principal.com
Rhonda Clark-Leyda, The Principal, 515.247.6634, clark-leyda.rhonda@principal

Principal Financial Group Board Announces Leadership Succession

Zimpleman Named CEO

(Des Moines, Iowa) – The Principal Financial Group® announced today the Board of Directors, as part of its planned succession process, has elected Larry D. Zimpleman chief executive officer, effective May 1, 2008. He retains the title of president. J. Barry Griswell will continue as chairman. Zimpleman will assume complete responsibility for company strategy and operations.

“Larry is singularly qualified to lead the Principal Financial Group into the future. His long history with the company combined with deep industry expertise and a keen global perspective have uniquely prepared him for this leadership role,” says Griswell. “A key success factor for The Principal has been our careful leadership succession planning. This is a natural next step for Larry. He knows where we’ve been. He understands the challenges and opportunities facing The Principal today. He has a clear vision for tomorrow. Larry is an unmatched leader who will advance The Principal as a global expert in asset accumulation and asset management. Our mission remains strongly intact -- being the champion of financial wellbeing for small and medium businesses, institutions and people around the world.”

“Barry’s bold, insightful and charismatic leadership has strengthened The Principal’s position in the market as a world-class asset manager and a world-class employer,” says Zimpleman. “I’m excited about what lies ahead and the opportunity to lead this great company and its great people. With the proven talent and experience of our leadership team, I’m confident The Principal will continue on its clear trajectory toward becoming a global leader in helping people achieve financial security.”

Zimpleman Background

Zimpleman joined the company in 1971 as a part-time actuarial student and became a full-time actuary in 1973. From 1976 to 1997 he served in various management and leadership positions in the Pension department. He was named vice president in 1997, senior vice president in 1999, executive vice president in 2001, president of Retirement and Investor Services in 2003, and president and chief operating officer in 2006. A native of Williamsburg, Iowa, Zimpleman received his BS in business administration from Drake University in 1973 and his MBA from Drake in 1977.

He became a Fellow of the Society of Actuaries in 1976, and is a past president and member of the Board of Governors of the Society. Zimpleman is past chair of the board of trustees for the Employee Benefit Research Institute (EBRI) and past president and board chair of the American Academy of Actuaries. He was named an Actuarial Foundation Trustee in 1999, is a member of the Actuarial Club of

Des Moines and chairs the American Council of Life Insurers' Harris Trust Committee. He was a delegate at the 2002 and 2006 National Summit on Retirement Savings hosted by President Bush and the Secretary of Labor.

About the Principal Financial Group

The Principal Financial Group® (The Principal ®)[1] is a leader in offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement and investment services, life and health insurance, and banking through its diverse family of financial services companies. A member of the Fortune 500, the Principal Financial Group has $311.1 billion in assets under management[2] and serves some 18.6million customersworldwide from offices in Asia, Australia, Europe, Latin America and the United States. Principal Financial Group, Inc. is traded on the New York Stock Exchange under the ticker symbol PFG. For more information, visit www.principal.com .

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[1] "The Principal Financial Group" and "The Principal" are registered service marks of Principal Financial Services, Inc., a member of the Principal Financial Group.

[2] As of December 31, 2007

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Earnings before income taxes 157,265 142,415 376 142,791 (220,491) 19,538 (6,050) (20,641) 72,412 Income tax expense (benefit) (700) 376 376 7,473 (7,473)(Z) (324)

Income from continuing operations	157,965	142,415	142,415	(220,491)	12,065	1,423	(20,641)	72,736
Less: preferred stock dividends	(21,130)							(21,130)
Income from continuing operations applicable to common shares	$136,835	$142,415	$ 142,415	$(220,491)	$12,065	$1,423	$(20,641)	$51,606
Income from continuing operations per common share basic(AA)	$1.02				$0.57			$0.32
Income from continuing operations per common share diluted(AA)	$1.01				$0.57			$0.32

Weighted-average shares used to calculate income per common share:	Basic(AA)	134,673	248,298	22,853 (BB)	4,379 (BB)	161,905
	Diluted(AA)	135,560	248,298	22,853 (BB)	4,379 (BB)	162,792

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

HEALTH CARE PROPERTY INVESTORS, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
For the three months ended March 31, 2006
(In thousands, except per share data)

	HCP Historical(A)	CRP Historical	CRP Reclassifications(B)	CRP Reclassified	CRP Pro Forma Adjustments	Advisor Historical	Advisor Pro Forma Adjustments	CRP/Advisor Eliminations	Consolidated Pro Forma HCP
Revenues and other income:									
Rental and other revenues	$ 122,126	$	$ 87,998	$ 87,998	$ 9,892 (T)	$	$	$	$ 208,676
					(356)(T)				
					(11,115)(T)				
					131 (T)				
Seniors' housing rental income		62,265	(62,265)						
Earned income from direct financing leases		15,969		15,969	(35)(U)				15,934
FF&E reserve income		1,992	(1,992)						
Contingent rent		101	(101)						
Medical facilities rental income and other revenues		23,640	(23,640)						
Equity income (loss) from unconsolidated joint ventures	3,822	2		2					3,824
Acquisition fees						2,581		(2,581)(CC)	
Debt acquisition fees						4,328		(4,328)(CC)	
Management fees						5,127		(5,127)(CC)	
Interest and other income	15,747	1,609		1,609		626		(626)(CC)	17,356
	141,695	105,578		105,578	(1,483)	12,662		(12,662)	245,790
Costs and expenses:									
Interest	32,093	23,187		23,187	43,369 (V)				$ 99,370
					995 (V)				
					1,010 (V)				
					(1,284)(V)				
Depreciation and amortization	30,679	26,952		26,952	6,855 (W)				67,860
					1,861 (W)		1,513 (Y)		
Operating	17,564		7,767	7,767	121 (X)				25,452
Seniors' housing property expenses		283	(283)						
Medical facilities operating expenses		7,484	(7,484)						
General and administrative	8,742	4,744	1,328	6,072		5,553		(626)(CC)	19,741
Asset management fees paid to related party		5,098		5,098				(5,098)(CC)	
Provision for doubtful accounts		1,523	(1,523)						
	89,078	69,271	(195)	69,076	52,927	5,553	1,513	(5,724)	212,423

	HCP Historical(A)	CRP Historical	CRP Reclassifications(B)	CRP Reclassified	CRP Pro Forma Adjustments		Advisor Historical	Advisor Pro Forma Adjustments		CRP/Advisor Eliminations	Consolidated Pro Forma HCP
Income before minority interests	52,617	36,307	195	36,502	(54,410)		7,109	(1,513)		(6,938)	33,367
Minority interests	(3,777)	(86)		(86)							(3,863)
Earnings before income taxes	48,840	36,221	195	36,416	(54,410)		7,109	(1,513)		(6,938)	29,504
Income tax expense (benefit)			195	195			2,719	(2,719)	(Z)		195
Income from continuing operations	48,840	36,221		36,221	(54,410)		4,390	1,206		(6,938)	29,309
Less: preferred stock dividends	(5,283)										(5,283)
Income from continuing operations applicable to common shares	$ 43,557	$ 36,221	$	$ 36,221	$ (54,410)		$ 4,390	$ 1,206		$ (6,938)	$ 24,026
Income from continuing operations per common share basic(AA)	$ 0.32			$ 0.14							$ 0.15
Income from continuing operations per common share diluted(AA)	$ 0.32			$ 0.14							$ 0.15
Weighted-average shares used to calculate income per common share:											
Basic(AA)	136,040			257,507	22,853	(BB)		4,379	(BB)		163,272
Diluted(AA)	136,856			257,507	22,853	(BB)		4,379	(BB)		164,088

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

Health Care Property Investors, Inc.
Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

(A)

Includes reclassification of certain HCP amounts as follows:

Balance Sheet:

Real estate assets held for sale were reclassified to "Other assets, net" from "Real estate" by HCP.

Statement of Income:

Income taxes have been reclassified from "General and administrative" to a separate line item.

(B)

Includes the following reclassifications to conform certain CRP amounts with HCP's presentation:

Balance Sheet:

Loans receivable by CRP have been reclassified to "Loans receivable, net joint venture partners and affiliates" from "Other assets, net".

Statement of Income:

"Senior housing rental income," "FF&E reserve income," "Contingent rent," and "Medical facilities rental income and other revenues" have been reclassified to "Rental and other revenues".

"Senior Housing property expenses" and "Medical facilities operating expenses" have been reclassified to "Operating".

"Provision for doubtful accounts" has been reclassified to "General and administrative".

Income taxes have been reclassified from "General and administrative" to a separate line item.

(C)

In the CRP merger, each CRP stockholder will receive 0.0865 of a share of HCP common stock and $11.1293 in cash, without interest, for each share of CRP common stock that the stockholder owns immediately prior to the effective date of the merger.

For purposes of the unaudited pro forma condensed consolidated balance sheet presentation, the total purchase price is based on the number of shares of CRP common stock outstanding at March 31, 2006 and $26.53, which represents the average of closing trading prices for each of the two trading days before, the day, and the two trading days after the merger was announced (April 29 and 30, and May 1, 2 and 3, 2006). The calculation of the merger consideration and total purchase price follows (dollar amounts in thousands):

Calculation of CRP purchase price		
Issuance of 22,852,680 shares of HCP common stock (based on a conversion ratio of 0.0865) exchanged for 264,192,829 shares of CRP common stock	$	606,282
Payment of aggregate cash consideration		2,940,281

Total merger consideration		3,546,563
CRP secured debt and bonds outstanding at book value		1,668,373
Adjustment to record CRP secured debt and bonds at fair value under purchase accounting		(21,990)
All other CRP liabilities at book value		73,234
Adjustment to record CRP liabilities at fair value under purchase accounting		130,769
CRP minority interest at book value		8,270
Estimated fees and other expenses related to the merger		33,150
Total purchase price	$	5,438,369

The calculation of the estimated fees and other expenses related to the merger is as follows (in thousands):

Advisory fees	$	17,850
Legal, accounting and other fees and costs		6,850
Share registration and issuance costs		950
Debt assumption fees		7,500
Total	$	33,150

(D)

CRP's real estate assets have been adjusted to their estimated fair values as of March 31, 2006 and CRP's historical accumulated depreciation balance is eliminated when real estate assets are recorded at fair value.

(E)

Adjustment reflects CRP's existing fixed rate direct financing leases at their estimated fair value based on HCP management's estimates of current market rates for direct financing leases. The payments on the assumed leases are estimated on average to be above market.

(F)

Adjustments to CRP's historical balance of intangible assets are as follows (in thousands):

Recognition of lease-up related in-place lease intangible assets	$	137,349
Recognition of assets associated with the acquired in-place leases that have favorable market rental rates		113,336
Elimination of intangible assets		(110,580)
	$	140,105

(G)

Adjustment reflects the elimination of CRP's historical goodwill.

(H)

Adjustments to CRP's historical balance of other assets are as follows (in thousands):

Deferral of issuance costs associated with debt issued in the merger	$	16,375
Elimination of historical straight-line rent balance		(110,330)
Elimination of historical deferred debt issuance costs		(15,900)
Elimination of historical deferred leasing costs		(7,383)
	$	(117,238)

(I)

Borrowings under lines of credit and short-term borrowings are assumed to fund the cash consideration and other associated costs of the merger aggregating $3.0 billion. HCP expects to: (i) borrow $160.425 million on its existing lines of credit to pay the combined estimated transaction costs of the merger and the Advisor merger of $39.05 million, the costs associated with debt issued in the merger of $16.375 million, and the outstanding balance of CRP's line of credit of $105 million; and (ii) obtain a 365-day bridge loan financing of $1.3 billion and a 2-year term loan of $1.5 billion. The portion of the bridge financing is expected to be repaid after the merger with borrowings under new credit facilities.

(J)

Adjustment reflects CRP's existing fixed rate debt at its estimated fair value based on HCP management's estimates of the interest rates that would be available to HCP for the issuance of debt with similar terms and remaining maturities. The fixed rate debt of CRP will be assumed by HCP in the merger. The interest rates on the assumed debt are considered to be below market.

Estimated market interest rates assumed to compute the fair value adjustments of CRP's existing fixed rate debt ranged from 5.95% to 6.45%.

(K)

Adjustments to CRP's historical balance of other liabilities are as follows (in thousands):

Recognition of liability associated with the acquired advisory agreement between the Advisor and CRP	$	54,400
Recognition of liabilities associated with the acquired in-place leases that have below-market rental rates		86,779
Elimination of historical intangible liabilities		(4,744)
Elimination of historical deferred revenues		(5,666)
	$	130,769

(L)

Adjustments represent the elimination of historical CRP balances and the issuance of shares of HCP common stock in the merger. The shares of HCP common stock issued are valued as follows (dollar amounts in thousands, except per share data):

Number of shares issued		22,852,680
Assumed price of shares of HCP common stock	$	26.53
Value of shares issued	$	606,282
Less: share registration and issuance costs		(950)
Total value of shares issued	$	605,332
The total value of the shares of HCP common stock issued is presented as follows:		
Par value, $1.00 par value per share	$	22,853
Additional paid-in capital		583,429
Less: share registration and issuance costs		(950)
	$	605,332

(M)

As discussed in this proxy statement/prospectus, HCP has also agreed to acquire the Advisor for 4,378,923 shares of HCP common stock. The merger and the Advisor merger are each conditioned upon the consummation of the other.

For purposes of the unaudited pro forma condensed consolidated balance sheet presentation, the total purchase price is based on an average trading price of HCP's common stock of $26.53, which represents the average of the closing prices for each of the two trading days before, the day, and the two trading days after the merger was announced (April 29, 30 and May, 1, 2 and 3, 2006).

The calculation of the merger consideration and total purchase price is as follows (dollar amounts in thousands):

Calculation of Advisor purchase price		
Issuance of 4,378,923 shares of HCP common stock	$	116,173
All Advisor liabilities at book value		3,795
Estimated fees and other expenses related to the merger		5,900
Total purchase price	$	125,868

The calculation of the estimated fees and other expenses related to the merger is as follows:

Advisory fees	$	500
Legal, accounting and other fees and costs		5,350
Share registration and issuance costs		50
Total	$	5,900

(N)

Adjustment reflects the cash of $270,000 that the Advisor will receive in exchange for CRP shares owned by it, with a book value of $200,000 at March 31, 2006.

(O)

Represents intangible assets associated with the advisory agreement between the Advisor and CRP of $54.4 million, employee non-compete agreements of $2.9 million, and a non-compete agreement with CNL Financial Group, CNL Real Estate Group and two other named individuals of $21.3 million.

(P)

Represents the recognition of goodwill for the excess of the purchase price over the fair value of the assets acquired and liabilities assumed.

(Q)

Fixed assets and other receivables have been adjusted to their estimated fair values.

(R)

Adjustments reflect the elimination of historical Advisor equity balances and the issuance of shares of HCP common stock in the merger. The shares of HCP common stock issued are valued as follows (dollars in thousands, except per share data):

Number of shares issued		4,378,923
Assumed price of shares of HCP common stock	$	26.53
Value of shares issued	$	116,173
Less: share registration and issuance costs		(50)
Total value of shares issued	$	116,123

The total value of the shares of HCP common stock issued is reported as follows:

Par value, $1.00 par value per share	$	4,379
Additional paid-in capital		111,794
Less: share registration and issuance costs		(50)
	$	116,123

(S)

Represents the elimination of the intangible for advisory agreement between the Advisor and CRP of $54.4 million, which is an asset to the Advisor and an obligation to CRP (See Note K and Note O), and the elimination of management fees payable of $259,000 to the Advisor from CRP.

(T)

Adjustments to rental income and other revenues are as follows (in thousands):

	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Recognize the total minimum lease payments provided under the acquired leases on a straight-line basis over the remaining term from the assumed merger date of January 1, 2005	$ 44,554	$ 9,892
Recognize the amortization of above- and-below market lease intangibles	(1,422)	(356)
Remove CRP's historical straight-line rent adjustment	(46,672)	(11,115)
Eliminate CRP's historical amortization of above- and below-market lease intangibles	523	131
	$ (3,017)	$ (1,448)

(U)

Earned income from direct financing leases is adjusted to reflect market rates for interest rates at May 1, 2006 (the date that the merger agreement was executed). (See Note E)

(V)

Adjustments to interest expense are as follows (in thousands):

	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Incremental increase in interest expense associated with new debt issued in the merger and Advisor merger	$ 173,477	$ 43,369
Increase in interest expense resulting from the amortization of the discount recognized at the merger date to adjust the assumed CRP secured debt at fair value	3,418	995
Increase in interest expense resulting from the amortization of debt issuance costs associated with the new debt issued in the merger and Advisor merger	10,667	1,010
Eliminate historical debt issuance costs and loan premium amortization	(5,576)	(1,284)
	$ 181,986	$ 44,090

The pro forma increase in interest expense as a result of the assumed issuance of new debt in the merger is calculated using market rates management believes would have been available to HCP for the lines of credit and short-term borrowings assumed to have been issued as of May 1, 2006 (the date that the merger agreement was executed). Each 1/8 of 1% increase in the annual interest assumed with respect to the debt will increase pro forma interest expense by $3.675 million for the year ended December 31, 2005 and $919,000 for the three months ended March 31, 2006.

(W)

Adjustments to depreciation expense are as follows (in thousands):

	Year Ended December 31, 2005	Three Months Ended March 31, 2006
Represents the increase in real estate depreciation expense as a result of the recording of CRP's real estate its estimated fair value at the assumed merger date of January 1, 2005	$ 27,421	$ 6,855
Represents the incremental amortization expense related to lease-up related intangible assets associated with acquired leases	7,445	1,861
	$ 34,866	$ 8,716

An estimated useful life of 45 years was assumed to compute the adjustment to real estate depreciation. For assets and liabilities associated with the value of in-place leases, an average remaining lease term of 9.1 years was used to compute amortization expense.

(X)

Operating expenses are adjusted to include amortization of below market-ground lease intangibles.

(Y)

Depreciation and amortization is adjusted to include the amortization of non-compete contract intangibles. A 4 year period was used to compute amortization expense.

Management of HCP expects that the merger and Advisor merger will create operational and general and administrative cost savings, including property management costs, costs associated with corporate administrative functions and executive compensation. There can be no assurance that HCP will be successful in achieving these anticipated cost savings. No estimate of these expected future cost savings has been included in the pro forma financial statements. Such adjustments cannot be factually supported within the SEC regulations governing the preparation of pro forma financial statements until such time as the operations of the companies have been fully integrated. Additionally, no adjustment has been made for anticipated property tax increases resulting from the merger since HCP expects that such increases will not be significant.

(Z)

Income taxes of the Advisor have been eliminated as a result of the Advisor merger, which is assumed as of January 1, 2005. As a condition to closing of the merger with CRP, the Advisor merger is assumed to have been consummated; at the closing of the Advisor merger, the Advisor will be merged into a Qualifying REIT Subsidiary "QRS", which assuming the merger with the Advisor was effective as of January 1, 2005, would eliminate the Advisor's income tax obligations.

(AA)

The calculations of basic and diluted earnings from continuing operations attributable to common stock per share are as follows (in thousands, except per share data):

	Year Ended December 31, 2005			Three Months Ended March 31, 2006		
	HCP Historical	Reclassified CRP	Pro Forma HCP	HCP Historical	Reclassified CRP	Pro Forma HCP
Income from continuing operations	$ 157,965	$ 142,415	$ 72,736	$ 48,840	$ 36,221	$ 29,309
Less: preferred stock dividends	(21,130)		(21,130)	(5,283)		(5,283)
Earnings from continuing operations attributable to common shares	$ 136,835	$ 142,415	51,606	$ 43,557	$ 36,221	$ 24,026
Weighted-average shares used to calculate earnings per common share Basic	134,673	248,298	161,905	136,040	257,507	163,272
Incremental weighted-average effect of potentially dilutive instruments	887		887	816		816
Adjusted weighted-average shares used to calculate earnings per common share Diluted	135,560	248,298	162,792	136,856	257,507	164,088
Earnings from continuing operations per common share Basic	$ 1.02	$ 0.57	$ 0.32	$ 0.32	$ 0.14	$ 0.15
Earnings from continuing operations per common share Diluted	$ 1.01	$ 0.57	$ 0.32	$ 0.32	$ 0.14	$ 0.15

(BB)

The pro forma weighted-average shares outstanding are the historical weighted-average shares of HCP for the periods presented, adjusted for the assumed issuance of 27.23 million shares of HCP common stock on a weighted-average basis for the year ended December 31, 2005, and the three months ended March 31, 2006.

(CC)

Represent the elimination of acquisition, debt acquisition, management and other fees earned by the Advisor from CRP. Because acquisition fees and debt acquisition fees paid by CRP to the Advisor are capitalized by CRP, only management fees and other fees are eliminated within costs and expenses.

Report of Independent Registered Certified Public Accounting Firm

To the Board of Directors and Stockholders of CNL Retirement Properties, Inc.

We have completed integrated audits of CNL Retirement Properties, Inc. and its subsidiaries' (the "Company") December 31, 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its December 31, 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of CNL Retirement Properties, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit of financial statements 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.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the acompanying Management's Report on Internal Control Over Financial Reporting that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for

external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Orlando, Florida
March 24, 2006

CRP'S MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

CRP's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

CRP's management has assessed the effectiveness of CRP's internal control over financial reporting as of December 31, 2005, using the criteria described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (or the COSO criteria). Based on its assessment, CRP's management has concluded, as of December 31, 2005, CRP maintained effective internal control over financial reporting.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited CRP's management's assessment of the effectiveness of CRP's internal control over financial reporting as of December 31, 2005, as stated in their report, which appears herein.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31, 2005	December 31, 2004
Assets		
Real estate investment properties:		
Accounted for using the operating method, net	**$ 2,914,817**	$ 2,580,948
Accounted for using the direct financing method	**488,683**	480,051
Intangible lease costs, net	**99,611**	98,237
	3,503,111	3,159,236
Cash and cash equivalents	**94,902**	51,781
Restricted cash	**21,920**	34,430
Accounts and other receivables, net	**23,486**	20,545
Deferred costs, net	**24,705**	17,469
Accrued rental income	**99,219**	51,795
Other assets	**52,935**	11,412
Real estate held for sale	**12,692**	17,182
Goodwill	**5,791**	5,791
	$ 3,838,761	$ 3,369,641
Liabilities and stockholders' equity		
Liabilities:		
Mortgages payable	**$ 1,220,190**	$ 937,589
Bonds payable	**98,016**	94,451
Construction loans payable	**143,560**	81,508
Line of credit	**75,000**	20,000
Term loan		60,000
Due to related parties	**2,386**	1,632
Accounts payable and other liabilities	**31,035**	33,937
Intangible lease liability, net	**4,505**	3,742
Deferred income	**6,607**	4,811
Security deposits	**23,954**	26,253
Total liabilities	**1,605,253**	1,263,923
Commitments and contingencies		
Minority interests	**5,701**	2,361
Stockholders' equity:		
Preferred stock, without par value Authorized and unissued 3,000 shares		
Excess shares, $.01 par value per share Authorized and unissued 103,000 shares		
Common stock, $.01 par value per share Authorized one billion shares, issued 260,923 and 238,485 shares, respectively, outstanding 255,527 and 237,547 shares, respectively	**2,555**	2,376
Capital in excess of par value	**2,295,307**	2,135,498
Accumulated distributions in excess of net income	**(74,894)**	(34,517)
Accumulated other comprehensive income	**4,839**	
Total stockholders' equity	**2,227,807**	2,103,357

	December 31, 2005	December 31, 2004
	$ 3,838,761	$ 3,369,641

See accompanying notes to consolidated financial statements.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Years Ended December 31,		
	2005	**2004**	**2003**
Revenues:			
Seniors' Housing:			
Rental income from operating leases	**$ 237,892**	$ 172,245	$ 59,262
Earned income from direct financing leases	**61,202**	54,873	31,107
FF&E reserve income	**7,500**	4,601	2,592
Contingent rent	**3,955**	90	47
Medical Facilities:			
Rental income from operating leases	**59,048**	26,225	
Tenant expense reimbursements	**13,254**	4,735	
Property management and development fees	**701**		
Loan interest income	**531**		
	384,083	262,769	93,008
Expenses:			
Seniors' Housing property expenses	**1,075**	1,639	136
Medical Facilities operating expenses	**25,368**	11,234	
General and administrative	**21,376**	14,740	5,462
Asset management fees to related party	**18,641**	12,463	4,318
Provision for doubtful accounts	**3,082**	3,900	
Depreciation and amortization	**98,446**	62,512	17,277
	167,988	106,488	27,193
Operating income	**216,095**	156,281	65,815
Interest and other income	**2,970**	4,768	1,626
Interest and loan cost amortization expense	**(76,171)**	(42,783)	(9,588)
Income before equity in earnings of unconsolidated entity, minority interests in income of consolidated subsidiaries and discontinued operations	**142,894**	118,266	57,853
Equity in earnings of unconsolidated entity	**227**	178	11
Minority interests in income of consolidated subsidiaries	**(706)**	(93)	
Income from continuing operations	**142,415**	118,351	57,864
Income (loss) from discontinued operations	**(6,834)**	(433)	596
Net income	**$ 135,581**	$ 117,918	$ 58,460
Net income (loss) per share of common stock (basic and diluted)			
From continuing operations	**$ 0.57**	$ 0.56	$ 0.65
From discontinued operations	**(0.02)**		0.01
	$ 0.55	$ 0.56	$ 0.66
Weighted-average number of shares of common stock outstanding (basic and diluted)	**248,298**	210,343	88,840

	Years Ended December 31,		

See accompanying notes to consolidated financial statements.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2005, 2004 and 2003
(in thousands, except per share data)

	Common stock					
	Number of shares	Par value	Capital in excess of par value	Accumulated distributions in excess of net income	Accumulated other comprehensive income	Total
Balance at December 31, 2002	44,211	$ 442	$ 393,308	$ (3,955)	$	$ 389,795
Net income				58,460		58,460
Subscriptions received for common stock through public offerings and reinvestment plan	105,998	1,060	1,058,921			1,059,981
Retirement of common stock	(132)	(1)	(1,211)			(1,212)
Stock issuance costs			(101,299)			(101,299)
Distributions declared ($0.7067 per share)				(59,784)		(59,784)
Balance at December 31, 2003	150,077	1,501	1,349,719	(5,279)		1,345,941
Net income				117,918		117,918
Subscriptions received for common stock through public offerings and reinvestment plan	88,155	882	879,386			880,268
Retirement of common stock	(685)	(7)	(6,491)			(6,498)
Stock issuance costs			(87,116)			(87,116)
Distributions declared ($0.7104 per share)				(147,156)		(147,156)
Balance at December 31, 2004	237,547	2,376	2,135,498	(34,517)		2,103,357
Net income				**135,581**		**135,581**
Change in fair value of cash flow hedges					**4,839**	**4,839**
Total comprehensive income				**135,581**	**4,839**	**140,420**
Subscriptions received for common stock through public offerings and reinvestment plan	**21,884**	**218**	**215,218**			**215,436**
Retirement of common stock	**(3,904)**	**(39)**	**(37,045)**			**(37,084)**
Stock issuance costs			**(18,364)**			**(18,364)**
Distributions declared ($0.7104 per share)				**(175,958)**		**(175,958)**
Balance at December 31, 2005	**255,527**	**$ 2,555**	**$ 2,295,307**	**$ (74,894)**	**$ 4,839**	**$ 2,227,807**

See accompanying notes to consolidated financial statements.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2005	**2004**	**2003**
Increase (decrease) in cash and cash equivalents:			
Operating activities:			
Net income	**$ 135,581**	$ 117,918	$ 58,460
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**104,232**	68,062	18,925
Minority interests in income	**706**	93	
Impairment provisions	**7,740**	1,883	
Net rental income from above (below) market leases	**523**	21	
Lease incentive cost amortization	**289**	90	
Provision for doubtful accounts	**3,300**	3,900	
Equity in earnings of unconsolidated entity, net of cash distributions received	**(9)**	(3)	138
Changes in operating assets and liabilities:			
Accounts and other receivables	**(12,239)**	(10,171)	(11,031)
Accrued rental and direct financing lease income	**(55,519)**	(49,520)	(13,426)
Deferred lease incentive costs	**(893)**	(2,678)	
Other assets	**(10,134)**	(4,528)	(1,906)
Accounts payable and other liabilities	**10,365**	5,209	6,426
Due to related parties	**28**	457	195
Security deposits and prepaid rents	**4,339**	8,840	3,026
Net cash provided by operating activities	**188,309**	139,573	60,807
Investing activities:			
Investment in land, buildings and	**(371,026)**	(921,698)	(661,946)

	Years Ended December 31,		
equipment			
Investment in direct financing leases	**(278)**	(50,230)	(263,330)
Investment in intangible lease costs	**(15,044)**	(50,064)	(23,220)
DASCO Acquisition		(204,441)	
Investment in note receivable	**(16,000)**		
Proceeds from note receivable			2,000
Payment of acquisition fees and costs	**(20,575)**	(73,124)	(53,126)
Payment of deferred leasing costs	**(1,039)**	(864)	
Increase in restricted cash	**6,082**	(9,448)	(13,127)
Net cash used in investing activities	**(417,880)**	(1,309,869)	(1,012,749)
Financing activities:			
Proceeds from borrowings on mortgages payable	**305,485**	315,045	170,800
Principal payments on mortgages payable	**(66,219)**	(28,964)	(13,832)
Proceeds from construction loans payable	**63,367**	73,618	7,402
Repayments of construction loans payable	**(1,315)**		
Proceeds from borrowings on line of credit	**115,000**		71,370
Repayments on line of credit	**(60,000)**		(51,370)
Proceeds from term loan		60,000	
Repayment of term loan	**(60,000)**		
Proceeds from issuance of bonds payable	**12,622**	12,063	8,203

Financing activities continued			
Retirement of bonds payable	**$ (9,057)**	$ (7,736)	$ (6,589)
Payment of loan costs	**(11,707)**	(10,149)	(7,523)
Contributions from minority interests	**3,093**	997	
Distributions to minority interest	**(459)**	(45)	
Subscriptions received from stockholders	**215,397**	880,268	1,059,981
Distributions to stockholders	**(175,958)**	(147,138)	(59,784)
Retirement of common stock	**(40,303)**	(3,933)	(1,117)
Payment of stock issuance costs	**(17,254)**	(89,039)	(99,309)
Net cash provided by financing activities	**272,692**	1,054,987	1,078,232
Net increase (decrease) in cash and cash equivalents	**43,121**	(115,309)	126,290
Cash and cash equivalents at beginning of year	**51,781**	167,090	40,800
Cash and cash equivalents at end of year	**$ 94,902**	$ 51,781	$ 167,090
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of capitalized interest	**$ 75,654**	$ 39,028	$ 7,534
Amounts incurred by us and paid by related parties on our behalf were as follows:			
Acquisition costs	**$ 210**	$ 331	$ 403
Stock issuance costs	**4,250**	18,987	17,246
	$ 4,460	$ 19,318	$ 17,649
Supplemental schedule of non-cash investing and financing activities:			
DASCO Acquisition			
Purchase accounting:			
Assets acquired:			
Real estate properties accounted for using the operating method	**$**	$ 189,111	$
Intangible lease costs		25,623	
Cash and cash equivalents		470	
Restricted cash		633	
Deferred costs		124	
Other assets		1,088	
Goodwill		5,487	
Total	**$**	$ 222,536	$
Liabilities assumed:			
Mortgages payable	**$**	$ 10,562	$
Construction loans payable		487	
Accounts payable and other liabilities		3,379	
Intangible lease liability		2,304	
Security deposits		893	
Total	**$**	$ 17,625	$
Net assets acquired	**$**	$ 204,911	$
Net assets acquired, net of cash	**$**	$ 204,441	$
Mortgage loans assumed on properties acquired	**$ 43,076**	$ 365,166	$ 72,762

Bonds assumed on properties acquired	**$**	$	$ 88,511

See accompanying notes to consolidated financial statements.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2005, 2004 and 2003

1. Organizational and Basis of Presentation:

Organization CNL Retirement Properties, Inc., a Maryland corporation, was organized in December 1997 to operate as a real estate investment trust (a "REIT") for federal income tax purposes. Throughout this document, CNL Retirement Properties, Inc. and each of its subsidiaries and several consolidated partnerships and joint ventures are referred to as "we", "us" and "our." Various other wholly owned or majority owned subsidiaries are expected to be formed in the future for the purpose of acquiring or developing additional real estate properties and holding other permitted investments.

We acquire primarily real estate properties related to seniors' housing and health care facilities (the "Properties") located primarily across the United States. The Properties may include independent living, assisted living and skilled nursing facilities, continuing care retirement communities ("CCRC") and life care communities (collectively "Seniors' Housing"), medical office buildings, specialty and walk-in clinics, free standing ambulatory surgery centers, specialty or general hospitals and other types of health care-related facilities (collectively "Medical Facilities"). Seniors' Housing facilities are generally leased on a long-term, triple-net basis and Medical Facilities are generally leased on a shorter-term, gross or triple-net basis. We may provide mortgage financing loans ("Mortgage Loans"), furniture, fixture and equipment financing ("Secured Equipment Leases") and other loans to operators or developers of Seniors' Housing. In addition, we may invest up to a maximum of 5% of total assets in equity interests in businesses, including those that provide services to or are otherwise ancillary to the retirement and health care industries. We operate in one business segment, which is the ownership, development, management and leasing of health care-related real estate. At December 31, 2005, we owned 184 Seniors' Housing facilities, 73 Medical Facilities, including a specialty hospital, 2 walk-in clinics, and 4 Seniors' Housing facilities and a parcel of land that we hold for sale.

In August 2004, we acquired a 55% controlling interest in The DASCO Companies, LLC ("DASCO"), a development and property management company that managed forty-eight of our Medical Facilities, including two of our walk-in clinics and was developing five of our Medical Facilities at December 31, 2005. DASCO also provides development and property management services to unrelated third parties.

We retained CNL Retirement Corp. (the "Advisor") as our advisor to provide management, acquisition, advisory and administrative services relating to our Properties, Mortgage Loans, Secured Equipment Lease program, other loans and other permitted investments pursuant to an advisory agreement that was renewed pursuant to a Renewal Agreement effective May 3, 2005 for a one-year term and was amended by an amendment to the Renewal Agreement on July 13, 2005 (the "Advisory Agreement").

Basis of Presentation The accompanying consolidated financial statements include the accounts of our wholly owned subsidiaries, DASCO and other entities in which we own a majority and controlling interest. Interests of unaffiliated third parties in less than 100% owned and majority controlled entities are reflected as minority interests. All significant inter-company balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies:

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash equivalents, accounts and other receivables, and accounts payable and other liabilities are carried at amounts which approximate their fair values because of the short-term nature of these instruments.

Investment Properties and Lease Accounting Seniors' Housing Properties are leased on a long-term (generally 15 years), triple-net basis whereby the tenants are responsible for all operating expenses relating to the Property, including property taxes, maintenance, repairs, utilities and insurance, as well as capital expenditures that may be reasonably necessary to maintain the leasehold in a manner that allows operation for its intended purpose. Seniors' Housing leases generally provide for minimum and contingent rent and contain renewal options from 5 to 20 successive years subject to the same terms and conditions as the initial term. Medical Facilities are leased on either a triple-net or gross basis, generally have initial lease terms of 5 to 15 years and are generally subject to renewal options. In addition, Medical Facilities gross leases provide for the recovery of a portion of the properties' operating expenses from the tenants. Substantially all Seniors' Housing and Medical Facilities leases require minimum annual rents to increase at predetermined intervals during the lease terms. For the years ended December 31, 2005, 2004 and 2003, our tenants paid $32.3 million, $21.5 million and $8.1 million, respectively, in property taxes on our behalf. The leases are accounted for using either the operating or direct financing method.

Operating method For leases accounted for as operating leases, Properties are recorded at cost. Minimum rent payments contractually due under the leases are recognized as revenue on a straight-line basis over the initial lease terms so as to produce constant periodic rent recognition over the lease terms. The excess of rents recognized over amounts contractually due are included in accrued rental income in the accompanying financial statements. Buildings, land improvements and equipment are depreciated on the straight-line method over their estimated useful lives of 39 to 40 years, 15 years and 3 to 7 years, respectively. Tenant improvements are depreciated over the initial lease term. Expenditures for ordinary maintenance and repairs are charged to operations as incurred, while significant renovations and enhancements that improve and/or extend the useful life of an asset are capitalized and depreciated over the estimated useful life.

Direct financing method For leases accounted for as direct financing leases, future minimum lease payments are recorded as a receivable. The difference between the rents receivable and the estimated residual values less the cost of the Properties is recorded as unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant rate of return. Investments in direct financing leases are presented net of unamortized unearned income. Direct financing leases have initial terms that range from 10 to 35 years and provide for minimum annual rent. Certain leases contain provisions that allow the tenants to elect to purchase the Properties during or at the end of the lease terms for our aggregate initial investment amount plus adjustments, if any, as defined in the lease agreements. Certain leases also permit us to require the tenants to purchase the Properties at the end of the lease terms for the same amount.

Impairment of Long-Lived Assets We evaluate our Properties and other long-lived assets on a quarterly basis, or upon the occurrence of significant changes in operations, to assess whether any impairment indications are present that affect the recovery of the carrying amount of an individual asset. We compare the sum of expected undiscounted cash flows from the asset over its anticipated holding period, including the asset's estimated residual value, to the carrying value. If impairment is indicated, a loss is provided to reduce the carrying value of the property to the lower of its cost or its estimated fair value.

Real estate held for sale Based on the ongoing evaluation of our Properties, we have determined to hold certain Properties for sale (see Note 10). Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," ("SFAS 144") requires that long-lived assets to be disposed of be reported at the lower of their carrying amount or their fair value less costs to dispose. SFAS 144 also requires us to stop depreciating these assets at the time the assets are classified as discontinued operations. In accordance with SFAS 144 we have reclassified the assets and operating results from certain Seniors' Housing Properties as discontinued operations, restating previously reported results to reflect the reclassification on a comparable basis. These reclassifications had no effect on reported equity or net income.

When a Property is sold, the related costs and accumulated depreciation, plus any accrued rental income, are removed from the accounts and any gain or loss from sale is reflected in income.

Intangible Lease Costs In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), we allocate the purchase price of acquired Properties to tangible and identified intangible assets based on their respective fair values. The allocation to tangible assets (building and land) is based upon management's determination of the value of the Property as if it were vacant using discounted cash flow models similar to those used by independent appraisers. The allocation to intangible assets is based upon factors considered by management including an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. Additionally, the purchase price is allocated to the above- or below-market value of in-place leases and the value of customer relationships. The value allocable to the above- or below-market component of the acquired in-place lease is determined based upon the present value (using a discount rate which reflects the risks associated with the acquired leases) of the difference between (i) the contractual amounts to be paid pursuant to the lease over its remaining term, and (ii) management's estimate of the amounts that would be paid using fair market rates over the remaining term of the lease. The amounts allocated to above-market leases are included in intangible lease costs and are amortized to rental income over the remaining terms of the leases acquired with each Property. The amounts allocated to below-market lease values are included in an intangible lease liability and amortized to rental income over the remaining term of the associated lease, including below-market lease extension, if any.

The total amount of other intangible assets acquired is further allocated to in-place lease origination costs and customer relationship values based on management's evaluation of the specific characteristics of each tenant's lease and our overall relationship with that respective tenant. Characteristics considered by management in allocating these values include the nature and extent of the credit quality and expectations of lease renewals, among other factors.

Cash and Cash Equivalents All highly liquid investments with an original maturity of three months or less when purchased are considered cash equivalents. Cash and cash equivalents consist of demand deposits at commercial banks and money market funds (some of which are backed by government securities). Cash equivalents are stated at cost plus accrued interest, which approximates market value.

Cash accounts maintained in demand deposits at commercial banks and money market funds may exceed federally insured levels; however, we have not experienced any losses in such accounts. We believe we are not exposed to any significant credit risk on cash and cash equivalents.

Accounts and Other Receivables Accounts and other receivables consist primarily of lease payments contractually due from tenants. On a monthly basis, we review the contractual payments versus the actual cash received. When we identify delinquencies, an estimate is made as to the amount of provision for loss related to doubtful accounts, if any, that may be needed based on our review of Property specific circumstances, including the analysis of the Property's operations and operating trends, current economic conditions and tenant payment history. At December 31, 2005 and 2004, we had reserves for doubtful accounts and other receivables of $7.2 million and $3.9 million, respectively. The total amount of the reserves, which represent the cumulative provisions less write-offs of uncollectible rent, if any, are recorded against accounts and other receivables in our consolidated balance sheets.

Deferred Loan Costs Loan costs are capitalized and are amortized as interest over the terms of the respective loan agreements on a basis which approximates the effective interest method. Unamortized deferred loan costs are expensed when the associated debt is retired before maturity.

Goodwill In connection with the acquisition of DASCO, we allocated $5.8 million to goodwill, which represented the excess of the purchase price plus closing costs paid over the fair market value of the tangible assets acquired in the business acquisition (see Note 19). In accordance with SFAS 141, and Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets," goodwill is not amortized but is tested quarterly for impairment. If quoted market prices are not available for the impairment analysis, we use other valuation techniques that involve measurement based on projected net earnings of the underlying reporting unit.

Investment in Unconsolidated Entity We own a 9.90% interest in CNL Plaza, Ltd., a limited partnership that owns an office building located in Orlando, Florida, in which the Advisor and its affiliates lease office space. Our investment in the partnership is accounted for using the equity method because we have significant influence.

Development Costs Development costs, including interest, real estate taxes, insurance and other costs incurred in developing new Properties, are capitalized during construction. Upon completion of construction, development costs are depreciated on a straight-line basis over the useful lives of the respective assets.

Capitalized Interest Interest, including loan costs for borrowings used to fund development and construction, is capitalized as construction in progress and allocated to the respective assets. For the years ended December 31, 2005 and 2004, interest of $4.8 million and $0.7 million, respectively, was capitalized to construction in progress.

Deferred Income Rental income contractually due under leases from Properties that are under development are recorded as deferred income. Upon completion of construction, deferred income is amortized to revenue on a straight-line basis over the remaining lease term.

Bonds Payable Our two CCRCs hold non-interest bearing life care bonds payable to certain residents of the CCRCs. Generally, the bonds are refundable to the resident or to the resident's estate upon termination or cancellation of the CCRC agreement. One of our other Seniors' Housing facilities requires that certain residents of the facility post non-interest bearing occupancy fee deposits that are refundable to the resident or the resident's estate the earlier of the re-letting of the unit or after two years of vacancy. Proceeds from the issuance of new bonds are used to retire existing bonds. As the maturity of these obligations is not determinable, no interest is imputed.

Minority Interests Minority interests in consolidated real estate partnerships represents the minority partners' share of the underlying net assets of the consolidated real estate partnerships. Net income or net losses, contributions and distributions for each partnership are allocated to the minority partner in accordance with the partnership agreement.

FF&E Reserve Income A furniture, fixture and equipment ("FF&E") cash reserve has been established with substantially all of the Seniors' Housing lease agreements. In accordance with the agreements, the tenants deposit funds into restricted FF&E cash reserve accounts and periodically use these funds to cover the cost of the replacement, renewal and additions to FF&E. In the event that the FF&E reserve is not sufficient to maintain the Property in good working condition and repair, we may make fixed asset expenditures, in which case annual rent would be increased.

All funds in the FF&E reserve accounts held by us, including the interest earned on the funds and all property purchased with the funds from the FF&E reserve are our assets; therefore, we recognize the FF&E reserve payments as income. FF&E purchased with FF&E reserve funds that improve or extend the useful lives of the respective Properties are capitalized. All other FF&E costs are recorded as property operating expenses in the accompanying consolidated financial statements. For a number of our leases, FF&E reserve accounts are held by each tenant until the end of the lease term at which time all property purchased with funds from the FF&E reserve accounts become our assets.

With respect to 13 Properties subject to direct financing leases, FF&E reserve accounts are held by each tenant and all property purchased with funds from the FF&E accounts will remain the property of the tenants. Accordingly, we do not recognize FF&E reserve income relating to these direct financing leases.

Derivative Instruments and Hedging Activities Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, we record all derivatives on the balance sheet at fair value. We do not invest in derivatives for trading purposes. Our objective in using derivatives is to limit exposure to changes in interest rates on our debt obligations. To accomplish this objective, we use interest rate swaps to hedge the variable cash flows associated with existing variable-rate debt. These interest rate swaps, designated as cash flow

hedges, involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. (See Note 12.)

Income Taxes We are taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and related regulations. As a REIT, we generally will not be subject to federal corporate income taxes on amounts distributed to stockholders, providing we distribute at least 90% of our REIT taxable income and meet certain other requirements for qualifying as a REIT. At December 31, 2005, 2004 and 2003, we were in compliance with all REIT requirements and were not subject to federal income taxes. State and local taxing authorities apply their own rules and regulations that adjust the federal taxable income of REITs to arrive at state taxable income. For the year ended December 31, 2005, we determined that the REIT would be subject to state and local income taxes of approximately $40,000.

We hold five wholly owned taxable REIT subsidiaries which enable us to engage in non-REIT activities. Taxable REIT subsidiaries are subject to federal, state, and local income taxes. For the year ended December 31, 2005, we determined that the taxable REIT subsidiaries collectively would be subject to federal income taxes and applicable state income taxes of approximately $0.4 million. We recorded a tax provision on each of the taxable REIT subsidiaries for their respective share of the estimated federal, state, and local income taxes. This provision is included in general and administrative expenses in the accompanying consolidated statements of income.

Income Per Share Basic income per common share is calculated based upon net income (income available to common stockholders) divided by the weighted-average number of shares of common stock outstanding during the period. As of December 31, 2005, 2004 and 2003, we did not have any potentially dilutive common shares.

Reclassifications Certain items in the prior periods' financial statements have been reclassified to conform to the 2005 presentation, including those related to our real estate held for sale (see Note 10). These reclassifications had no effect on reported equity or net income.

Recently Issued Accounting Pronouncements In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and SFAS No. 3" ("SFAS 154"). SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle by requiring that a voluntary change in accounting principle be applied retrospectively with all prior periods' financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS 154 also requires that a change in depreciation or amortization for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in

accounting principle and corrections of errors in previously issued financial statements should be termed a "restatement." SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We believe that the adoption of SFAS 154 will not have a material effect on our consolidated financial statements.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," ("FIN 47") an interpretation of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"("SFAS 143"). FIN 47, which is effective for fiscal years ended after December 15, 2005, clarifies that the term "conditional asset retirement obligation," as used in SFAS 143 refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. FIN 47 requires a company to recognize the liability for the fair value of the conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Any liability accrued is offset by an increase in the value of the asset. Adoption of FIN 47 did not have a material impact on our financial statements.

3. Public Offerings:

Upon formation in December 1997, we received an initial capital contribution of $200,000 for 20,000 shares of common stock from the Advisor. From our inception through December 31, 2005, we have made five public offerings and received subscriptions as follows (in thousands):

		Offering		Subscriptions	
Offering	**Date Completed**	**Shares(b)**	**Amount**	**Shares(c)**	**Amount**
Initial Offering	September 2000	15,500	$ 155,000	972	$ 9,719
2000 Offering	May 2002	15,500	155,000	15,500	155,000
2002 Offering	April 2003	45,000	450,000	45,000	450,000
2003 Offering	April 2004	175,000	1,750,000	156,793	1,567,925
2004 Offering	Open(a)	400,000	4,000,000	41,548	415,485
		651,000	$ 6,510,000	259,813	$ 2,598,129

(a) 2004 Offering will close on or before March 26, 2006.

(b) Includes reinvestment plan shares of 500 in each of the Initial and 2000 Offerings, 5,000 in the 2002 Offering, 25,000 in the 2003 Offering and 15,000 in the 2004 Offering.

(c) Includes reinvestment plan shares of 5 in the Initial Offering, 42 in the 2000 Offering, 129 in the 2002 Offering, 1,728 in the 2003 Offering and 8,749 in the 2004 Offering.

The price per share of all of the equity offerings of our common stock has been $10.00 per share, with the exception of (i) shares purchased pursuant to volume or other discounts and (ii) shares purchased through our reinvestment plan, which are currently priced at $9.50 per share.

In July 2004, the stockholders approved a resolution to amend our Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock from 450 million to one billion.

We incurred offering expenses, including selling commissions, marketing support fees, due diligence expense reimbursements, filing fees, legal, accounting, printing and escrow fees, which have been deducted from the gross proceeds of the offerings. Offering expenses together with selling commissions, marketing support fees and due diligence expense reimbursements will not exceed 13% of the proceeds raised in connection with our public offerings. Under our first four public offerings ("Prior Offerings"), the Advisor and its affiliates were entitled to selling commissions of 7.5%, a marketing support fee of 0.5% and an acquisition fee of 4.5% of gross offering and debt proceeds. Under the 2004 Offering, the Advisor and its affiliates are entitled to selling commissions of 6.5%, a marketing support fee of 2.0% and acquisition fees equal to 3.0% of gross offering and loan proceeds from permanent financing for the period from May 3, 2005 through December 31, 2005 (4.0% of gross proceeds and loan proceeds for the period from May 14, 2004 through May 2, 2005).

During the years ended December 31, 2005, 2004 and 2003, we incurred $18.4 million, $87.1 million and $101.3 million, respectively, in offering costs, including $14.1 million, $68.8 million and $85.1 million, respectively, in selling commissions and marketing support fees. These amounts are treated as stock issuance costs and charged to stockholders' equity.

4. Investment Properties:

Accounted for Using the Operating Method Properties subject to operating leases consisted of the following at December 31 (dollars in thousands):

	2005	2004
Land and land improvements	**$ 345,936**	$ 311,198
Buildings and building improvements	**2,523,724**	2,118,086
Tenant improvements	**96,084**	62,641
Equipment	**75,700**	65,936
	3,041,444	2,557,861
Less accumulated depreciation	**(157,746)**	(73,716)
	2,883,698	2,484,145
Construction in progress	**31,119**	96,803
	$ 2,914,817	$ 2,580,948
Number of Properties(1)(2):		
Seniors' Housing:		
Operating	**150**	130
Under construction	**1**	3
	151	133
Medical Facilities:		
Operating	**68**	49
Under construction	**5**	3
	73	52
	224	185

(1) At December 31, 2005, excludes four Seniors' Housing facilities and a parcel of land held for sale. At December 31, 2004, excludes four Seniors' Housing facilities held for sale.

(2) At December 31, 2005, includes 26 Medical Facilities and one Seniors' Housing facility subject to long-term ground lease agreements. At December 31, 2004, includes 20 Medical Facilities subject to long-term ground lease agreements.

For the years ended December 31, 2005, 2004 and 2003, we recognized $46.7 million, $40.4 million and $13.2 million, respectively, of revenue from the straight-lining of lease revenues over current contractually due amounts. These amounts are included in rental income from operating leases in the accompanying consolidated statements of income.

Future minimum lease payments contractually due under the noncancellable operating leases at December 31, 2005, exclusive of renewal option periods and contingent rents, were as follows (in thousands):

2006	$ 269,257
2007	272,121
2008	274,547
2009	275,613
2010	274,695
Thereafter	2,475,678
	$ 3,841,911

Accounted for Using the Direct Financing Method The components of net investment in direct financing leases consisted of the following at December 31 (dollars in thousands):

	2005	2004
Minimum lease payments receivable	**$ 1,477,576**	$ 1,529,171
Estimated residual values	**449,099**	449,099
Less unearned income	**(1,437,992)**	(1,498,219)
Net investment in direct financing leases	**$ 488,683**	$ 480,051
Properties subject to direct financing leases	**33**	33

Lease payments due to us relating to six land-only direct financing leases with a carrying value of $131.9 million are subordinate to first mortgage construction loans with third parties entered into by the tenants to fund development costs related to the Properties.

Future minimum lease payments contractually due on direct financing leases at December 31, 2005, were as follows (in thousands):

2006	$ 54,235
2007	55,224
2008	56,314
2009	58,126
2010	60,155
Thereafter	1,193,522
	$ 1,477,576

5. Intangible Lease Costs:

Intangible lease costs included the following at December 31 (in thousands):

	2005	2004
Intangible lease origination costs:		
In-place lease costs	**$ 103,736**	$ 88,740
Customer relationship values	**12,152**	11,698
	115,888	100,438
Less accumulated amortization	**(23,643)**	(9,934)
	92,245	90,504
Above-market lease values	**9,744**	8,475
Less accumulated amortization	**(2,378)**	(742)
	7,366	7,733
	$ 99,611	$ 98,237

Above-market lease values are amortized to rental income over the remaining terms of the leases acquired in connection with each applicable Property acquisition. Above-market lease amortization charged against rental income from operating leases in the accompanying consolidated statements of income was $1.7 million, $0.7 million and $0, respectively, for the years ended December 31, 2005, 2004 and 2003.

The estimated amortization expense for in-place lease costs and customer relationship values, and the estimated rental income amortization for above-market lease values at December 31, 2005, were as follows (in thousands):

	In-place lease costs	Customer relationship values	Above-market lease values
2006	$ 10,712	$ 1,902	$ 1,523
2007	8,849	1,294	1,225
2008	7,873	1,161	1,051
2009	7,147	984	934
2010	6,389	776	655
Thereafter	42,770	2,388	1,978
	$ 83,740	$ 8,505	$ 7,366

6. Restricted Cash:

Restricted cash included the following at December 31 (in thousands):

	2005	2004
Transfer agent escrows	**$ 4,980**	$ 13,214
Horizon Bay tenant rent deposit	**3,109**	9,537
FF&E reserves	**4,509**	4,894
Lender escrow reserves	**6,908**	3,808
Property acquisition deposits		1,950
Other	**2,414**	1,027
	$ 21,920	$ 34,430

7. Accounts and Other Receivables:

Accounts and other receivables included the following at December 31 (in thousands):

	2005	2004
Rental revenues receivable	**$ 27,301**	$ 21,790
Other receivables	**3,385**	2,655
	30,686	24,445
Allowance for doubtful accounts	**(7,200)**	(3,900)
	$ 23,486	$ 20,545

At December 31, 2005 and 2004, past due rents aggregated $14.8 million and $10.7 million, respectively. The provision for doubtful accounts for the years ended December 31, 2005, 2004 and 2003, was $3.4 million, $3.9 million and $0, respectively, which included $3.1 million, $3.9 million and $0, respectively, from continuing operations and $0.3 million, $0 and $0, respectively, from discontinued operations. Additionally, during 2005, accounts receivable of $0.1 million related to certain Medical Facilities tenants were written off.

8. Deferred Costs:

Deferred costs included the following at December 31 (in thousands):

	2005	2004
Financing costs	**$ 26,679**	$ 17,989
Leasing commissions	**989**	523
Other lease costs	**767**	341
	28,435	18,853
Less accumulated amortization	**(8,503)**	(5,408)
	19,932	13,445
Lease incentives	**5,153**	4,114
Less accumulated amortization	**(380)**	(90)
	4,773	4,024
	$ 24,705	$ 17,469

Lease incentive costs are amortized to rental income over the terms of the leases. Lease incentive cost amortization charged against rental income was $0.3 million, $0.1 million and $0, for the years ended December 31, 2005, 2004 and 2003, respectively.

9. Other Assets:

Other assets included the following at December 31 (in thousands):

	2005	2004
Senior Secured Term Loan(1)	**$ 16,000**	$
Property acquisition deposits	**10,601**	
Acquisition costs	**7,633**	2,972
Deferred receivables(2)	**6,638**	942
Prepaid expenses	**4,950**	6,400
Fair value of cash flow hedges	**4,839**	
Other	**2,274**	1,098
	$ 52,935	$ 11,412

(1) In August 2005, we entered into an agreement to provide an affiliate of the Cirrus Group, LLC ("Cirrus") with an interest only, five-year, senior secured term loan under which up to $85.0 million (plus capitalized interest) may be borrowed to finance the acquisition, development, syndication and operation of new and existing surgical partnerships ("Senior Secured Term Loan"). Certain of these surgical partnerships are tenants in the Medical Facilities acquired from Cirrus. During the first 48 months of the term, interest at a rate of 14.0%, will accrue, of which 9.5% will be payable monthly and the balance of 4.5% will be capitalized; thereafter, interest at the greater of 14.0% or LIBOR plus 9.0% will be payable monthly. The loan is subject to equity contribution requirements and borrower financial covenants that will dictate the draw down availability, is

collateralized by all of the assets of the borrower (comprised primarily of interest in partnerships operating surgical facilities in premises leased from a Cirrus affiliate) and is guaranteed up to $50.0 million through a combination of (i) a personal guarantee of up to $13.0 million by a principal of Cirrus and (ii) a guarantee of the balance by other principals of Cirrus under arrangements for recourse limited only to their interests in certain entities owning real estate. The carrying value of the loan at December 31, 2005, approximated its fair value.

In connection with the Senior Secured Term Loan, we received stock warrants which are exercisable into a 10% to 15% ownership interest of the borrower. The stock warrants are exercisable at the earlier of an event of default or the full repayment of the Senior Secured Term Loan and expire in September 2015.

(2)

Represents rental revenue receivable reclassified from accounts receivable to other assets in accordance with certain lease provisions.

10. Real Estate Held For Sale:

As of December 31, 2005, real estate held for sale included four Seniors' Housing facilities with an aggregate net carrying value of $9.4 million and a 10.4 acre parcel of land that was acquired in 2005 for $3.2 million as part of a portfolio of Seniors' Housing Properties. We determined to hold these Properties for sale during late 2004 and 2005 and recognized aggregate impairment charges of approximately $9.6 million to reduce the Properties' carrying value to their estimated fair value less the estimated costs to dispose. In July 2005, we entered into an agreement with a buyer to sell two of the Properties for an expected aggregate sales price of approximately $6.0 million. In January 2006, we entered into an agreement to sell one additional Property for an expected sales price of approximately $2.1 million.

In accordance with SFAS 144, we have reclassified the assets and operating results from the Seniors' Housing Properties as discontinued operations, restating previously reported results to reflect the reclassification on a comparable basis. These reclassifications had no effect on reported equity or net income.

The assets of the real estate held for sale were presented separately in the accompanying consolidated balance sheets and consisted of the following at December 31 (in thousands):

	2005	2004
Real estate investment properties accounted for using the operating method, net	**$ 12,066**	$ 16,599
Accrued rental income	**626**	583
	$ 12,692	$ 17,182

The operational results associated with the Properties were presented as income (loss) from discontinued operations in the accompanying consolidated statements of income. Summarized financial information was as follows (in thousands):

	2005	2004	2003
Rental income from operating leases	**$ 1,716**	$ 2,196	$ 960
Provision for doubtful accounts	**(350)**		
Impairment provisions	**(7,740)**	(1,883)	
Income (loss) from discontinued operations	**(6,834)**	(433)	596

11. Indebtedness:

Mortgage Notes Payable Mortgage notes payable and the Net Book Value ("NBV") of the associated collateral as of December 31, 2005, consisted of the following at December 31 (in thousands):

	2005	2004	NBV
Mortgage payable with both variable-rate and fixed-rate components. Fixed rate at 5.63% and variable rate based on the 3 to 9 month Fannie Mae Discount MBS rate plus 0.95% (5.39% combined weighted-average interest rate at December 31, 2005), maturing October 2013	**$ 241,871(1)**	$ 192,680	**$ 445,925**
Various mortgages payable, interest only payments at variable rates ranging from LIBOR plus 1.0% to 3.0% (5.70% weighted-average interest rate at December 31, 2005), maturing from November 2006 to March 2010	**284,105(2)**	193,931	**497,514**
Two mortgages payable, interest only payments at a 30-day commercial paper rate plus 1.82% or 2.15% (6.36% weighted-average interest rate at December 31, 2005), maturing March 2007 and May 2007	**43,920**	43,920	**98,103**
Various fixed-rate mortgages payable, interest only payments, bearing interest at rates ranging from 4.85% to 6.06%, (5.71% weighted-average interest rate at December 31, 2005), maturing September 2010 through November 2015	**263,810**	167,145	**517,757**
Various fixed-rate mortgages payable, principal and interest payments, including net premiums of $1.0 million and $0.7 million at December 31, 2005 and 2004, respectively, bearing interest at rates ranging from 4.91% to 8.42% (6.25% weighted-average interest rate at December 31, 2005), maturing July 2007 through November 2038	**386,484(3)**	339,913	**629,632**
	$ 1,220,190	$ 937,589	**$ 2,188,931**

(1) On October 3, 2005, we (i) exercised an extension option available under the $140.4 million mortgage notes that were to mature in October 2005, (ii) negotiated the inclusion of an

$82.2 million variable-rate mortgage loan due to mature in April 2008 and (iii) drew an additional $19.4 million under the facility, all with a new maturity date of October 2013. The facility contains provisions that will allow us to draw an additional $58.0 million upon providing additional collateral. Of the new $242.0 million mortgage note payable, $121.0 million bears fixed-rate interest at 5.63% requiring principal and interest payments through maturity and $121.0 million bears variable-rate interest based on the 3 to 9 month Fannie Mae Discount MBS rate plus 0.95% (5.16% at December 31, 2005) requiring interest only payments through maturity. We also have the option to convert the variable-rate debt component to fixed-rate debt.

(2) We entered into interest rate swap agreements tied to debt with an aggregate notional amount of $233.8 million to hedge against unfavorable fluctuations in LIBOR rates (see Note 12).

(3) Certain fixed-rate loans contain substantial prepayment penalties and/or defeasance provisions that could preclude the repayment of the loans prior to their maturity dates.

Maturities for all mortgage notes payable, excluding loan premiums of $1.0 million, at December 31, 2005 were as follows (in thousands):

2006	$	55,776
2007		66,989
2008		61,479
2009		143,453
2010		374,433
Thereafter		517,076
	$	1,219,206

Bonds Payable At December 31, 2005 and 2004, we had $98.0 million and $94.5 million, respectively, of non-interest bearing life care bonds at our two CCRCs and non-interest bearing occupancy fee deposits at a Seniors' Housing facility, all of which were payable to certain residents of the facilities (collectively "Bonds Payable"). During 2005, the tenants of the facilities issued new Bonds Payable to new residents of the facilities totaling $12.6 million and used the proceeds from the Bonds issued in the current period and prior periods to retire $9.1 million of Bonds on our behalf. At December 31, 2005, $68.7 million of the Bonds were refundable to the residents upon the resident moving out or to a resident's estate upon the resident's death and $29.4 million of the Bonds were refundable after the unit has been successfully remarketed to a new resident.

Construction Loans Payable Construction loans payable consisted of the following at December 31 (in thousands):

	Total Facility	2005	2004
Five construction loans payable, each bearing interest at 30-day LIBOR plus 2.25% (6.62% at December 31, 2005), with monthly interest only payments, maturing November 2006	**$ 83,100**	**$ 75,499**	$ 47,148
Construction loan payable bearing interest at the lender's base rate, as defined, less 0.75% with a minimum rate of 6.50% (6.50% at December 31, 2005), with monthly interest only payments, maturing December 2007	**48,000**	**44,696**	32,339
Construction loan payable bearing interest at 30-day LIBOR plus 1.75% (6.12% at December 31, 2005), with monthly interest only payments, maturing July 2009	**14,287**	**11,750**	2,021
Two construction loans payable bearing interest at 30-day LIBOR plus 1.60% (6.31% at December 31, 2005), with monthly interest only payments, maturing December 2009	**19,148**	**405**	
Construction loan payable bearing interest at 30-day LIBOR plus 1.70% (5.99% at December 31, 2005), with monthly interest only payments, maturing April 2012	**11,280**	**6,096**	
Construction loan payable bearing interest at 30-day LIBOR plus 1.80% (6.09% at December 31, 2005), with monthly interest only payments, maturing December 2013	**6,600**	**5,114**	
	$ 182,415	**$ 143,560**	$ 81,508

Line of Credit On August 23, 2005, we amended and restated our $85.0 million credit agreement and closed on a $320.0 million amended and restated senior secured revolving line of credit, which permits us to expand the borrowing capacity up to $400.0 million and extended the initial maturity date to August 23, 2007 (the "Revolving LOC"). The amount available for use under the Revolving LOC is subject to certain limitations based on the pledged collateral. The Revolving LOC is collateralized by 36 Properties with a carrying value of approximately $390.4 million at December 31, 2005, that in the aggregate, currently allows us to draw up to $283.0 million. The Revolving LOC contains two one-year extension options and may be used to fund the acquisition and development of Properties, purchase other permitted investments and for general corporate purposes. The Revolving LOC requires interest only payments at LIBOR plus a percentage that fluctuates depending on our aggregate amount of debt outstanding in relation to our total assets (6.20% all-in rate at December 31, 2005, which represents a pricing of LIBOR plus 170 basis points). At December 31, 2005, $75.0 million was outstanding under the Revolving LOC.

Term Loan. On January 13, 2005, we repaid and terminated a $60.0 million 14-day term loan used for the acquisition of Properties for which permanent financing was obtained in January 2005.

Interest and loan cost amortization expense was $76.2 million, $42.8 million and $9.6 million for the years ended December 31, 2005, 2004 and 2003, respectively, including $0.4 million, $1.1 million and $0 of loan costs written off related to the early termination of debt for the years ended December 31, 2005, 2004 and 2003, respectively. For the years ended December 31, 2005, 2004 and 2003, interest of $4.8 million, $0.7 million and $0, respectively, was capitalized to construction in progress.

The fair market value of our outstanding mortgage notes and construction loans payable was $1.4 billion at December 31, 2005.

We were in compliance with all of our financial covenants as of December 31, 2005.

12. Financial Instruments: Derivatives and Hedging:

In May 2005, we entered into two interest rate swap agreements effective June 1, 2005, and one interest rate swap agreement effective July 1, 2005, for an aggregate notional amount of $233.8 million to hedge against unfavorable fluctuations in interest rates on our variable interest rate mortgage notes payable. At December 31, 2005, derivatives with a fair value of $4.8 million were included in other assets in the accompanying consolidated balance sheets. The change in net unrealized gain of $4.8 million as of December 31, 2005, for derivatives designated as cash flow hedges is disclosed separately in the accompanying consolidated statements of stockholders' equity as the change in fair value of cash flow hedges.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. The change in net unrealized income on cash flow hedges reflects a reclassification of $0.6 million of net unrealized gain from accumulated other comprehensive income to interest expense during the year ended December 31, 2005. During the next twelve months, we expect to reclassify approximately $1.2 million of the current balance held in accumulated other comprehensive income related to the interest rate swaps to earnings as a reduction of interest expense.

Cash flow hedges at December 31, 2005 consisted of the following:

Hedge Type	Notional Amount	Rate	Maturity	Fair Value
	(in thousands)			(in thousands)
Swap, Cash Flow	$ 100,000	4.1840%	January 12, 2010	$ 2,062
Swap, Cash Flow	83,750	4.1764%	January 1, 2010	1,738
Swap, Cash Flow	50,000	4.2085%	March 31, 2010	1,039
	$ 233,750			$ 4,839

13. Intangible Lease Liability:

Intangible lease liability at December 31, 2005 and 2004, was $4.5 million and $3.7 million, respectively, consisting of the unamortized carrying value of below-market-rate leases associated with Properties acquired. Intangible lease liability is amortized over the remaining term of the associated lease, including below-market lease extension, if any. Intangible lease liability accreted to rental income from operating leases in the accompanying consolidated statements of income was $1.1 million, $0.7 million and $0, for the years ended December 31, 2005, 2004 and 2003, respectively.

14. Commitments and Contingencies:

Commitments Commitments, contingencies and guarantees by expiration period as of December 31, 2005 (in thousands):

	Less than 1 Year	2 - 3 Years	4 - 5 Years	Thereafter	Total
Pending investments(1)	$ 157,100	$	$	$	$ 157,100
Unfunded Senior Secured Term Loan(2)	69,000				69,000
Capital improvements to Properties	62,620				62,620
Earnout provisions(3)	25,979				25,979
Guarantee of uncollateralized promissory note of CNL Plaza, Ltd.(4)			2,313		2,313
	$ 314,699	$	$ 2,313	$	$ 317,012

(1) As of December 31, 2005, we had initial commitments to acquire 12 Medical Facilities for which we had posted a non-refundable $10.6 million deposit. In January 2006, we completed the acquisition of seven Medical Facilities for $84.5 million, including the application of $6.0 million of the non-refundable deposit that we had posted as of December 31, 2005. The remaining Properties are expected to be acquired in the first quarter of 2006. The acquisition of each of these Properties is subject to the fulfillment of certain conditions. There can be no assurance that any or all of the conditions will be satisfied or, if satisfied, that we will acquire one or more of these investments.

(2) Represents the unfunded portion under the $85.0 million Senior Secured Term Loan.

(3) In connection with the acquisition of 41 Properties, we may be required to make additional payments to the seller if certain earnout provisions are achieved by the earnout date for each Property. The calculation generally considers the net operating income for the Property, our initial investment in the Property and the fair value of the Property. In the event an amount is due, the applicable lease will be amended and annual minimum rent will increase accordingly. Amounts presented represent maximum exposure to additional payments. Earnout amounts related to six additional Properties are subject to future values and events which are not quantifiable at December 31, 2005, and are not included in the table above.

(4) In connection with the ownership of a 9.90% limited partnership interest in CNL Plaza, Ltd., we severally guaranteed 16.67%, or $2.3 million, of a $14.0 million uncollateralized promissory note of the general partner of the limited partnership that matures December 31, 2010. As of

December 31, 2005, the uncollateralized promissory note had an outstanding balance of $13.9 million.

Ground Leases Twenty-seven of our Properties are subject to ground leases. These ground leases have predetermined rent increases based on the CPI index or a defined percentage and termination dates ranging from 2038 to 2084. Twenty-one of the ground leases contain renewal options for terms of 30 to 50 years. During the years ended December 31, 2005, 2004 and 2003, we recognized ground lease expense of $0.5 million, $0.2 million and $0, respectively, including $0.2 million, $13,000 and $0, respectively, from the straight-lining of ground lease expense, which is included in Seniors' Housing property expenses and Medical Facilities operating expenses in the accompanying consolidated statements of income.

Future minimum lease payments due under ground leases at December 31, 2005, exclusive of renewal option periods, were as follows (in thousands):

2006	$ 372
2007	490
2008	491
2009	493
2010	495
Thereafter	23,750
	$ 26,091

Operating Leases At December 31, 2005, future minimum lease payments due under an operating lease for DASCO's administrative offices which terminates in 2011 were $0.2 million for each of the next six years.

Legal Matters From time to time, we are exposed to litigation arising from an unidentified pre-acquisition contingency or from the operation of our business. We do not believe that resolution of these matters will have a material adverse effect on our financial condition or results of operations.

15. Redemption of Shares:

We have a redemption plan under which we may elect to redeem shares, subject to certain conditions and limitations. Under the redemption plan, prior to such time, if any, as listing of our common stock on a national securities exchange or over-the-counter market occurs, any stockholder who has held shares for at least one year may present to us all or any portion equal to at least 25% of their shares for redemption in accordance with the procedures outlined in the redemption plan. Upon presentation, we may, at our option, redeem the shares, subject to certain conditions and limitations. However, at no time during a 12-month period may the number of shares we redeem exceed 5% of the number of shares of our outstanding common stock at the beginning of the 12-month period. During the years ended December 31, 2005, 2004 and 2003, 3,904,039 shares, 685,396 shares and 131,781 shares of common stock were redeemed and retired for $37.1 million, $6.5 million and $1.2 million, respectively. In the second quarter of 2004, we amended our redemption plan to change the redemption price from $9.20 per share to $9.50 per share.

16. Distributions:

For the years ended December 31, 2005, 2004 and 2003, approximately 67%, 60% and 71%, respectively, of the distributions paid to stockholders were considered ordinary income and approximately 33%, 40% and 29%, respectively, were considered a return of capital to stockholders for federal income tax purposes. For the years ended December 31, 2005, 2004 and 2003, no amounts distributed to the stockholders are required to be or have been treated by us as a return of capital for purposes of calculating the stockholders' 8% return, which is equal to an 8% cumulative, non-compounded annual return on the amount calculated by multiplying the total number of shares of common stock purchased by stockholders by the issue price, without deduction for volume or other discounts, reduced by the portion of any distribution that is attributable to net sales proceeds and by any amount we have paid to repurchase shares under our redemption plan.

17. Related Party Arrangements:

Certain of our directors and officers hold similar positions with the Advisor, the parent company of the Advisor and the managing dealer of our public offerings, CNL Securities Corp. Our chairman of the board indirectly owns a controlling interest in the parent company of the Advisor. These affiliates receive fees and compensation for services provided in connection with the common stock offerings, permanent financing and the acquisition, management and sale of our assets.

Pursuant to the Advisory Agreement, as amended and renewed, the Advisor and its affiliates earn certain fees and are entitled to receive reimbursement of certain expenses. During the years ended December 31, 2005, 2004 and 2003, the Advisor and its affiliates earned fees and incurred reimbursable expenses as follows (in thousands):

	Years ended December 31,		
	2005	**2004**	**2003**
Acquisition fees(1):			
From offering proceeds	**$ 5,874**	$ 38,286	$ 47,644
From debt proceeds	**13,789**	29,952	11,277
	19,663	68,238	58,921
Asset management fees(2)	**19,217**	13,047	4,372
Reimbursable expenses(3):			
Acquisition expenses	**210**	331	403
General and administrative expenses	**5,989**	4,313	2,255
	6,199	4,644	2,658
	$ 45,079	$ 85,929	$ 65,951

(1) For the period from May 3, 2005 through December 31, 2005, acquisition fees for, among other things, identifying Properties and structuring the terms of the leases were equal to 3.0% of gross offering proceeds and loan proceeds from permanent financing under the 2004 Offering (4.0% of gross offering and loan proceeds for the period from May 14, 2004 through May 2, 2005 and 4.5% of gross offering and loan proceeds under the Prior Offerings). These fees are included in other

assets in the accompanying consolidated balance sheets prior to being allocated to individual Properties or intangible lease costs.

If we list our common stock on a national securities exchange or over-the-counter market ("List" or "Listing"), the Advisor will receive an acquisition fee equal to 3.0% of amounts outstanding on the line of credit, if any, at the time of Listing. Certain fees payable to the Advisor upon Listing, the orderly liquidation or other sales of Properties are subordinate to the return of 100% of the stockholders' invested capital plus the achievement of a cumulative, noncompounded annual 8% return on stockholders' invested capital.

(2)

Monthly asset management fee of 0.05% of our real estate asset value, as defined in the Advisory Agreement, and the outstanding principal balance of any Mortgage Loans as of the end of the preceding month.

(3)

Reimbursement for administrative services, including, but not limited to, accounting; financial, tax, insurance administration and regulatory compliance reporting; stockholder distributions and reporting; due diligence and marketing; and investor relations.

Pursuant to the advisory agreement, the Advisor is required to reimburse us the amount by which the total operating expenses we pay or incur exceeds in any four consecutive fiscal quarters (the "Expense Year") the greater of 2% of average invested assets or 25% of net income (the "Expense Cap"). Operating expenses for the Expense Years ended December 31, 2005, 2004 and 2003, did not exceed the Expense Cap.

Of these amounts, approximately $1.1 million and $1.4 million were included in due to related parties in the accompanying consolidated balance sheets at December 31, 2005 and 2004, respectively.

CNL Securities Corp. received fees based on the amounts raised from our offerings equal to: (i) selling commissions of 6.5% of gross proceeds under the 2004 Offering and 7.5% under the Prior Offerings, (ii) a marketing support fee of 2.0% of gross proceeds under the 2004 Offering and 0.5% under the Prior Offerings and (iii) beginning on December 31, 2003, an annual soliciting dealer servicing fee equal to 0.2% of the aggregate proceeds raised in a prior offering. Affiliates of the Advisor are reimbursed for certain offering expenses incurred on our behalf. Offering expenses incurred by the Advisor and its affiliates on our behalf, together with selling commissions, the marketing support fee and due diligence expense reimbursements will not exceed 13% of the proceeds raised in connection with the offerings.

During the years ended December 31, 2005 and 2004, we incurred the following fees and costs (in thousands):

	Years ended December 31,	
	2005	**2004**
Selling commissions	**$ 10,801**	$ 61,830
Marketing support fee	**3,313**	6,648
Offering and due diligence costs	**4,250**	18,328
Soliciting dealer servicing fee		310
	$ 18,364	$ 87,116

Of these amounts, approximately $1.3 million and $0.2 million were included in due to related parties in the accompanying consolidated balance sheets at December 31, 2005 and 2004, respectively.

We own a 9.90% interest in CNL Plaza, Ltd. (the "Owner"), a limited partnership that owns an office building located in Orlando, Florida, in which the Advisor and certain affiliates of CNL Financial Group ("CFG") lease office space. CFG owns a controlling interest in the parent company of the Advisor and is indirectly wholly owned by James M. Seneff, Jr., our chairman of the board, and his wife. Robert A. Bourne, our vice-chairman of the board and treasurer, is an officer of CFG. The remaining interests in the Owner are held by several entities with present or former affiliations with CFG, including: CNL Plaza Venture, Ltd., which has a 1% interest as general partner of the Owner and whose general partner is indirectly wholly owned by Mr. Seneff and his wife; CNL Corporate Investors, Ltd., which is indirectly wholly owned by Messrs. Seneff and Bourne, and which has a 49.50% interest, as a limited partner, in the Owner; CNL Hotels & Resorts, Inc. which has a 9.90% interest, as a limited partner, in the Owner; Commercial Net Lease Realty, Inc., which has a 24.75% interest, as a limited partner, in the Owner; and CNL APF Partners, LP, which has a 4.95% interest, as a limited partner, in the Owner. We also own a 9.90% interest in CNL Plaza Venture, Ltd. (the "Borrower"), a Florida limited partnership, which is the general partner of the Owner. The remaining interests in the Borrower are held by the same entities in the same proportion described above with respect to the Owner.

In 2004, the Owner conveyed a small portion of the premises underlying the parking structure adjacent to its office building, valued by the parties at approximately $0.6 million, to CNL Plaza II, Ltd., a limited partnership in which Messrs. Seneff and Bourne own a 60% interest and 40% interest, respectively, as part of the development of the premises surrounding the building. The purpose of the conveyance was to adjust the percentage fee simple ownership under the parking structure so as to allow joint parking privileges for a new office building that was developed in 2005 and is owned by CNL Plaza II, Ltd. In connection with this transaction, the Owner received an ownership interest in a cross-bridge that was constructed and an anticipated benefit from a reduction in the allocation of its operating expenses for the garage. In addition, the Owner may be entitled to additional consideration pursuant to a purchase price adjustment.

On September 30, 2005, we executed a pro rata, several guarantee limited to 16.67%, or $2.3 million, of a $14.0 million uncollateralized promissory note of the Borrower that matures

December 31, 2010. During each of the years ended December 31, 2005 and 2004, we received approximately $0.2 million, respectively, in distributions from the Owner.

We maintain bank accounts in a bank in which certain of our officers and directors serve as directors and are principal stockholders. The amounts deposited with this bank were $3.1 million and $22.9 million at December 31, 2005 and 2004, respectively.

On September 1, 2004, a company which is owned by our chairman of the board sold its 30% voting membership interest in a limited liability company which is affiliated with ten of our tenants (the "HRA Tenants") to the remaining members of the limited liability company. The HRA Tenants contributed 30% and 35% of our total revenues for the years ended December 31, 2004 and 2003, respectively.

Century Capital Markets, LLC ("CCM"), an entity in which an affiliate of the Advisor was formerly a non-voting Class C member, made the arrangements for two commercial paper loans totaling $43.9 million. The monthly interest payments due under these commercial paper loans include an annual margin of either 30 or 40 basis points, payable to CCM for the monthly services it provides related to the administration of the commercial paper loans. Effective September 30, 2005, a non-affiliated third party assumed the administration of these commercial paper loans. Therefore, we now pay the monthly services fee directly to the non-affiliated third party. During the years ended December 31, 2005, 2004 and 2003, $0.1 million, $0.1 million and $0.2 million, respectively, was paid to CCM related to these services. During the year ended December 31, 2003, we also paid CCM a $0.2 million finder's fee related to the acquisition of two Properties.

Our chairman of the board is a director in a hospital that leases office space in seven of the Medical Facilities that we acquired in August 2004. Additionally, one of our independent directors is a director in a health system that leases office space in one of the Medical Facilities that we acquired in April 2004. During the years ended December 31, 2005 and 2004, these hospitals contributed less than 1% of our total revenues.

18. Concentration of Credit Risk:

At December 31, 2005, we leased our Seniors' Housing facilities to 22 tenants. Two tenants affiliated with Horizon Bay Management, LLC ("Horizon Bay") contributed 21% of total revenues for each of the years ended December 31, 2005 and 2004. The HRA Tenants contributed 22%, 30% and 35% of total revenues for the years ended December 31, 2005, 2004 and 2003, respectively. No other Seniors' Housing tenant contributed more than 10% of total revenues for the three years ended December 31, 2005. Several of our tenants, including the HRA Tenants, are thinly capitalized corporations that rely on the net operating income generated from the Seniors' Housing facilities to fund rent obligations under their leases. At December 31, 2005, $5.8 million of the $7.2 million allowance for doubtful accounts pertained to HRA Tenants. At December 31, 2005, our Medical Facilities were leased to more than 700 tenants.

At December 31, 2005, 107 of the 188 Seniors' Housing facilities were operated by Sunrise Senior Living Services, Inc. ("Sunrise"), a wholly owned subsidiary of Sunrise Senior Living, Inc. Additionally, as of December 31, 2005, a Seniors' Housing Property was being developed by Sunrise Development, Inc., a wholly owned subsidiary of Sunrise Senior Living, Inc. Upon completion of the development, the facility will be operated by Sunrise. Horizon Bay operates 27 Seniors' Housing facilities and six additional operators manage the remaining 53 Seniors' Housing facilities. At December 31, 2005, DASCO managed or was developing 53 of our 73 Medical Facilities, Cirrus managed 10 of our Medical Facilities and the remaining 10 Medical Facilities were managed by four third-party property managers. Sunrise, Horizon Bay, DASCO and ARC operated Property portfolios that, for each in the aggregate as operator, contributed 10% or more of total rental and earned income from leases. Sunrise contributed 42%, 45% and 76%, for the years ended December 31, 2005, 2004 and 2003, respectively; Horizon Bay contributed 22%, 24%, for the years ended December 31, 2005 and 2004, respectively; DASCO contributed 10% for the year ended December 31, 2005 and ARC contributed 13% for the year ended December 31, 2003. No other operator contributed more than 10% of total rental and earned income from leases.

To mitigate credit risk, certain Seniors' Housing leases are combined into portfolios that contain cross-default terms, so that if a tenant of any of the Properties in a portfolio defaults on its obligations under its lease, we may pursue remedies under the lease with respect to any of the Properties in the portfolio ("Cross-Default"). Certain portfolios also contain terms whereby the net operating profits of the Properties are combined for the purpose of funding rental payments due under each lease ("Pooling" or "Pooled"). In addition, as of December 31, 2005, we held $24.0 million in security deposits and rental support related to certain Properties.

We had the following remaining rental support and limited guarantees from certain tenants and operators at December 31, 2005 (dollars in thousands):

			Guarantee	
Guarantor	**Number of Properties**	**Maximum**	**Used Since Acquired**	**Remaining Balance**
Horizon Bay	21	$ 17,500	$ 14,391	$ 3,109
Aureus	11	10,000	2,255	7,745
ARC	8	(1)	9,416	(1)
Eby	6	(1)	329	(1)
Encore	17	(1)	791	(1)
Greenwalt	5	(1)	2,493	(1)
Sunrise	2	(1)		(1)
Sunrise	17	(2)	6,281	(2)
Sunrise	3	(3)	2,809	(3)

(1) Unconditional guarantees

(2) Sunrise guaranteed the tenants' obligations to pay minimum rent and the FF&E reserve funds under the 17 leases until the later of (i) March 2006 or (ii) 18 months after the final development date of certain Properties, as defined in the lease agreement. The final development Property

commenced operations in January 2006; accordingly, the Sunrise guarantee will terminate in July 2007.

(3) Sunrise guaranteed the tenants' rent obligations for these Seniors' Housing facilities that were acquired in 2004 and which commenced operations in 2004, until the later of (i) September 2006 or (ii) the Properties achieving predetermined rent coverage thresholds, which are not determinable at this time.

Although we acquire Properties located in various states and regions and screen our tenants in order to reduce risks of default, failure of certain lessees, their guarantors, or the Sunrise or Horizon Bay brands would significantly impact our results of operations.

19. Medical Facilities Acquisitions:

In April 2004, we acquired 22 Medical Facilities for an aggregate purchase price of $272.0 million, including closing costs (the "MOP Acquisition").

In August 2004, we acquired ownership interests in entities that own 28 Medical Facilities and a 55% interest in DASCO for $212.6 million, including closing costs. In November 2004, we acquired two additional Medical Facilities for $19.4 million, including closing costs (collectively, the "DASCO Acquisition"). Included in the DASCO Acquisition were certain limited partnerships with finite lives. Therefore, the minority interests in these partnerships meet the definition of mandatorily redeemable noncontrolling interests as specified in Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." We estimate that the settlement value of these mandatorily redeemable noncontrolling interests at December 31, 2005 was $13.7 million, based on the sale or disposition of all or substantially all of the assets of the partnerships and the repayments of outstanding liabilities as of that date.

In addition, certain partnerships that own Medical Facilities provide non-equity participation to various lessees or affiliates of lessees. Certain lessees in the Medical Facilities are entitled to receive a percentage of the pro rata net cash flow, as defined, for the term of their lease, calculated as the percentage of each lease with respect to the total leasable square footage. Such amounts are paid periodically, such as monthly or quarterly. Certain lessees are also entitled to a percentage of their pro rata share of net capital proceeds, as defined, upon the occurrence of a capital transaction (including, but not limited to, the sale or refinancing of the property). Such pro rata share is calculated as the percentage of each lease with respect to the total leasable square footage.

The fair value of assets acquired and liabilities assumed at the date of the MOP and DASCO Acquisitions were based on independent appraisals and valuation studies from independent third-party

consultants. The aggregate value of the assets acquired, including closing costs, and liabilities assumed were as follows (in thousands):

Assets:		
Real estate investment properties:		
Accounted for using the operating method	$	455,194
Intangible lease costs		47,372
		502,566
Cash and cash equivalents		530
Restricted cash		2,485
Deferred costs, net		1,018
Other assets		1,698
Goodwill		5,791
Total assets acquired		514,088
Liabilities:		
Mortgages payable		94,808
Construction loan payable		487
Accounts payable and other liabilities		8,117
Intangible lease liability		4,463
Security deposits		2,011
Total liabilities assumed		109,886
Minority interests		1,967
Net assets acquired	$	402,235

The amortization periods of the intangible lease costs acquired range from less than one year to 15 years.

The following condensed pro forma (unaudited) information assumes that the MOP and DASCO Acquisitions had occurred on January 1, 2003.

	Years Ended December 31,	
	2004	**2003**
Revenues	$ 298,164	$ 145,322
Expenses	178,495	92,623
Net income	118,396	51,903
Basic and diluted income per share	$ 0.56	$ 0.52
Weighted-average number of common shares outstanding (basic and diluted)	210,343	99,815

20. Subsequent Events:

In January 2006, we acquired seven Medical Facilities from Cirrus for $84.5 million which we funded, in part, with proceeds from a new $56.3, million ten-year mortgage loan that bears fixed-rate interest at 5.59%. Four of the acquired Properties are located in Texas, two are in Arizona and one is in Missouri, and in aggregate they contain approximately 255,000 square feet. Cirrus will manage the Properties.

In February 2006, we entered into a $7.7 million construction loan for the development of a Medical Facility that we acquired in November 2005. The construction loan will mature in 2010 and bears interest at a rate of LIBOR plus 160 basis points.

In February 2006, we entered into a $33.0 million mortgage loan and used the proceeds and cash on hand to pre-pay a $48.0 million construction loan facility that had $44.7 million outstanding at December 31, 2005. The new interest only, five-year loan bears interest at a rate equal to LIBOR plus 150 basis points.

In March 2006, we sold two Properties that were held for sale at December 31, 2005. The Properties were sold to an unrelated third party for $6.0 million and we took back a purchase money mortgage with a three-year term secured by the Properties in the amount of $4.8 million. Interest is payable annually at a rate of 6.0% and principle is due at maturity. We realized a net loss on the sale of the Properties of $0.2 million in March 2006.

During the period January 1, 2006, through March 15, 2006, we received subscription proceeds for an additional 2.6 million shares ($26.1 million) of common stock.

On January 1, February 1 and March 1, 2006, our Board of Directors declared distributions to stockholders of record on those dates, totaling $45.5 million, or the aggregate of $0.1776 per share of common stock, payable by March 31, 2006.

21. Selected Quarterly Financial Data (unaudited):

The following table presents selected unaudited quarterly financial data for each full quarter during the years ended December 31, 2005 and 2004 (in thousands, except per share amounts):

2005 Quarter	**First**	**Second**	**Third**	**Fourth**
Revenues(1)	**$ 91,329**	**$ 96,584**	**$ 97,540**	**$ 98,630**
Income from continuing operations(1)	**38,461**	**39,130**	**34,074**	**30,750**
Income (loss) from discontinued operations(1)	**(5,826)**	**(1,173)**	**(264)**	**429**
Net income	**32,635**	**37,957**	**33,810**	**31,179**
Income per share, basic and diluted:				
Continuing operations(1)	**0.16**	**0.16**	**0.14**	**0.12**
Discontinued operations(1)	**(0.02)**	**(0.01)**		
Net income	**0.14**	**0.15**	**0.14**	**0.12**

2004 Quarter	First	Second	Third	Fourth
Revenues(1)	$ 50,259	$ 62,850	$ 70,318	$ 79,342
Income from continuing operations(1)	27,415	29,340	30,428	31,168
Income (loss) from discontinued operations(1)	386	351	(1,514)	344
Net income	27,801	29,691	28,914	31,512
Income per share, basic and diluted:				
Continuing operations(1)	0.16	0.14	0.14	0.13
Discontinued operations(1)			(0.01)	
Net income	0.16	0.14	0.13	0.13

(1) The revenue, income from continuing operations and income (loss) from discontinued operations data in the table above has been restated from previously reported amounts to reflect the reclassification of the operating results from our real estate held for sale to discontinued operations (see Note 10).

CNL RETIRMENT PROPERTIES, INC.

Schedule II Valuation and Qualifying Accounts

Years Ended December 31, 2005, 2004, and 2003

(dollars in thousands)

Year	Description	Balance at Beginning of Year	Additions		Deductions		Balance at End of Year
			Charged to Costs and Expenses	Charged to Other Accounts	Deemed Uncollectible	Collected or Determined to be Collectible	
2003	Allowance for doubtful accounts(a)	$	$	$	$	$	$
2004	Allowance for doubtful accounts(a)	$	$ 3,900	$	$	$	$ 3,900
2005	Allowance for doubtful accounts(a)	$ 3,900	$ 4,544	$	$ 161	$ 1,083	$ 7,200

(a) Deducted from receivables on the balance sheet.

CNL Retirement Properties, Inc.
Schedule III Real Estate and Accumulated Depreciation
December 31, 2005
(dollars in thousands)

		Initial Cost to Company(2)		Costs Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period					
	Encumbrances(1)	Land	Building, Fixtures and Equipment	Land	Building, Fixtures and Equipment	Land	Building, Fixtures and Equipment	Total	Accumulated Depreciation(a)	Date Constructed	Date Acquired
Brighton Gardens of Orland Park, IL	$	$ 2,162	$ 12,577	$	$ 73	$ 2,162	$ 12,650	$ 14,812	$ 2,505	1999	Apr-00
Broadway Plaza at Pecan Park, TX	3,600	1,344	9,425			1,344	9,425	10,769	1,266	2000	Nov-01
Homewood Residence at Boca Raton, FL	4,400	1,144	8,734			1,144	8,734	9,878	1,171	2000	Nov-01
Holley Court Terrace, IL		2,144	16,850			2,144	16,850	18,994	1,839	1992	Feb-02
Homewood Residence at Coconut Creek, FL	2,602	1,683	8,193			1,683	8,193	9,876	1,050	2000	Feb-02
Heritage Club at Greenwood Village, CO		1,965	18,025		180	1,965	18,205	20,170	2,128	1999	Mar-02
Mapleridge of Dartmouth, MA	4,403	920	8,799		68	920	8,867	9,787	896	1999	May-02
Mapleridge of Laguna Creek, CA	3,738	812	7,407			812	7,407	8,219	764	1999	May-02
Brighton Gardens of Towson, MD	6,706	990	14,109	(22)	163	968	14,272	15,240	1,462	1999	May-02
Brighton Gardens of Camarillo, CA	8,673	2,487	16,676	(1)	110	2,486	16,786	19,272	1,761	1999	May-02
Vero Beach, FL	46,027	1,786	44,821			1,786	44,821	46,607	400	2005	Aug-02
Homewood Residence at Brookmont Terr., TN	1,931	464	8,652			464	8,652	9,116	908	2000	Nov-02
Mapleridge of Hemet, CA	3,110	1,176	3,087		44	1,176	3,131	4,307	376	1998	Dec-02
Brighton Gardens of Tulsa, OK	3,544	1,538	3,310	21	77	1,559	3,387	4,946	450	1999	Dec-02
Pleasant Hills, AR	8,050	523	10,427	241	281	764	10,708	11,472	969	1984	Dec-02
Brighton Gardens of Hoffman Estates, IL	5,708	1,724	6,064		74	1,724	6,138	7,862	656	1999	Dec-02
Mapleridge of Willoughby, OH	3,731	1,091	4,032	84	60	1,175	4,092	5,267	447	1998	Dec-02
Mapleridge of Plymouth, MA	3,466	1,090	3,667	8	73	1,098	3,740	4,838	428	2000	Dec-02
Hearthside of Lynwood, WA	3,196	1,530	5,068	10	247	1,540	5,315	6,855	451	1989	Dec-02
Hearthside of Snohomish, WA	4,362	645	8,364	3	71	648	8,435	9,083	683	1993	Dec-02
Brighton Gardens of Vinings, GA	3,741	1,773	5,830	8	112	1,781	5,942	7,723	614	1999	Dec-02
Brighton Gardens of Oklahoma City, OK	1,850	784	3,000	10	80	794	3,080	3,874	404	1999	Dec-02
Brighton Gardens of Bellevue, WA	5,175	2,165	8,506		69	2,165	8,575	10,740	835	1999	Dec-02
Brighton Gardens of Santa Rosa, CA	8,496	2,161	15,044	989	(2,530)	3,150	12,514	15,664	1,245	2000	Dec-02
Brighton Gardens of Denver, CO	10,936	1,084	17,245			1,084	17,245	18,329	1,341	1996	Mar-03

Brighton Gardens of Colorado Springs, CO	10,085	1,073	15,829			1,073	15,829	16,902	1,210	1999	Mar-03
Brighton Gardens of Lakewood, CO	11,512	1,073	18,221			1,073	18,221	19,294	1,385	1999	Mar-03
Brighton Gardens of Rancho Mirage, CA	7,017	1,716	12,482	5	120	1,721	12,602	14,323	1,192	2000	Mar-03
The Fairfax, VA	43,894	17,641	60,643		9,795	17,641	70,438	88,079	4,991	1989/2005	Mar-03
The Quadrangle, PA	52,792	23,148	90,769	(37)	1,522	23,111	92,291	115,402	7,326	1987	Mar-03
Brighton Gardens of Yorba Linda, CA	10,203	2,397	11,410		86	2,397	11,496	13,893	954	2000	Mar-03
Brighton Gardens of Salt Lake City, UT	11,372	392	15,013	5	89	397	15,102	15,499	1,296	1999	Mar-03
Brighton Gardens of Northridge, CA	7,475	3,485	11,634	(1)	70	3,484	11,704	15,188	1,147	2001	Mar-03
Mapleridge of Palm Springs, CA	1,346	884	1,873		48	884	1,921	2,805	252	1999	Mar-03
Brighton Gardens of Edgewood, KY	1,347	886	1,876	6	36	892	1,912	2,804	299	2000	Mar-03
Brighton Gardens of Greenville, SC	2,097	352	3,938	4	75	356	4,013	4,369	498	1998	Mar-03
Brighton Gardens of Saddle River, NJ	7,867	2,155	10,968			2,155	10,968	13,123	934	1998	Mar-03
Balmoral of Palm Harbor, FL		1,002	11,493	2	333	1,004	11,826	12,830	901	1996	Jul-03
Somerby at University Park, AL	37,322	2,633	49,166		3,603	2,633	52,769	55,402	3,489	1999	Aug-03
Somerby at Jones Farm, AL	20,361	719	23,136		6,136	719	29,272	29,991	1,833	1999	Nov-03
Brighton Gardens of Tampa, FL		1,670		4	117	1,674	117	1,791	12	1998	Aug-03
Greentree at Ft. Benjamin Harrison, IL		469	4,761			469	4,761	5,230	296	1999	Sep-03
Greentree at Mt. Vernon, IL		225	7,244		1,830	225	9,074	9,299	531	2000	Sep-03
Greentree at Post, IN		287	4,934			287	4,934	5,221	290	1999	Sep-03
Greentree at West Lafayette, IN		319	5,264		1,883	319	7,147	7,466	385	1999	Sep-03
Sunrise of Arlington, VA	3,543	765	6,463	19	228	784	6,691	7,475	499	1988	Sep-03
Sunrise of Bluemont Park, VA	14,021	2,359	26,196	37	307	2,396	26,503	28,899	1,824	1989	Sep-03
Sunrise of Countryside, VA	7,335	2,288	12,583	7	291	2,295	12,874	15,169	948	1945/88	Sep-03
Sunrise of Falls Church, VA	4,341	1,221	7,631	3	73	1,224	7,704	8,928	600	1993	Sep-03
Sunrise of Farmington Hills, MI	4,690	1,212	8,414	18	56	1,230	8,470	9,700	695	1999	Sep-03

Sunrise of Frederrick, MD	3,443	118	6,971	3	110	121	7,081	7,202	483	1991	Sep-03
Sunrise of Leesburg, VA	1,048	399	1,701		25	399	1,726	2,125	144	1850/1989	Sep-03
Sunrise of Mercer Island, WA	3,892	744	7,225	28	223	772	7,448	8,220	520	1990	Sep-03
Sunrise of Mills Basin, NY	12,075	2,596	22,134	25	63	2,621	22,197	24,818	1,623	2002	Sep-03
Sunrise of Poland, OH	4,291	742	8,044	21	33	763	8,077	8,840	544	1998	Sep-03
Sunrise of Raleigh, NC	3,143	457	5,935	3	109	460	6,044	6,504	503	1996	Sep-03
Sunrise of Sheepshead Bay, NY	12,823	3,856	22,395	24	24	3,880	22,419	26,299	1,512	2000	Sep-03
Sunrise of Beverly Hills, CA	19,806	3,950	24,230			3,950	24,230	28,180	156	2005	Sep-03
Sunrise of Cresskill, NJ	25,973	4,632	33,212			4,632	33,212	37,844	176	(3)	Sep-03
Sunrise of Edmonds, WA	10,072	968	12,681			968	12,681	13,649	457	2004	Sep-03
Sunrise at Five Forks, GA	8,126	997	11,161		132	997	11,293	12,290	683	2004	Sep-03
Sunrise of Madison, NJ	11,522	1,608	14,345			1,608	14,345	15,953	566	2004	Sep-03
Dogwood Forest of Dunwoody, GA		837	4,952		142	837	5,094	5,931	315	2000	Nov-03
EdenGardens of Gainesville, FL		436	7,789		47	436	7,836	8,272	484	2000	Nov-03
EdenBrook of Jacksonville, FL		1,114	6,112	14	312	1,128	6,424	7,552	490	1999	Nov-03
EdenBrook of Tallahassee, FL		670	11,664		98	670	11,762	12,432	717	1999	Nov-03
EdenGardens of Aiken, SC	4,901	369	7,139	7	113	376	7,252	7,628	461	1995	Nov-03
EdenBrook of Alpharetta, GA	4,411	718	6,330		30	718	6,360	7,078	406	2000	Nov-03
EdenGardens of Arlington, TX		350	8,538	8	4	358	8,542	8,900	506	2000	Nov-03
EdenTerrace of Arlington, TX		668	7,616	47	105	715	7,721	8,436	485	2000	Nov-03
EdenBrook of Buckhead, GA	4,411	782	6,971		11	782	6,982	7,764	467	2000	Nov-03
EdenBrook of Champions, TX		530	11,581		54	530	11,635	12,165	713	2000	Nov-03
EdenBrook of Charleston, SC	4,901	422	8,827	7	101	429	8,928	9,357	560	2000	Nov-03
EdenGardens of Columbia, SC		300	4,043	9	167	309	4,210	4,519	270	1996	Nov-03
EdenGardens of Concord, NC	2,419	393	3,548			393	3,548	3,941	228	1998	Nov-03

Edenbrook of Dunwoody, GA	4,629	368	4,559	7	208	375	4,767	5,142	357	1998	Nov-03
Edenbrook of Hunstville AL		605	8,900		86	605	8,986	9,591	579	2001	Nov-03
EdenGardens of Kingwood, TX		467	8,418		27	467	8,445	8,912	552	2001	Nov-03
EdenTerrace of Kingwood, TX		572	10,527		99	572	10,626	11,198	681	2001	Nov-03
EdenBrook of Louisville, KY	6,540	623	10,144	7	69	630	10,213	10,843	649	2001	Nov-03
EdenTerrace of Louisville, KY	7,769	886	11,897	5	15	891	11,912	12,803	746	2001	Nov-03
EdenGardens of Marietta, GA		571	4,397		49	571	4,446	5,017	287	1998	Nov-03
EdenBrook of Plano, TX	6,273	464	12,004		28	464	12,032	12,496	730	2000	Nov-03
EdenGardens of Rock Hill, SC		277	6,783	23	222	300	7,005	7,305	459	1995	Nov-03
EdenBrook of The Woodlands, TX	4,901	395	13,490		40	395	13,530	13,925	822	2000	Nov-03
Summit at Park Hills, OH		149	6,230			149	6,230	6,379	254	2001	Jun-04
Brighton Gardens of Carlsbad, CA	13,961	5,530	9,007			5,530	9,007	14,537	324	1999	Nov-04
Brighton Gardens of San Dimas, CA	12,535	3,390	19,788			3,390	19,788	23,178	632	1999	Nov-04
Brighton Gardens of Carmel Valley, CA	7,849	3,729	22,081			3,729	22,081	25,810	714	1999	Nov-04
Brighton Gardens of San Juan Capistrano, CA	4,380	3,009	5,144			3,009	5,144	8,153	234	1999	Nov-04
Brighton Gardens of Woodbridge, CT	3,777	1,624	5,457			1,624	5,457	7,081	192	1998	Nov-04
Brighton Gardens of Pikesville, MD	14,646	1,118	8,264			1,118	8,264	9,382	288	1999	Nov-04
Brighton Gardens of North Shore, MA	4,958	1,815	25,311			1,815	25,311	27,126	772	1999	Nov-04
Brighton Gardens of Dedham, MA	11,055	1,806	18,682			1,806	18,682	20,488	613	1999	Nov-04
Brighton Gardens of Paramus, NJ	12,226	2,826	20,012			2,826	20,012	22,838	653	1999	Nov-04
Brighton Gardens of Arlington, VA	10,029	4,658	13,907			4,658	13,907	18,565	458	1999	Nov-04
Brighton Gardens of Richmond, VA	4,584	905	7,604			905	7,604	8,509	266	1999	Nov-04
Bickford Cottage of Davenport, IA	3,411	213	5,639			213	5,639	5,852	211	1999	Aug-04
Bickford Cottage of Marion, IA	2,794	224	5,711			224	5,711	5,935	213	1998	Aug-04
Bickford Cottage of Champaign, IL		54	2,501			54	2,501	2,555	100	2003	Aug-04

Bickford House of Bloomington, IL		514	6,866			514	6,866	7,380	262	2000	Aug-04
Bickford Cottage of Macomb, IL		54	4,315			54	4,315	4,369	164	2003	Aug-04
Bickford Cottage of Peoria, IL		375	7,659			375	7,659	8,034	290	2001	Aug-04
Courtyard Manor of Auburn Hills, MI		1,746	7,574		31	1,746	7,605	9,351	367	1999	Apr-04
Courtyard Manor at Sterling Heights, MI		1,076	7,834	5	11	1,081	7,845	8,926	375	1989	Apr-04
The Park at Olympia Fields, IL	22,007	3,303	38,891			3,303	38,891	42,194	1,910	1999	Feb-04
East Bay Manor, RI	9,372	686	12,752			686	12,752	13,438	652	1992	Feb-04
Greenwich Bay Manor, RI	6,540	180	11,401		103	180	11,504	11,684	573	1980	Feb-04
West Bay Manor, RI	10,982	1,900	15,481		79	1,900	15,560	17,460	768	1972	Feb-04
Waterside Retirement Estates, FL	26,033	1,820	32,645		56	1,820	32,701	34,521	1,575	1980	Feb-04
Carrington Pointe, CA	16,718	1,636	27,753	10		1,646	27,753	29,399	1,323	1988	Feb-04
Cherry Hills Club, CA	9,815	1,428	23,814			1,428	23,814	25,242	1,178	1987	Feb-04
The Park at Golf Mills, IL	28,346	2,291	58,811		38	2,291	58,849	61,140	2,869	1989	Feb-04
The Heritage Palmeras, AZ	32,319	1,556	45,622		428	1,556	46,050	47,606	2,246	1996	Feb-04
The Pointe at Newport Place, FL	4,696	900	6,453		37	900	6,490	7,390	376	2000	Feb-04
Newport Place, FL	28,938	5,265	41,850		110	5,265	41,960	47,225	2,063	1993	Feb-04
Prosperity Oaks, FL	21,039	5,415	59,690	63	519	5,478	60,209	65,687	2,903	1988	Feb-04
Pinecrest Place Retirement Community, FL	31,815	893	60,674		149	893	60,823	61,716	2,968	1988	Feb-04
North Bay Manor, RI		464	19,402			464	19,402	19,866	973	1989	Feb-04
South Bay Manor, RI		654	16,606			654	16,606	17,260	821	1988	Feb-04
Emerald Bay Manor, RI		1,382	18,237			1,382	18,237	19,619	925	1999	Feb-04
Treemont Retirement Community, TX		3,211	17,096		423	3,211	17,519	20,730	887	1974	Feb-04
The Park at Riverchase, AL		1,159	6,246			1,159	6,246	7,405	372	1997	Feb-04
Heron's Run, FL		446	1,798			446	1,798	2,244	89	1993	Feb-04
Sakonnet Bay Manor, RI		4,383	21,963			4,383	21,963	26,346	797	1998	Aug-04
Terrace at Memorial City, TX	19,000	4,336	33,496	15		4,351	33,482	37,833	962	1992	Dec-04

Spring Shadows Place, TX	6,419	2,943	6,288		2,943	6,288	9,231	186	1973	Dec-04
Terrace at West University, TX	17,281	3,650	24,976		3,650	24,976	28,626	763	1998	Dec-04
Terrace at Willowbrook, TX	17,800	2,243	23,551		2,243	23,551	25,794	685	1996	Dec-04
Terrace at Clear Lake, TX	11,750	2,068	22,769		2,068	22,769	24,837	689	2000	Dec-04
Terrace at First Colony, TX	17,750	2,160	22,871		2,160	22,871	25,031	691	2000	Dec-04
Sunrise of Des Peres, MO		4,129	16,284		4,129	16,284	20,413	634	2004	Mar-04
Sunrise of Clayton, MO		3,565	14,819		3,565	14,819	18.384	735	2004	Mar-04
Sunrise of Wilmette, IL		2,640	7,053		2,640	7,053	9,693	296	2004	Mar-04
Boardwalk Medical Office, TX	7,587	1,665	11,366		1,665	11,366	13,031	707	1997	Apr-04
Las Colinas Medical Plaza II, TX	6,863	1,763	8,801	1	1,763	8,802	10,565	665	2001	Apr-04
Independence Park-4204, NC	3,376	1,768	8,160	440	1,768	8,600	10,368	567	1994	Apr-04
Independence Park-4228, NC	1,070	888	2,483		888	2,483	3,371	243	1997	Apr-04
Independence Park-4233, NC	1,263	1,880	2,075		1,880	2,075	3,955	406	1996	Apr-04
Independence Park-4323, NC	1,153	694	2,647		694	2,647	3,341	195	1997	Apr-04
Tampa Medical Tower, FL	6,069	2,648	7,243	736	2,648	7,979	10,627	1,355	1984	Apr-04
Yorktown 50, VA	14,722	2,089	22,618	337	2,089	22,955	25,044	1,553	1974	Apr-04
Sherman Oaks Medical Center, CA	9,545	9,024	5,272	158	9,024	5,430	14,454	1,127	1953	Apr-04
Valencia Medical Center, CA	5,117	1,312	5,336	130	1,312	5,466	6,778	575	1983	Apr-04
Encino Medical Plaza, CA	7,429	6,904	9,253	246	6,904	9,499	16,403	1,108	1973	Apr-04
Rocky Mountain Cancer Center, CO	4,601	1,069	7,801	45	1,069	7,846	8,915	466	1993	Apr-04
Aurora Medical Center II, CO	5,209	134	9,220	92	134	9,312	9,446	887	1994	Apr-04
Aurora Medical Center I, CO	4,653	123	8,485	142	123	8,627	8,750	921	1981	Apr-04
Dorsey Hall Medical Center, MD	3,833	1,324	4,020	51	1,324	4,071	5,395	504	1988	Apr-04
Chesapeake Medical Center, VA		2,087	7,520	11	2,087	7,531	9,618	793	1988	Apr-04
Randolph Medical Center, MD		2,575	6,453	644	2,575	7,097	9,672	656	1975	Apr-04

Plano Medical Center, TX		2,519	12,190		140	2,519	12,330	14,849	1,125	1984	Apr-04
Medical Place I, TX		19	24,746		402	19	25,148	25,167	2,568	1984	Apr-04
Northwest Regional Medical Center, TX		599	6,646		14	599	6,660	7,259	474	1999	Apr-04
The Diagnostic Clinic, FL		2,569	26,918		137	2,569	27,055	29,624	1,691	1972	Apr-04
BayCare Health Headquarters, FL		3,019	6,713			3,019	6,713	9,732	702	1988	Apr-04
Southwest General Birth Place, TX		990	12,308			990	12,308	13,298	559	1994	Aug-04
Baytown Plaza I & II, TX	1,200	337	1,096		1	337	1,097	1,434	237	1972	Aug-04
South Seminole Medical Office Building II, FL	2,710	709	4,063		51	709	4,114	4,823	486	1987	Aug-04
South Seminole Medical Office Building III, FL	1,500	769	1,768		6	769	1,774	2,543	358	1993	Aug-04
Orlando Professional Center I, FL	800	384	788		29	384	817	1,201	162	1969	Aug-04
Orlando Professional Center II, FL	1,600	1,258	1,704	323	29	1,581	1,733	3,314	274	1963	Aug-04
Oviedo Medical Center, FL	4,500	1,712	6,484		439	1,452	6,923	8,375	1,101	1997	Aug-04
MedPlex B at Sand Lake Commons, FL	2,400	2,679	3,235		66	2,679	3,301	5,980	294	1988	Aug-04
Eagle Creek Medical Plaza, KY	1,900	14	3,411		258	14	3,669	3,683	501	1982	Aug-04
Sand Lake Physicians Office Building, FL		23	1,748			23	1,748	1,771	161	1985	Aug-04
North Alvernon Medical, AZ	6,250	2,969	9,197		86	2,969	9,283	12,252	883	1986	Aug-04
St. Joseph's Medical Plaza, AZ	6,250	511	7,736		39	511	7,775	8,286	697	1985	Aug-04
Mercy Medical Office Building	1,650		3,049		11		3,060	3,060	315	1986	Aug-04
Elgin Medical Office Building I, IL	4,000		6,291		74		6,365	6,365	581	1991	Aug-04
Elgin Medical Office Building II, IL	4,250		6,861		60		6,921	6,921	727	2001	Aug-04
Santa Rosa Medical Office Building, GA		13	8,111		196	13	8,307	8,320	388	2003	Aug-04
Fannin Medical Office Building, GA		9	2,397		118	9	2,515	2,524	135	2002	Aug-04
Physicians East and West, TX		3	4,276		156	3	4,432	4,435	425	1991	Aug-04
Brentwood Medical Center, CA		10	26,331			10	26,331	26,341	453	2005	Aug-04
Heartland Regional Medical Office Building, IL		99	9,788		305	99	10,093	10,192	791	2002	Aug-04

Saint Joseph East Office Park, KY		17	9,896	212	17	10,108	10,125	525	2003	Aug-04
Central Mississippi Medical Center Building, MS		34	8,409	236	34	8,645	8,679	463	2002	Aug-04
River Oaks Medical Building, MS		19	7,127	456	19	7,583	7,602	404	2003	Aug-04
Parker Adventist Professional Building, CO		16	14,586	1,091	16	15,677	15,693	908	2004	Aug-04
NASA Parkway Medical Office Building, TX		460	7,478	19	460	7,497	7,957	453	2002	Aug-04
Lake Granbury Medical Plaza, TX		63	6,197	1,690	63	7,887	7,950	330	2001	Aug-04
Durant Medical Center, OK		1,133	7,914	170	1,133	8,084	9,217	467	1998	Aug-04
Jackson Central II, MS	5,114		4,729			4,729	4,729	46	2005	Aug-04
McDowell Mountain Medical Plaza, AZ	10,866	6,219	9,066	6 161	6,225	9,227	15,452	762	1999	Nov-04
Lakeside Healthpark Medical Office Building, NE	11,750		12,024			12,024	12,024	200	2005	Nov-04
Texarkana Professional Building, TX	7,585	1,061	7,620		1,061	7,620	8,681	255	1978	Jan-05
The Park at Vernon Hills, IL	25,063	3,481	47,220		3,481	47,220	50,701	1,101	2001	Feb-05
Oakbrook Terrace Medical Center I, IL		1,446	8,188		1,446	8,188	9,634	636	1989	Feb-05
Oakbrook Terrace Medical Center II, IL		1,162	8,665		1,162	8,665	9,827	455	1986	Feb-05
Deaconess-Gateway Medical Office Building, IN	6,096		6,739			6,739	6,739	40	2005	Feb-05
Canyon Hills Club, CA	14,585	2,599	28,696		2,599	28,696	31,295	533	1989	Mar-05
Woodmont Retirement Residence, FL	4,986	388	9,120		388	9,120	9,508	172	1986	Mar-05
Calaroga Terrace, OR	14,327	1,875	16,628		1,875	16,628	18,503	320	1968	Mar-05
Encore Senior Village at Naples, FL	786	1,005	1,280		1,005	1,280	2,285	31	1999	Mar-05
Encore Senior Village at Clearwater, FL	3,575	595	4,522		595	4,522	5,117	91	1999	Mar-05

Encore Senior Village at Fort Myers, FL	2,476	1,400	4,417	1,400	4,417	5,817	85	1998	Mar-05
Encore Senior Village at Greenacres, FL	3,534	2,191	3,260	2,191	3,260	5,451	66	1998	Mar-05
Encore Senior Village at Pensacola, FL	3,123	523	5,508	523	5,508	6,031	100	1997	Mar-05
Carpenter's Creek-Pensacola, FL	5,579	547	8,533	547	8,533	9,080	165	1988	Mar-05
Valley Crest, CA	1,226	298	2,241	298	2,241	2,539	42	1986	Mar-05
Encore Senior Village at Riverside, CA	2,276	805	2,824	805	2,824	3,629	53	1997	Mar-05
Encore Senior Village at Peoria, AZ	7,216	1,241	8,810	1,241	8,810	10,051	158	1997	Mar-05
Encore Senior Village at Paradise Valley, AZ	3,181	1,649	3,357	1,649	3,357	5,006	61	1998	Mar-05
Encore Senior Village at Tucson, AZ	6,180		8,836		8,836	8,836	170	1999	Mar-05
Encore Senior Village at Portland, OR	7,308	889	10,491	889	10,491	11,380	203	1997	Mar-05
Millcreek Retirement Residence, UT	3,540	365	4,581	365	4,581	4,946	89	1996	Mar-05
Mary Washington Hospital, VA		1,403	2,675	1,403	2,675	4,078		(3)	Apr-05
Sierra Vista, CA	1,657	337	1,786	337	1,786	2,123	23	1990	Jun-05
Mission Surgery Center, TN			10,477		10,477	10,477	250	2003	Jun-05
Memorial Plaza, TN			36		36	36	341	1995	Jun-05
St. Vincent Clinic-South University, AR		653	3,008	653	3,008	3,661	45	1983	Jun-05
St. Vincent Clinic-Rodney Parham, AR		652	74	652	74	726	3	1972	Jun-05
St Anthony's, CO								(3)	Sep-05
Park Cities Medical Plaza, TX	10,575	1,375	14,177	1,375	14,177	15,552	149	2002	Sep-05
Trophy Club Professional Office Building, TX	11,375	945	23,420	945	23,420	24,365	249	2004	Sep-05
Trophy Club Medical Center, TX	16,380	1,444	16,161	1,444	16,161	17,605	202	2004	Sep-05

Glen Lakes Health Plaza, TX	4,615	1,380	5,927			1,380	5,927	7,307	135	1981	Sep-05
Valley View Medical Building, TX	3,315	1,122	4,010			1,122	4,010	5,132	75	1973	Sep-05
Coppell Healthcare Center, TX	4,940	1,144	6,605			1,144	6,605	7,749	111	2004	Sep-05
Meridian Medical Tower, OK	4,290	1,316	5,271			1,316	5,271	6,587	200	1982	Sep-05
Meridian Medical Center, OK	2,165	657	3,634			657	3,634	4,291	74	1984	Sep-05
St. Joseph Medical Center, MD	216		992				996	996		(3)	Oct-05
Memorial Hospital Cy-Fair, TX	189		538				538	538		(3)	Nov-05
Memorial Hospital Pearland, TX										(3)	Nov-05
Other				82	1,921	82	1,922	2,004	231	n/a	n/a
	$ 1,349,848	$ 344,031	$ 2,684,355	$ 1,905	$ 42,272	$ 345,936	$ 2,726,627	$ 3,072,563	$ 157,746		

(1) Excludes encumbrances of $111.9 million that are carried on Properties accounted for using the direct financing method.

(2) Includes Properties under construction.

(3) Property was under construction at December 31, 2005.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES

NOTES TO SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2005

(dollars in thousands)

(a)

Transactions in real estate and accumulated depreciation during 2003, 2004 and 2005 are summarized as follows:

	Cost(b)(d)	Accumulated Depreciation
Property investments under operating leases:		
Balance, December 31, 2002	$ 241,200	$ 3,765
Acquisitions	850,430	
Real estate held for sale	(6,602)	(232)
Depreciation expense(c)		16,345
Balance, December 31, 2003	1,085,028	19,878
Acquisitions	1,573,078	
Impairment provisions	(1,883)	
Real estate held for sale	(1,559)	(526)
Depreciation expense(c)		54,364
Balance, December 31, 2004	2,654,664	73,716
Acquisitions	426,390	
Impairment provisions	(7,740)	
Real estate held for sale	(186)	(220)
Depreciation expense(c)		84,250
Balance, December 31, 2005	$ 3,073,128	$ 157,746

(b)

As of December 31, 2005, 2004, and 2003 the aggregate cost of the Properties owned by the Company for federal income tax purposes, including Properties accounted for using the operating method and those accounted for using the direct financing method, was $3.4 billion, $3.0 billion and $1.3 billion, respectively. Certain leases accounted for under the direct financing method are treated as operating leases for federal income tax purposes.

(c)

Depreciation expense is computed for buildings and equipment based upon estimated lives of 39 to 40 years, and 3 to 7 years, respectively.

(d)

Acquisition fees and miscellaneous closing costs of $15.5 million, $78.3 million and $60.1 million are included in land, buildings, equipment and intangible lease costs at December 31, 2005, 2004 and 2003, respectively.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(UNAUDITED)

	March 31, 2006	December 31, 2005
Assets		
Real estate investment properties:		
Accounted for using the operating method net of accumulated depreciation of $180,953 and $157,746	**$ 3,092,433**	$ 2,914,817
Accounted for using the direct financing method	**491,239**	488,683
Intangible lease costs net of accumulated amortization of $29,958 and $26,021	**110,580**	99,611
	3,694,252	3,503,111
Cash and cash equivalents	**102,204**	94,902
Restricted cash	**22,767**	21,920
Accounts and other receivables net of allowance for doubtful accounts of $8,800 and $7,200	**19,848**	23,486
Deferred costs, net	**23,283**	24,705
Accrued rental income	**110,330**	99,219
Other assets	**64,043**	52,935
Real estate held for sale	**6,921**	12,692
Goodwill	**5,791**	5,791
	$ 4,049,439	$ 3,838,761
Liabilities and stockholders' equity		
Liabilities:		
Mortgages payable	**$ 1,353,713**	$ 1,220,190
Bonds payable	**101,188**	98,016
Construction loans payable	**108,472**	143,560
Line of credit	**105,000**	75,000
Due to related parties	**831**	2,386
Accounts payable and other liabilities	**36,218**	31,035
Intangible lease liability, net	**4,744**	4,505
Deferred income	**8,055**	6,607
Security deposits	**23,386**	23,954
Total liabilities	**1,741,607**	1,605,253
Commitments and contingencies		
Minority interests	**8,270**	5,701
Stockholders' equity:		
Preferred stock, without par value Authorized and unissued 3,000 shares		
Excess shares, $.01 par value per share Authorized and unissued 103,000 shares		
Common stock, $.01 par value per share Authorized one billion shares, issued 270,682 and 260,293 shares, respectively, outstanding 264,193 and 255,527 shares, respectively	**2,642**	2,555
Capital in excess of par value	**2,373,850**	2,295,307
Accumulated distributions in excess of net income	**(84,641)**	(74,894)
Accumulated other comprehensive income	**7,711**	4,839

	March 31, 2006	December 31, 2005
Total stockholders' equity	**2,299,562**	2,227,807
	$ 4,049,439	$ 3,838,761

See accompanying notes to condensed consolidated financial statements.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(in thousands, except per share data)

	Three months ended March 31,	
	2006	**2005**
Revenues:		
Seniors' Housing:		
Rental income from operating leases	**$ 62,265**	$ 55,578
Earned income from direct financing leases	**15,969**	15,312
FF&E reserve income	**1,992**	1,582
Contingent rent	**101**	1,721
Medical Facilities:		
Rental income from operating leases	**19,057**	13,136
Tenant expense reimbursements	**4,583**	2,710
Property management and development fees	**294**	1,290
Loan interest income	**618**	
	104,879	91,329
Expenses:		
Seniors' Housing property expenses	**283**	255
Medical Facilities operating expenses	**7,484**	5,486
General and administrative	**4,744**	4,028
Asset management fees to related party	**5,098**	4,325
Provision for doubtful accounts	**1,523**	750
Depreciation and amortization	**26,952**	22,737
	46,084	37,581
Operating income	**58,795**	53,748
Interest and other income	**697**	631
Interest and loan cost amortization expense	**(23,187)**	(15,539)
Income before equity in earnings of unconsolidated entity, minority interests in income of consolidated subsidiaries and discontinued operations	**36,305**	38,840
Equity in earnings of unconsolidated entity	**2**	2
Minority interests in income of consolidated subsidiaries	**(86)**	(381)
Income from continuing operations	**36,221**	38,461
Loss from discontinued operations	**(469)**	(5,826)
Net income	**$ 35,752**	$ 32,635
Net income (loss) per share of common stock (basic and diluted)		
From continuing operations	**$ 0.14**	$ 0.16
From discontinued operations		(0.02)
	$ 0.14	$ 0.14
Weighted-average number of shares of common stock outstanding (basic and diluted)	**257,507**	240,699

	Three months ended March 31,	
Distributions declared per common share	**$ 0.1776**	$ 0.1776

See accompanying notes to condensed consolidated financial statements.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2006
(UNAUDITED)
(in thousands, except per share data)

	Common stock					
	Number of shares	Par value	Capital in excess of par value	Accumulated distributions in excess of net income	Accumulated other comprehensive income	Total
Balance at December 31, 2005	255,527	$ 2,555	$ 2,295,307	$ (74,894)	$ 4,839	$ 2,227,807
Net income				**35,752**		**35,752**
Change in fair value of cash flow hedges					**2,872**	**2,872**
Total comprehensive income						**38,624**
Subscriptions received for common stock through public offerings and reinvestment plan	**10,390**	**104**	**103,081**			**103,185**
Redemption of common stock	**(1,724)**	**(17)**	**(16,362)**			**(16,379)**
Stock issuance costs			**(8,176)**			**(8,176)**
Distributions declared ($0.1776 per share)				**(45,499)**		**(45,499)**
Balance at March 31, 2006	**264,193**	**$ 2,642**	**$ 2,373,850**	**$ (84,641)**	**$ 7,711**	**$ 2,299,562**

See accompanying notes to condensed consolidated financial statements.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Three Months Ended March 31,	
	2006	**2005**
Increase (decrease) in cash and cash equivalents:		
Net cash provided by operating activities	**$ 55,511**	$ 52,814
Investing activities:		
Investment in land, buildings and equipment	**(177,370)**	(194,641)
Investment in direct financing leases	**(300)**	
Investment in intangible lease costs	**(14,434)**	(8,613)
Investment in Senior Secured Term Loan	**(18,000)**	
Proceeds from sale of Properties	**1,155**	
Payment of acquisition fees and costs	**(7,458)**	(10,224)
Payment of deferred leasing costs	**(1,173)**	(265)
Decrease (increase) in restricted cash	**(591)**	12,251
Net cash used in investing activities	**(218,171)**	(201,492)
Financing activities:		
Proceeds from borrowings on mortgages payable	**136,520**	219,010
Principal payments on mortgages payable	**(2,896)**	(1,767)
Proceeds from issuance of bonds payable	**5,371**	2,449
Retirement of bonds payable	**(2,199)**	(2,481)
Proceeds from construction loans payable	**10,081**	16,685
Repayments of construction loans payable	**(45,170)**	
Proceeds from line of credit	**45,000**	
Repayment of line of credit	**(15,000)**	
Payment on term loan		(60,000)
Refund of loan costs	**2,657**	
Payment of loan costs	**(1,533)**	(2,036)
Contributions from minority interests	**2,780**	629
Distributions to minority interests	**(296)**	(11)
Subscriptions received from stockholders	**103,185**	87,533
Distributions to stockholders	**(45,499)**	(42,593)
Redemption of common stock	**(13,576)**	(11,343)
Payment of stock issuance costs	**(9,463)**	(7,468)
Net cash provided by financing activities	**169,962**	198,607
Net increase in cash and cash equivalents	**7,302**	49,929
Cash and cash equivalents at beginning of period	**94,902**	51,781
Cash and cash equivalents at end of period	**$ 102,204**	$ 101,710
Supplemental schedule of non-cash investing and financing activities:		
Mortgage Loans issued in connection with the sale of Properties	**$ 4,800**	$
Mortgages assumed on properties purchased	**$**	$ 41,406

See accompanying notes to condensed consolidated financial statements.

CNL RETIREMENT PROPERTIES, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2006 and 2005
(Unaudited)

1. Organizational and Basis of Presentation:

Organization CNL Retirement Properties, Inc., a Maryland corporation, was organized in December 1997 to operate as a real estate investment trust (a "REIT") for federal income tax purposes. Throughout this document, CNL Retirement Properties, Inc. and each of its subsidiaries and several consolidated partnerships and joint ventures are referred to as "we", "us" and "our." Various other wholly owned or majority owned subsidiaries are expected to be formed in the future for the purpose of acquiring or developing additional real estate properties and holding other permitted investments.

We acquire primarily real estate properties related to seniors' housing and health care facilities (the "Properties") located primarily across the United States. The Properties may include independent living, assisted living and skilled nursing facilities, continuing care retirement communities ("CCRC") and life care communities (collectively "Seniors' Housing"), medical office buildings, specialty and walk-in clinics, free standing ambulatory surgery centers, specialty or general hospitals and other types of health care-related facilities (collectively "Medical Facilities"). Seniors' Housing facilities are generally leased on a long-term, triple-net basis and Medical Facilities are generally leased on a shorter-term, gross or triple-net basis. We may provide mortgage financing loans ("Mortgage Loans"), furniture, fixture and equipment financing ("Secured Equipment Leases") and other loans to operators or developers of Seniors' Housing and Medical Facilities. In addition, we may invest up to a maximum of 5% of total assets in equity interests in businesses, including those that provide services to or are otherwise ancillary to the retirement and health care industries. We operate in one business segment, which is the ownership, development, management and leasing of health care-related real estate. At March 31, 2006, we owned 185 Seniors' Housing facilities, 86 Medical Facilities, including 2 specialty hospitals and 2 walk-in clinics, and 2 Seniors' Housing facilities and a parcel of land that we hold for sale.

We retained CNL Retirement Corp. (the "Advisor") as our advisor to provide management, acquisition, advisory and administrative services relating to our Properties, Mortgage Loans, Secured Equipment Lease program, other loans and other permitted investments pursuant to an advisory agreement dated May 14, 2004 (the "Advisory Agreement") that was renewed pursuant to a renewal agreement effective May 3, 2005 for a one-year term (the "2005 Renewal Agreement") and was amended by an amendment to the 2005 Renewal Agreement on July 13, 2005 (the "2005 Renewal Amendment" together with the 2005 Renewal Agreement, the "2005 Renewal Agreements"). On May 1, 2006, we entered into a renewal agreement (the "2006 Renewal Agreement") with the Advisor, pursuant to which the Advisory Agreement was renewed, as amended by the 2005 Renewal Agreements, for an additional one-year term commencing on May 3, 2006 and ending on May 3, 2007. The Advisory Agreement may be terminated at an earlier date upon 60 days prior written notice by either party or by mutual consent of the parties.

Strategic Alliances In 2005, we entered into an agreement with The Cirrus Group, LLC ("Cirrus"), a development and property management company, to acquire, at our election, Medical Facilities, some of which have yet to be developed. The acquisitions contemplated under this agreement are expected to occur over a five-year term, subject to certain conditions, or until $1.0 billion is invested in Medical Facilities, including specialty hospitals. We will have minority interest partners in connection with the ownership of each of these Properties, including Cirrus principals, physicians and

other investors associated with Cirrus principals. As of March 31, 2006, we had acquired a majority equity interest in two Medical Facilities for $52.6 million under this agreement, for which Cirrus and its affiliates made $0.9 million in minority interest contributions.

At March 31, 2006, Cirrus managed 23 of our Medical Facilities, including two Properties that we acquired from third parties.

In 2005, we entered into an agreement to provide a Cirrus affiliate with an interest only, five-year senior secured term loan under which up to $85.0 million (plus capitalized interest) may be borrowed to finance the acquisition, development, syndication and operation of new and existing surgical partnerships ("Senior Secured Term Loan"). At March 31, 2006, the balance outstanding under the Senior Secured Term Loan was $34.0 million. In connection with the Senior Secured Term Loan, we received stock warrants which are exercisable into a 10% to 15% ownership interest of the borrower. The stock warrants are exercisable at the earlier of an event of default or the full repayment of the Senior Secured Term Loan and expire in September 2015.

We own a 55% controlling interest in The DASCO Companies, LLC ("DASCO"), a development and property management company. Our relationship with DASCO has provided and may continue to provide opportunities for us to participate in new Medical Facility development and acquisition opportunities as well as Medical Facilities management. DASCO may also provide development and property management services to third parties. At March 31, 2006, DASCO managed fifty-four of our Medical Facilities, including two walk-in clinics and was developing five of our Medical Facilities.

Basis of Presentation The accompanying condensed consolidated financial statements (the "consolidated financial statements") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete financial statements. The accompanying consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Operating results for the three months ended March 31, 2006, may not be indicative of the results that may be expected for the year ending December 31, 2006. Amounts included in the financial statements as of December 31, 2005, have been derived from the audited financial statements.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K of CNL Retirement Properties, Inc. and its subsidiaries for the year ended December 31, 2005. The accompanying consolidated financial statements include the accounts of our wholly owned subsidiaries, DASCO and other entities in which we own a majority and controlling interest. Interests of unaffiliated third parties in less than 100% owned and majority controlled entities are reflected as minority interests. All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications Certain items in the prior periods' financial statements have been reclassified to conform to the 2006 presentation, including those related to our real estate held for sale (see Note 5). These reclassifications had no effect on reported equity or net income.

2. Public Offerings:

We completed our fifth public offering (the "2004 Offering") on March 26, 2006. During the three months ended March 31, 2006, we raised $103.2 million in subscription proceeds from the 2004 Offering. Total subscription proceeds received from the 2004 Offering and the four prior public offerings amount to $2.7 billion at March 31, 2006.

The price per share of all of the equity offerings of our common stock was $10.00 per share, with the exception of (i) shares purchased pursuant to volume or other discounts and (ii) shares purchased through our reinvestment plan since the beginning of the 2004 Offering, which have been priced at $9.50 per share.

3. Acquisitions:

In January 2006, we acquired majority equity interests in seven Medical Facilities for $84.5 million which we funded, in part, with proceeds from a new $56.3 million, ten-year mortgage loan. Four of the acquired Properties are located in Texas, two are in Arizona and one is in Missouri, and in aggregate they contain 323,000 square feet. Cirrus will manage the Properties.

In February 2006, we acquired a Seniors' Housing Property that is being developed. The project is expected to be completed in the fourth quarter of 2006 with an estimated cost of $5.7 million. The 46-unit assisted living facility is located in Michigan.

In March 2006, we acquired majority equity interests in five Medical Facilities for $72.6 million which we funded, in part, with proceeds from a new $47.2 million, ten-year mortgage loan. Four of the Medical Facilities are located in Texas, and one is in Oklahoma, and in aggregate they contain 268,000 square feet. Cirrus will manage the Properties.

In March 2006, we acquired a majority equity interest in a Medical Facility for $24.5 million. The Medical Facility is located in California and contains 55,000 square feet. Cirrus will manage the property.

4. Other Assets:

Other assets included the following (in thousands):

	March 31, 2006	**December 31, 2005**
Senior Secured Term Loan	**$ 34,000**	$ 16,000
Property acquisition deposits		10,601
Deferred receivables	**8,223**	6,638
Fair value of cash flow hedges	**7,711**	4,839
Mortgage Loan receivable	**4,800**	
Prepaid expenses	**2,999**	4,950
Acquisition costs	**4,055**	7,633
Other	**2,255**	2,274
	$ 64,043	$ 52,935

5. Real Estate Held For Sale:

In March 2006, we sold two Properties which were classified as held for sale to an unrelated third party for $6.0 million and recorded a net loss of $0.5 million. We issued a Mortgage Loan receivable with a three-year term secured by the Properties in the amount of $4.8 million. This amount is included in other assets on our consolidated balance sheet as of March 31, 2006. Interest is payable annually at a rate of 6.0% and principal is due at maturity. In January 2006, we entered into an agreement to sell one additional Property for an expected sales price of $2.1 million.

As of March 31, 2006, real estate held for sale included two Seniors' Housing facilities and a parcel of land with an aggregate net carrying value of $6.9 million.

The operational results associated with Properties classified as held for sale were presented as loss from discontinued operations in the accompanying consolidated statements of income. Summarized financial information was as follows (in thousands):

	Three Months Ended March 31,	
	2006	**2005**
Rental income from operating leases	**$ 148**	$ 528
Provision for doubtful accounts	**(124)**	
Impairment provisions		(6,197)
Net loss on disposal of Properties	**(450)**	
Loss from discontinued operations	**(469)**	(5,826)

6. Indebtedness:

Mortgages payable At March 31, 2006, we had $1.4 billion in mortgage debt secured by Properties with an aggregate carrying amount of $2.4 billion. Interest rates on the mortgage notes ranged from 4.85% to 8.42% with a weighted-average rate of 5.87% at March 31, 2006.

In January 2006, we entered into a $56.3 million, ten-year mortgage loan that bears fixed-rate interest at 5.59%. Payments for the first five years are interest only, with principal payments beginning in March 2011.

In February 2006, we entered into a $33.0 million mortgage loan and used the proceeds and cash on hand to pre-pay a $48.0 million construction loan facility with a principal balance of $41.9 million. The new interest-only, five-year loan bears interest at a rate equal to LIBOR plus 150 basis points (6.13% all-in rate at March 31, 2006).

In March 2006, we entered into a $47.2 million, ten-year mortgage loan that bears fixed-rate interest at 5.81%. Payments for the first five years are interest only, with principal payments beginning in May 2011.

Construction loans payable Total construction loans outstanding at March 31, 2006, were $108.5 million, and total liquidity remaining was $33.7 million. During the three months ended March 31, 2006, we prepaid a construction loan facility with a $41.9 million balance, entered into a new construction loan facility of $7.7 million and collectively drew a net of $10.1 million under all of our

construction loans related to certain Properties in various stages of development. The loans are variable interest rate loans and mature from November 2006 through December 2013. We anticipate that we will obtain permanent financing to repay the construction loans as they become due.

Line of Credit At March 31, 2006, $105.0 million was outstanding under our $320.0 million two-year senior secured revolving line of credit (the "Revolving LOC"). The Revolving LOC requires interest-only payments at LIBOR plus a percentage that fluctuates depending on our aggregate amount of debt outstanding in relation to our total assets (6.52% all-in rate at March 31, 2006, which represents a pricing of LIBOR plus 170 basis points). The amount available for use under the Revolving LOC is subject to certain limitations based on the pledged collateral. As of March 31, 2006, the Revolving LOC was collateralized by 36 Properties with a carrying value of $389.4 million that, in the aggregate, allowed us to draw up to $283.0 million.

7. Financial Instruments: Derivatives and Hedging:

In May 2005, we entered into two interest rate swap agreements effective June 1, 2005, and one interest rate swap agreement effective July 1, 2005, for an aggregate notional amount of $233.8 million to hedge against unfavorable fluctuations in interest rates on our variable interest rate mortgage notes payable. At March 31, 2006, the fair value of these contracts was $7.7 million and was included in other assets in the accompanying consolidated balance sheets. The change in net unrealized gain of $2.9 million as of March 31, 2006, for derivatives designated as cash flow hedges is disclosed separately in the accompanying consolidated statements of stockholders' equity as the change in fair value of cash flow hedges. The effective portion of gains and losses on these contracts are recognized in accumulated other comprehensive income whereas the ineffective portions are recognized in earnings. During the three months ended March 31, 2006, the ineffective portion of these hedges was not significant.

8. Related Party Transactions:

Pursuant to the Advisory Agreement, as amended and renewed, the Advisor and its affiliates earn certain fees and are entitled to receive reimbursement of certain expenses.

Acquisition fees During the three months ended March 31, 2006 and 2005, we incurred acquisition fees of $7.3 million and $13.5 million, respectively, for, among other things, identifying Properties and structuring the terms of the leases (equal to 3.0% of gross offering proceeds and loan proceeds from permanent financing under the 2004 Offering). These fees are included in other assets in the accompanying consolidated balance sheets prior to being allocated to individual Properties or intangible lease costs.

Management fees We incurred monthly asset management fees totaling $5.1 million and $4.5 million during the three months ended March 31, 2006 and 2005, respectively (0.05% of the amount actually paid or allocated to the purchase, development, construction or improvement of a property, exclusive of acquisition fees and acquisition expenses, and the outstanding principal balance of any Mortgage Loans as of the end of the preceding month).

Administrative services Our Advisor and its affiliates provide various administrative services, including, but not limited to, accounting; financial, tax, insurance administration and regulatory compliance reporting; stockholder distributions and reporting; due diligence and marketing; and investor relations. During the three months ended March 31, 2006 and 2005, we incurred $0.6 million and $2.0 million for these services, respectively.

Offering expenses Offering expenses incurred by the Advisor and its affiliates on our behalf, together with selling commissions, the marketing support fee and due diligence expense reimbursements were $8.2 million during each of the quarters ended March 31, 2006 and 2005. These amounts are treated as stock issuance costs and charged to stockholders' equity.

9. Subsequent Events:

Distributions On April 1 and May 1, 2006, our Board of Directors authorized distributions to stockholders of record on those dates, totaling $31.3 million, or $0.0592 per share of common stock at each record date, payable by June 30, 2006.

Advisory Agreement On May 1, 2006, we entered into the 2006 Renewal Agreement with the Advisor, pursuant to which the Advisory Agreement was renewed, as amended by the 2005 Renewal Agreements, for an additional one-year term commencing on May 3, 2006 and ending on May 3, 2007.

Pending Merger On May 1, 2006, we entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") with Health Care Property Investors, Inc., a Maryland corporation ("HCP") and Ocean Acquisition 1, Inc., a Maryland corporation and a wholly owned subsidiary of HCP ("Merger Sub"), pursuant to which we have agreed to merge (the "Merger") with and into Merger Sub, with Merger Sub continuing as the surviving corporation. Under the terms of the Merger Agreement, at the effective time of the Merger, each share of our common stock, par value $0.01, issued and outstanding immediately prior to the effective time of the Merger (other than shares held by HCP, Merger Sub, us or any of their or our respective wholly owned subsidiaries, and any dissenting stockholders), will be converted into the right to receive consideration equivalent in value to approximately $13.50 per share (without interest), consisting of approximately:

$11.13 in cash (representing approximately 82% of the total consideration per share); and

0.0865 shares of HCP common stock, par value $1.00 per share.

As of May 1, 2006, we had approximately 264.2 million shares of common stock outstanding. HCP will also assume approximately $1.6 billion of our outstanding debt.

Simultaneously with the execution of the Merger Agreement, HCP entered into a merger agreement (the "Advisor Merger Agreement") with the Advisor and the stockholders of the Advisor, pursuant to which HCP has agreed to acquire the Advisor for shares of HCP common stock valued at approximately $120.0 million (the "Advisor Merger"). The consummation of the Merger and the Advisor Merger are each conditioned upon the consummation of the other. There can be no assurances that the Merger and the Advisor Merger will be consummated.

Redemption Plan Our Board of Directors has determined that it is in the best interest of our company to suspend our redemption plan, beginning with the second quarter of 2006. The suspension of our redemption plan is effective as of June 15, 2006, and therefore no shares of our common stock will be redeemed for the second quarter of 2006.

Reinvestment Plan Our Board of Directors has also determined that it is in the best interest of our company to terminate our distribution reinvestment plan, beginning with the second quarter of 2006. The termination of our distribution reinvestment plan is effective as of June 15, 2006, and therefore no distributions to our stockholders will be reinvested in shares of our common stock pursuant to our distribution reinvestment plan for the second quarter of 2006.

Report of Independent Certified Public Accountants

To the Board of Directors and Stockholders of
CNL Retirement Corp.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of CNL Retirement Corp. and its subsidiary (the "Company") at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

As discussed in Note 1, the Company provides management, advisory and administrative services, and assists in developing and identifying seniors' housing and health care-related properties and obtaining financing for CNL Retirement Properties, Inc. and subsidiaries.

/s/ PricewaterhouseCoopers LLP

Orlando, Florida
April 7, 2006

CNL RETIREMENT CORP.
AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,492,063	$ 5,235,669
Due from related parties	2,129,615	1,397,956
Prepaid expenses	70,057	122,780
Total current assets	3,691,735	6,756,405
Property and equipment, net	2,466,460	1,457,363
Other assets, at cost	245,137	230,799
	$ 6,403,332	$ 8,444,567
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,678,057	$ 2,357,176
Due to related parties		1,728,172
Total current liabilities	3,678,057	4,085,348
Deferred rent expense	202,133	165,279
Total liabilities and deferred expense	3,880,190	4,250,627
Commitments and contingencies		
Stockholder's equity:		
Class A common stock; $1 par value per share; 10,000 shares authorized; 1,000 shares issued and outstanding	1,000	1,000
Class B common stock; $1 par value per share; 5,000 shares authorized; 1,027 shares issued and outstanding	1,027	
Additional paid in capital	2,521,115	
Retained earnings		4,192,940
Total stockholder's equity	2,523,142	4,193,940
	$ 6,403,332	$ 8,444,567

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

CNL RETIREMENT CORP.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2005 and 2004

	2005	2004
Revenue:		
Acquisition fees	$ 6,349,471	$ 38,146,953
Debt acquisition fees	13,789,410	29,951,684
Management fees leases	19,143,304	13,032,700
Development fees	26,632	231,847
Interest and other income	3,008,244	1,860,112
	42,317,061	83,223,296
Expenses:		
Corporate services provided by related parties	$ 4,106,138	$ 23,362,267
Salaries and benefits	12,735,042	9,641,686
General and administrative	4,222,131	3,642,123
Rent	914,127	838,582
Depreciation and amortization	801,137	497,263
Interest		5,057
	22,778,575	37,986,978
Income before provision for income taxes	19,538,486	45,236,318
Provision for income taxes	7,473,471	17,049,512
Net Income	$ 12,065,015	$ 28,186,806

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

CNL RETIREMENT CORP.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
For the years ended December 31, 2005 and 2004

	Class A Common Stock		Class B Common Stock				
	Shares Outstanding	Par Value	Shares Outstanding	Par Value	Additional paid in Capital	Retained Earnings	Total
Balance, December 31, 2003	1,000	$ 1,000		$	$	$ 402,303	$ 403,303
Dividends paid						(24,396,169)	(24,396,169)
Net income						28,186,806	28,186,806
Balance, December 31, 2004	1,000	1,000				4,192,940	4,193,940
Shares issued			1,027	1,027	8,626,674		8,627,701
Dividends paid					(6,105,559)	(16,257,955)	(22,363,514)
Net income						12,065,015	12,065,015
Balance, December 31, 2005	1,000	$ 1,000	1,027	$ 1,027	$ 2,521,115	$	$ 2,523,142

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

CNL RETIREMENT CORP.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Net income	$ 12,065,015	$ 28,186,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	801,137	497,263
Loss on sale of assets	4,373	
Changes in operating assets and liabilities:		
Due from related parties	(731,659)	(1,373,812)
Prepaid expenses	52,723	(45,564)
Accounts payable and accrued expenses	726,239	1,441,273
Due to related parties	(1,728,172)	1,728,172
Deferred rent expense	36,854	57,345
Net cash provided by operating activities	11,226,510	30,491,483
Cash flows from investing activities:		
Purchases of property and equipment	(1,219,965)	(704,817)
Increase in other assets	(14,338)	
Net cash used in investing activities	(1,234,303)	(704,817)
Cash flows from financing activities:		
Principal payments on capital lease obligations		(157,358)
Issuance of B shares	8,627,701	
Dividends paid to stockholders	(22,363,514)	(24,396,169)
Net cash used in financing activities	(13,735,813)	(24,553,527)
Net (decrease) increase in cash and cash equivalents	(3,743,606)	5,233,139
Cash and cash equivalents at beginning of period	5,235,669	2,530
Cash and cash equivalents at end of period	$ 1,492,063	$ 5,235,669
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$	$ 5,057
Cash paid during the year for income taxes	$ 7,473,471	$ 15,321,340

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

CNL RETIREMENT CORP.
AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2005 and 2004

Note 1 Significant Accounting Policies:

Organization and Nature of Business CNL Retirement Corp. (the "Company"), a Florida C corporation, was organized on July 1, 1997. The Company is owned by CNL Real Estate Group, Inc., (the "Parent"), a wholly-owned subsidiary of CNL Financial Group, Inc. ("CFG").

The Company and its wholly-owned subsidiary, CNL Retirement Development Company ("CRDC"), provide management, advisory and administrative services, and assists in identifying and acquiring seniors' housing and health care-related properties and obtaining financing for CNL Retirement Properties, Inc. and its subsidiaries ("CRP"). CRP is a Real Estate Investment Trust registered with the Securities and Exchange Commission.

Principles of Consolidation The accompanying consolidated financial statements include the accounts of the Company and CRDC. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of demand deposits at commercial banks and money market funds. Cash equivalents are stated at cost, which approximates fair value.

Cash accounts maintained on behalf of the Company in demand deposits at commercial banks and money market funds may exceed federally insured levels; however, the Company has not experienced any losses in such accounts.

Property and Equipment Property and equipment is stated at cost less accumulated depreciation. For financial statement purposes, the Company changed to the straight-line method of depreciation effective January 1, 2005, for all newly acquired property and equipment. Assets acquired before the effective date of the change continue to be depreciated principally by accelerated methods. The estimated useful lives of the property and equipment range from 3 to 15 years. The Company believes the new straight-line method will more accurately reflect its financial results by better matching costs of new property over the useful lives of these assets. The effect of the change was not material to the 2005 financial results of operations. Leasehold improvements are amortized over the life of the improvement or the term of the lease, whichever is shorter.

Revenue Recognition The Company records revenue relating to services performed under the terms of its advisory agreement with CRP as follows:

Acquisition Fees As offering proceeds are received by CRP and available for investment at the rate of 3.0 to 4.0 percent of gross offering proceeds. (See Note 2.)

Debt Acquisition Fees Upon closing of permanent financing at the rate of 3.0 to 4.0 percent of loan proceeds. (See Note 2.)

Collectively, the acquisition fees on gross equity proceeds and the debt acquisition fees on loan proceeds are referred to as "Acquisition Fees".

Development Fees As the related services are performed in amounts equal to a negotiated percentage of anticipated project costs.

Management Fees On a monthly basis at 1/12 of .6 percent of CRP's real estate asset value and the outstanding principal balance of any mortgage loans as of the end of the preceding month.

Personnel Reimbursement Charges On a monthly basis as the related costs are incurred.

Income Taxes The Company's taxable income or loss is included in its Parent's consolidated federal and state income tax returns. The Company accounts for income taxes under a tax sharing arrangement that approximates the provision that would be recognized if it were filing tax returns on a stand-alone basis.

Use of Estimates Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Recent Accounting Pronouncements In May 2005, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* ("FAS 154"), which replaces Accounting Principles Board Opinion No. 20, *Accounting Changes*, and Statement of Financial Accounting Standards Board No. 3, *Reporting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28*. FAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle and the reporting of a correction of an error. FAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ("FAS 123R"). FAS 123R is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. FAS 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. FAS 123 focuses primarily on accounting for transaction in which an entity obtains employee services in share-based payment transactions. As the Company does not currently have share-based payment transactions, adoptions of FAS 123R is not expected to have a significant impact on the Company's results of operations.

Note 2 Related Party Transactions:

One of the principal shareholders of the Parent and CFG is a stockholder, director and officer of CRP and is an officer and director of the Company. Additionally, the President of CFG, who is an officer of the Company, is a director and officer of CRP.

The Company's fee revenue is primarily earned for services provided to CRP. The Company and CRP have entered into an advisory agreement pursuant to which the Company earns a monthly management fee equal to one-twelfth of 0.6 percent of CRP's real estate asset value and the outstanding principal amount of any mortgage loans as of the end of the preceding month. Management fees earned under the advisory agreement for the years ended December 31, 2005 and 2004 were $19,143,304 and $13,032,700, respectively.

The Company is also entitled to receive acquisition fees for services rendered in identifying and acquiring properties and structuring the terms of the related leases and negotiating mortgage loans equal to a percentage of gross equity proceeds from CRP stock offerings and loan proceeds from permanent financing. This percentage equaled 4.0 percent from January 1, 2005 to May 2, 2005 and 3.0 percent from May 3, 2005 to December 31, 2005. Total acquisition fees of $20,138,881 were earned for the year ended December 31, 2005. This percentage equaled 4.5 percent from January 1, 2004 to May 13, 2004 and 4.0 percent from May 14, 2004 to December 31, 2004. Total acquisition fees of $68,098,637 were earned for the year ended December 31, 2004.

The Company pays CFG, based on a verbal agreement, a fee equal to a percentage of gross equity proceeds from CRP stock offerings for branding, executive management and other corporate services. This percentage equaled 2.5 percent from January 1, 2005 to May 2, 2005 and 2.0 percent from May 3, 2005 to December 31, 2005. The Company paid $4,106,138 to CFG for these services during the year ended December 31, 2005. This percentage equaled 2.75 percent from January 1, 2004 to May 13, 2004 and 2.5 percent from May 14, 2004 to December 31, 2004. The Company paid $23,362,267 to CFG for these services during the year ended December 31, 2004.

The Company is entitled to receive fees in connection with the development, construction, and renovation of properties and earned $26,632 and $231,847 from related entities for the years ended December 31, 2005 and 2004, respectively.

The Company is required under the terms of its advisory agreement with CRP to reimburse CRP for operating expenses if CRP's operating expenses paid or incurred exceed, in any four consecutive fiscal quarters, the greater of 2 percent of CRP's average invested assets or 25 percent of net income. For the years ended December 31, 2005 and 2004, no reimbursement was required.

The Company provides accounting and administrative services to CRP for which it receives personnel expense reimbursements, in addition to the fees described above. For the years ended December 31, 2005 and 2004, such reimbursements amounted to $2,935,373 and $1,814,744, respectively and are included in interest and other income in the accompanying consolidated statements of income.

CFG provides marketing, administration, technology systems, human resources, accounting, tax and compliance services to the Company. Amounts paid to CFG for these services amounted to $2,270,610 and $2,294,340, for the years ended December 31, 2005 and 2004, respectively, and are included is general and administrative expense in the accompanying consolidated statements of income.

Amounts due from related parties at December 31, 2005 and 2004, consist of the following:

	2005	2004
Acquisition fees	$ 309,191	$ 523,709
Other	1,820,424	874,247
	$ 2,129,615	$ 1,397,956

Amounts due to related parties at December 31, 2005 and 2004, consist of the following:

	2005	2004
Income taxes	$	$ 1,728,172

The Company maintains bank accounts in a bank in which certain officers and directors of the Company serve as directors and are significant stockholders. The amounts deposited with this bank were $1,492,063 and $5,235,069 at December 31, 2005 and 2004, respectively.

See Note 8 for Related Party Lease Obligations.

Note 3 Property and Equipment, net:

Property and equipment consist of the following at December 31, 2005 and 2004:

	2005	2004
Furniture and fixtures	$ 1,522,253	$ 930,015
Computer equipment and software	1,859,959	747,637
Leasehold improvements	615,642	571,883
	3,997,854	2,249,535
Less accumulated depreciation	(1,531,394)	(792,172)
	$ 2,466,460	$ 1,457,363

Note 4 Other Assets:

Other assets consist of the following at December 31, 2005 and 2004:

	2005	2004
Common stock CNL Retirement Properties, Inc., carried at cost which approximates fair market value (20,000 shares)	$ 200,000	$ 200,000
Other	45,137	30,799
	$ 245,137	$ 230,799

Note 5 Income Taxes:

The provision for income taxes consisted of the following for the years ended December 31, 2005 and 2004:

	2005	2004
Current:		
Federal	$ 6,496,547	$ 14,557,556
State	976,924	2,491,956
	$ 7,473,471	$ 17,049,512

Note 6 Profit Sharing Plan:

Employees of the Company are included in the Parent's defined contribution profit sharing plan (the "Plan"). The Plan is designed in accordance with the applicable sections of the Internal Revenue Code, and is not subject to minimum funding requirements. The Plan covers all eligible employees of the Company and its subsidiary upon completion of six months of service. The employees may elect to contribute up to a maximum of 98 percent of their salary under Internal Revenue Service regulations. The Company matches 50 percent of the first 6 percent of each employee's contribution up to a maximum of 3 percent of their salary. For the years ended December 31, 2005 and 2004, the Company's contribution, including administration costs, amounted to approximately $133,000 and $110,000, respectively, and is included in salaries and benefits in the accompanying consolidated statements of income.

Note 7 Rights of Common Stockholders:

Each share of Class A common stock is entitled to one vote. The rights of the Class B common stock are as follows:

each share of Class B common stock is equivalent to 1/100th of a share of Class A common stock with regard to all matters, including voting rights, participation in payment of dividends, and distribution in liquidation of the Company; and

if the Company is a participant in a merger or consolidation that results in the conversion, exchange or cancellation of the outstanding shares of Class A common stock or the sale or transfer of all or substantially all of the assets of the Company, then in such event each holder of the Class B common stock shall be entitled to the same consideration as the holder of an equivalent number of shares of Class A common stock.

the Class B common shares issued are subject to employee stock purchase agreements that give CFG the right to purchase varying percentages of the stock at the issuance price in the event that the holders leave employment of the Company or other CFG affiliates within 48 months after issuance. Upon change of control or merger, the repurchase option is voided.

Note 8 Obligations Under Operating Leases:

The Company was allocated a portion of lease rent obligations relating to office space leased from a related party. The lease provides for minimum monthly rental payments through October 2014. Deferred rent expense represents the difference between rent paid and the total cost of the lease recognized on a straight-line basis over the remaining term of the lease. Rent expense, including amortization of deferred rent, relating to the Company's allocated portion of the lease payments totaled $468,466 and $544,067 for the years ended December 31, 2005 and 2004.

The Company entered into a new lease with a related party for office space in November 2005. The lease provides for minimum monthly rent payments through November 2015 of $86,198 per month commencing March 2006. This lease is replacing the allocation of the lease for office space noted above. As such, the future minimum lease payments have been adjusted to reflect the replacement of that lease allocation with the new lease.

The Company has been allocated a portion of a lease rent obligation relating to other office space. This lease provides for minimum monthly rental payments of $30,881 through March 2006. Rent expense relating to the Company's allocated portion of the lease payments totaled $409,712 and $270,343 for the years ended December 31, 2005 and 2004.

The Company's allocation of future minimum lease payments is as follows:

Year ending December 31,	
2006	$ 1,070,899
2007	1,051,776
2008	1,072,650
2009	1,094,145
2010	1,116,076
Thereafter	6,129,750
	$ 11,535,296

CNL RETIREMENT CORP.
AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,426,809	$ 1,492,063
Due from related parties	477,406	2,129,615
Prepaid expenses and other assets	66,221	70,057
Total current assets	1,970,436	3,691,735
Property and equipment, net	3,525,706	2,466,460
Other assets, at cost	245,137	245,137
	$ 5,741,279	$ 6,403,332
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,164,527	$ 3,678,057
Dividends payable	50,492	
Due to related parties	2,579,964	
Total current liabilities	3,794,983	3,678,057
Deferred rent expense		202,133
Total liabilities and deferred expense	3,794,983	3,880,190
Commitments and contingencies		
Stockholders' equity:		
Class A common stock; $1 par value per share; 10,000 shares authorized; 1,000 shares issued and outstanding	1,000	1,000
Class B common stock; $1 par value per share; 5,000 shares authorized; 1,027 shares issued and outstanding	1,027	1,027
Additional paid-in capital	1,944,269	2,521,115
Retained earnings		
Total stockholders' equity	1,946,296	2,523,142
	$ 5,741,279	$ 6,403,332

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

CNL RETIREMENT CORP.
AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	Three Months Ended March 31,	
	2006	**2005**
Revenue:		
Acquisition fees	$ 2,581,268	$ 3,490,727
Debt acquisition fees	4,327,935	10,450,657
Management fees leases	5,126,778	4,498,507
Development fees	3,905	
Interest and other income	621,945	647,998
	12,661,831	19,087,889
Expenses:		
Corporate services provided by related parties	860,423	2,174,642
Salaries and benefits	3,310,462	2,443,099
General and administrative	920,069	933,239
Rent	260,693	226,761
Depreciation and amortization	201,600	126,742
	5,553,247	5,904,483
Income before provision for income taxes	7,108,584	13,183,406
Provision for income taxes	(2,719,034)	(4,960,916)
Net income	$ 4,389,550	$ 8,222,490

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

CNL RETIREMENT CORP.
AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(UNAUDITED)
Three Months Ended March 31, 2006

	Class A Common Stock		Class B Common Stock				
	Shares Outstanding	Par Value	Shares Outstanding	Par Value	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
Balance at December 31, 2005	1,000	$ 1,000	1,027	$ 1,027	$ 2,521,115	$	$ 2,523,142
Dividends paid					(576,846)	(4,389,550)	(4,966,396)
Net income						4,389,550	4,389,550
Balance at March 31, 2006	1,000	$ 1,000	1,027	$ 1,027	$ 1,944,269	$	$ 1,946,296

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

CNL RETIREMENT CORP.
AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
	2006	**2005**
Cash flows from operating activities:		
Net income	$ 4,389,550	$ 8,222,490
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	201,600	126,742
Loss on retired assets	232,850	
Changes in operating assets and liabilities:		
Due from related parties	1,652,209	(3,609,342)
Prepaid expenses and other assets	3,836	26,045
Accounts payable and accrued expenses	(1,918,888)	(1,943,068)
Dividends payable	50,492	
Due to related parties	1,985,322	4,954,832
Deferred rent expense	(202,133)	9,564
Net cash provided by operating activities	6,394,838	7,787,263
Cash flows from investing activities:		
Purchases of property and equipment	(1,992,027)	(39,034)
Proceeds from sale of assets	498,331	
Net cash used in investing activities	(1,493,696)	(39,034)
Cash flow from financing activities:		
Dividends paid to stockholders	(4,966,396)	(12,978,098)
Net cash used in financing activities	(4,966,396)	(12,978,098)
Net increase in cash and cash equivalents	(65,254)	(5,229,869)
Cash and cash equivalents at beginning of period	1,492,063	5,235,669
Cash and cash equivalents at end of period	$ 1,426,809	$ 5,800
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	$ 2,719,034	$ 4,960,916

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

CNL RETIREMENT CORP. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)
Quarters Ended March 31, 2006 and 2005

1. Organization and Nature of Business

CNL Retirement Corp. (the "Company") and its wholly owned subsidiary, CNL Retirement Development Company, provide management, advisory and administrative services and assist in identifying and acquiring seniors' housing and health care-related properties and obtaining financing for CNL Retirement Properties, Inc. and it's subsidiaries ("CRP").

2. Interim Period Financial Statements

The interim statements have been prepared without audit. Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The Company's management believes the disclosures made are adequate to make the interim financial information presented not misleading.

In the opinion of management, the accompanying interim statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position of the Company as of March 31, 2006 and the results of operations and cash flows for the three months ended March 31, 2006 and 2005. Interim results are not necessarily indicative of fiscal year performance because of seasonal and short-term variations.

Amounts included in the financial statements as of December 31, 2005, have been derived from the audited financial statements of the Company for the year then ended.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements of CNL Retirement Corp. for the year ended December 31, 2005. The accompanying unaudited condensed consolidated financial statements include the accounts of CNL Retirement Corp. and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated.

3. Related Party Transactions

One of the principal stockholders of the Company's parent is a stockholder, director and officer of CRP and is also an officer and director of the Company. Additionally, the President of the Company's parent is an officer and director of the Company as well as an officer and director of CRP.

The Company's fee revenue is primarily earned for services provided to CRP. In addition, the Company provides accounting and administrative services to CRP and other related companies for which it receives personnel reimbursements. For the three months ended March 31, 2006 and 2005 such reimbursements amounted to $612,892 and $630,359, respectively and are included in interest and other income.

Amounts due from related parties at March 31, 2006 and December 31, 2005 consist of the following:

	March 31, 2006	December 31, 2005
Acquisition fees	$ (63,473)	$ 309,191
Other	540,879	1,820,424
	$ 477,406	$ 2,129,615

Amounts due to related parties at March 31, 2006 and December 31, 2005 consist of the following:

	March 31, 2006	December 31, 2005
Amounts due for furniture deposits paid by Parent	$ 2,579,964	$
	$ 2,579,964	$

Amounts due are unsecured, non-interest bearing and due on demand.

The Company maintains bank accounts in a bank in which certain officers and directors serve as directors and are stockholders. The amounts deposited with this bank were $1,426,209 and $1,492,063 as of March 31, 2006 and December 31, 2005, respectively.

Annex A

AGREEMENT AND PLAN OF MERGER

by and among

HEALTH CARE PROPERTY INVESTORS, INC.,

OCEAN ACQUISITION 1, INC.

and

CNL RETIREMENT PROPERTIES, INC.

Dated as of May 1, 2006

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ARTICLE IX
GENERAL PROVISIONS

AGREEMENT AND PLAN OF MERGER, dated as of May 1, 2006 (this "*Agreement*"), by and among HEALTH CARE PROPERTY INVESTORS, INC., a Maryland corporation ("*Parent*"), OCEAN ACQUISITION 1, INC., a Maryland corporation and a wholly owned subsidiary of Parent ("*Purchaser*"), and CNL RETIREMENT PROPERTIES, INC., a Maryland corporation (the "*Company*") that operates as a real estate investment trust ("*REIT*") for federal income tax purposes.

WHEREAS, the Company Board (as defined herein), acting upon the recommendation of the Special Committee (as defined herein), has approved this Agreement and declared that it is advisable and in the best interest of the Company and its stockholders for the Company to merge with and into Purchaser, in accordance with the General Corporation Law of the State of Maryland (the "*MGCL*") and upon the terms and subject to the conditions set forth herein (the "*Merger*");

WHEREAS, the Boards of Directors of Parent and Purchaser have each determined that it is in their best interests and in the best interests of their respective stockholders to consummate the Merger upon the terms and subject to the conditions set forth herein, and have approved this Agreement and the Merger;

WHEREAS, simultaneously with the execution and delivery of this Agreement, Parent is entering into an agreement and plan of merger (the "*Advisor Agreement*") with CNL RETIREMENT CORP., a Florida corporation (the "*Advisor*") and OCEAN ACQUISITION 2, LLC, a Florida limited liability company and a wholly owned subsidiary of Parent ("*Advisor Purchaser*"), pursuant to which at the closing of the transactions contemplated by the Advisor Agreement, the Advisor shall merge with and into the Advisor Purchaser (the "*Advisor Merger*");

WHEREAS, immediately prior to the Merger, Purchaser and the Company shall execute Articles of Merger substantially in the form attached hereto as Exhibit A (the "*Articles of Merger*") and shall file the Articles of Merger in accordance with the MGCL to effectuate the Merger;

WHEREAS, Parent, Purchaser and the Company intend that the Merger not qualify as a "*reorganization*" for purposes of Section 368 of the Code; and

WHEREAS, Parent, Purchaser and the Company desire to make certain representations, warranties, covenants and agreements in connection with the Merger.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, Parent, Purchaser and the Company hereby agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01. *Definitions.* (a) For purposes of this Agreement:

"*Acquisition Proposal*" means (i) any proposal or offer from any Person (other than as contemplated by this Agreement) relating to any direct or indirect acquisition by any means of (A) more than 20% of the consolidated assets of the Company (including securities of any of the Company's Subsidiaries) or (B) more than 20% of the equity securities of the Company then outstanding; (ii) any tender offer or exchange offer, as defined pursuant to the Exchange Act, that, if consummated, would result in any Person beneficially owning more than 20% of the equity securities of the Company then outstanding; or (iii) any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company or any of its then Significant Subsidiaries, in each case other than the Merger and the other transactions contemplated hereby.

"*Aggregate Limit*" means $25,000,000 in the aggregate for all asset acquisitions and all authorizations of and commitments for capital expenditures and capital expenditures made by the Company or any of its Subsidiaries after the date hereof.

"*Business Day*" means any day on which the principal offices of the SEC in Washington, D.C. are open to accept filings, or, in the case of determining a date when any payment is due, any day (other than a Saturday or Sunday) on which banks are not required or authorized to close in the City of New York.

"*CERCLA*" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Section 9601 et seq.).

"*Company Board*" means the Board of Directors of the Company.

"*Company Charter*" means the Amended and Restated Articles of Incorporation of the Company, as amended.

"*Company Common Stock*" means the common stock of the Company, $0.01 par value per share.

"*Company Stockholder Approval*" means the affirmative approval of the Merger by at least a majority of all the votes entitled to be cast on the matter by the holders of all outstanding shares of Company Common Stock as of the record date for the Company Stockholders' Meeting.

"*Company Tax Subsidiary*" means any entity in which the Company owns a direct or indirect equity interest for federal or state income tax purposes of at least 10%, determined by either voting power or value.

"*Employee Plan*" means any plan, program, policy, practice, contract, agreement or other arrangement providing for compensation, severance, termination pay, deferred compensation, performance awards, stock or stock-related awards, fringe benefits or other employee benefits or remuneration of any kind, whether written, unwritten or otherwise, funded or unfunded, including each "*employee benefit plan,*" within the meaning of Section 3(3) of ERISA (whether or not ERISA is applicable to such plan), that is or has been maintained, contributed to, or required to be contributed to, by the Company or any of its Subsidiaries for the benefit of any service provider of the Company or any of its Subsidiaries, or with respect to which the Company or any of its Subsidiaries has or may have any liability or obligation.

"*Environmental Claim*" means any and all administrative, regulatory, judicial or third-party claims, demands, notices of violation or non-compliance, directives, proceedings, investigations, orders, decrees, judgments or other allegations of noncompliance with or liability or potential liability relating in any way to any Environmental Law or any Company Environmental Permit, as the case may be, that the Company has received notice of directly or by its registered agent in writing.

"*Environmental Laws*" means all applicable federal, state, and local laws, rules and regulations, orders, judgments, decrees and other legal requirements including common law relating to the handling, use, presence, disposal, release or threatened release of any Hazardous Materials or the regulation and protection, investigation or restoration of human health, safety, the environment or natural resources or of noise, odor, indoor air, employee exposure, wetlands, pollution, contamination or any injury or threatened injury to persons or property relating to any Hazardous Materials, including, but not limited to, CERCLA; the Hazardous Materials Transportation Act, as amended (49 U.S.C. Section. 5101 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. Section. 136 et seq.); the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901 et seq.); the Toxic Substances Control Act, as amended (42 U.S.C. Section. 7401 et seq.); the Clean Air Act, as amended (42 U.S.C. Section 7401 et seq.); the Federal Water Pollution Control Act, as amended (33 U.S.C. Section 1251 et seq.); the Occupational Safety and Health Act, as amended (29 U.S.C. Section 651 et seq.); the Safe Drinking Water Act, as amended (42 U.S.C. Section 300f et

seq.); and their state and local counterparts or equivalents and any transfer of ownership notification or approval statute and any requirements or standards applicable to the voluntary cleanup of environmental contamination.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended.

"*Exchange Ratio*" means 0.0865.

"*Excess Shares*" has the meaning set forth in Section 7.7 of the Company Charter.

"*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended.

"*Hazardous Materials*" means all substances, pollutants, chemicals, compounds and wastes listed, classified or regulated pursuant to any Environmental Law, including "pollutants," "toxic substances," "contaminants," "hazardous substances," "regulated wastes," "special wastes," or "hazardous wastes" and petroleum and any fraction thereof or asbestos-containing material, lead-based paint or plumbing, biphenyls, radioactive material, radon or other substances otherwise potentially injurious to human health and the environment including mold or other toxic growth.

"*Intellectual Property*" means (i) United States, non-United States and international patents, patent applications and statutory invention registrations, (ii) trademarks, service marks, domain names, trade dress, logos, trade names, d/b/a's, corporate names and other source identifiers, and registrations and applications for registration thereof and all renewals thereof, (iii) published and unpublished works of authorship, whether copyrightable or not, copyrightable works, copyrights, and registrations and applications for registration thereof and all renewals or extensions thereof, (iv) computer software, programs and databases, and (v) confidential and proprietary information, including trade secrets and know-how.

"*IRS*" means the Internal Revenue Service of the United States.

"*Knowledge of the Company*" or "*Company's Knowledge*" (or words of similar import) means the actual knowledge of any of the individuals listed on Exhibit B.

"*Knowledge of Parent*" or "*Parent's Knowledge*" (or words of similar import) means the actual knowledge of any of the individuals listed on Exhibit C.

"*Liens*" means any mortgages, liens, security interests, pledges, deeds to secure debt, charges or any easement, right of way, covenants, restrictions, rights of first refusal, assessments, or any other encumbrance to title.

"*Material Adverse Effect*" means, when used with reference to the Company or Parent, as the case may be, any event, circumstance, change or effect (any such item, an "*Effect*") that is materially adverse to the business, financial condition or results of operations of such party and its Subsidiaries taken as a whole; *provided, however*, that in no event shall any of the following be deemed, either alone or in combination, to constitute, nor shall any of the following be taken into account in determining whether there has been, a Material Adverse Effect: (i) any Effect that results from changes in general economic conditions or changes in securities markets in general, including any changes in interest rates, (ii) any Effect that results from general changes in the industries in which such party and its Subsidiaries operate, (iii) any Effect related to the public announcement or the pendency or consummation of the transactions contemplated by this Agreement, (iv) any Effect that results from any action taken at the specific request of the other party, (v) any change in the market price or trading volume of the Company Common Stock or the Parent Common Stock, as the case may be, after the date hereof, provided, that, the exception in this clause shall not prevent or otherwise affect a determination that any Effect(s) underlying such change has, individually or in the aggregate with any other Effect, resulted in a Material Adverse Effect, (vi) any Effect that results from natural disasters, acts of war, sabotage or terrorism, military actions or the escalation thereof, or (vii) any Effects resulting from any

change in applicable law or regulation in the geographic regions in which a party or any of its Subsidiaries operates; except in the case of clauses (i), (ii), (vi) and (vii), for any Effect that has a significantly disproportionate adverse impact on such party and its Subsidiaries compared to other companies of similar size operating in the principal industries in which such party and its Subsidiaries operate.

"*Ordinary Course*" means the ordinary course of business either of the Company and its Subsidiaries or of Parent, Purchaser and Parent's Subsidiaries, as applicable, consistent with past practice, and, when referring to the Company and its Subsidiaries, shall include (but not be limited to) any action taken by the Company or its Subsidiaries pursuant to the Company's existing Company Common Stock redemption program.

"*Parent Board*" means the Board of Directors of Parent.

"*Parent Charter*" means the Articles of Incorporation of Parent, as amended.

"*Permitted Liens*" means (i) Liens for Taxes not yet due or delinquent or, if delinquent, as to which there is a good faith dispute; provided that such Liens are reserved against (if such reserves are recognized pursuant to GAAP) or otherwise disclosed in the SEC Reports or the Parent SEC Reports, as the case may be, or the Company Disclosure Schedule or the Parent Disclosure Schedule, as the case may be, (ii) any matter disclosed in the Company Title Insurance Policies, or any title insurance policy insuring Parent's or any of its Subsidiaries' fee simple or leasehold title to any Parent Property or Parent Leased Property, (iii) Liens arising in accordance with the terms of the Company Material Contracts or the Parent Material Contracts, as the case may be (and not as a result of any breach thereunder), (iv) inchoate materialmen's, mechanics', carriers', workmen's and repairmen's liens and other liens created by Law, in each case arising in the Ordinary Course and not past due and payable or the payment of which is being contested in good faith by appropriate proceedings, (v) Liens arising under the Company Leases or the Parent leases, as the case may be, (vi) mortgages and deeds of trust granted as security for financings listed or described in, as applicable, the Company Title Insurance Policies, the Company Disclosure Schedule or the Company SEC Reports, or any title insurance policy insuring Parent's or any of its Subsidiaries' fee simple or leasehold title to any Parent Property or Parent Leased Property, the Parent Disclosure Schedule or the Parent SEC Reports, as the case may be, (vii) Liens described in Section 3.12 of the Company Disclosure Schedule or Section 4.11 of the Parent Disclosure Schedule, as the case may be, and (viii) any other Lien not specifically addressed in clauses (i) (vii) of this sentence that does not materially diminish the value of the Company Property or the Parent Property, as the case may be, and does not materially impair or materially interfere with any permitted use of any Company Property or Parent Property, as the case may be, affected thereby.

"*Person*" means an individual, corporation, partnership, limited partnership, limited liability company, syndicate, person, trust, association or entity or government, political subdivision, agency or instrumentality of a government.

"*SEC*" means the U.S. Securities and Exchange Commission.

"*Securities Act*" means the U.S. Securities Act of 1933, as amended.

"*Special Committee*" means the special committee of independent directors of the Company formed by the Company Board for the purpose of investigating a possible business combination involving the Company and its Subsidiaries.

"*Subsidiary*" or "*Subsidiaries*" of the Company, the Surviving Corporation, Parent or any other Person means any corporation, partnership, joint venture, limited liability company, business trust or other entity, of which such Person, directly or indirectly, owns or controls at least 50% of the securities or other interests entitled to vote in the election of directors or others performing similar functions with respect to such organization.

"*Superior Proposal*" means any unsolicited bona fide Acquisition Proposal to acquire more than 50% of the total voting power of the equity securities then outstanding, or of the assets (on a consolidated basis), of the Company that the Company Board determines in its good faith judgment upon the recommendation of the Special Committee (in each case after having received the advice of its or their financial advisor(s)), is reasonably capable of being consummated in accordance with its terms, taking into account all legal, financial and regulatory aspects of the proposal and the Person making the proposal and, if consummated, would result in a transaction more favorable to the Company's stockholders from a financial point of view than the Merger.

"*Taxes*" shall mean any and all taxes, fees, levies, duties, tariffs, imposts and other similar charges of any kind imposed by any Governmental Authority, including: taxes or other charges on or with respect to income, property, sales, use, payroll, employment, social security, workers' compensation, unemployment compensation or net worth; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value-added or gains taxes; license, registration and documentation fees; and customs' duties, tariffs and similar charges.

"*Tax Returns*" shall mean any federal, state, local or foreign report, return, document, declaration, election or any other information or filing required to be supplied to any taxing authority or jurisdiction (foreign or domestic) with respect to Taxes, including information returns, any document with respect to or accompanying payments or estimated Taxes, or with respect to or accompanying requests for the extension of time in which to file any such report, return document, declaration or other information.

(a) The following terms have the meaning set forth in the Sections set forth below:

Defined Term	**Location of Definition**
Action	§ 3.09
Advisor	Recitals
Advisor Agreement	Recitals
Advisor Merger	Recitals
Advisor Purchaser	Recitals
Affiliate Letter	§ 6.09
Agreement	Preamble
Articles of Merger	Recitals
Blue Sky Laws	§ 3.05(b)
Break-Up Fee	§ 8.02(b)
Cash Consideration	§ 2.06(a)
Certificate	§ 2.06(a)
Closing	§ 2.02
Closing Date	§ 2.02
Code	§ 2.08(e)
Company	Preamble
Company Disclosure Schedule	Article III
Company Lease	§ 3.12(h)
Company Material Contract	§ 3.16
Company Property	§ 3.12(a)(i)
Company Recommendation	§ 6.01
Company Stockholders' Meeting	§ 6.01
Company Title Insurance Policy	§ 3.12(c)
Confidentiality Agreement	§ 6.03(b)
Counsel's Gross Income Opinion	§ 8.04(a)
Counsel's Ruling Letter	§ 8.04(a)

Department	§ 2.02
Dissenting Stockholders	§ 2.06(a)
Drop Dead Date	§ 8.01(b)(iii)
Effective Time	§ 2.02
Environmental Permits	§ 3.15(b)
Exchange Agent	§ 2.08(b)(i)
Exchange Fund	§ 2.08(b)(i)
Excluded Shares	§ 2.06(a)
GAAP	§ 3.07(c)
Governmental Authority	§ 3.05(b)
Indemnified Parties	§ 6.06(b)
Law	§ 3.05(a)
Lease Documents	§ 3.12(a)(ii)
Leased Properties	§ 3.12(a)(ii)
Merger	Recitals
Merger Consideration	§ 2.06(a)
MGCL	Recitals
NYSE	§ 2.08(g)
Order	§ 7.01(c)
Parent	Preamble
Parent Common Stock	§ 2.06(a)
Parent Disclosure Schedule	Article IV
Parent Employee Plan	§ 4.11(a)
Parent Leased Properties	§ 4.12
Parent Preferred Stock	§ 4.03
Parent Properties	§ 4.12
Parent Property Owners	§ 4.12
Parent Rights	§ 4.03
Parent SEC Reports	§ 4.08(a)
Parent Significant Subsidiary	§ 4.02
Paying Party	§ 8.04(a)
PCB	§ 3.15(h)
Permits	§ 3.06
Permitted Encumbrances	§ 3.12(a)(i)
Preferred Stock	§ 3.03(a)
Property Restrictions	§ 3.12(a)(i)
Prospectus/Proxy Statement	§ 3.11
Purchaser	Preamble
Qualifying Income	§ 8.04(a)
Receiving Party	§ 8.04(a)
REIT	Preamble
S-4 Registration Statement	§ 3.11
Sarbanes-Oxley Act	§ 3.07(a)
SEC Reports	§ 3.07(a)
Significant Subsidiary	§ 3.02
Stock Consideration	§ 2.06(a)
Specified REIT Requirements	§ 8.04(a)
Surviving Corporation	§ 2.03
Surviving Corporation Bylaws	§ 2.04(b)
Surviving Corporation Charter	§ 2.04(a)
Uncertificated Share	§ 2.06(a)

ARTICLE II
THE MERGER

SECTION 2.01. *The Merger.* Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time, the Company shall be merged with and into Purchaser in accordance with the MGCL.

SECTION 2.02. Closing; Effective Time. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Section 8.01, and subject to the satisfaction or waiver (where applicable) of the conditions set forth in Article VII, the closing of the Merger (the "*Closing*") shall take place (a) at the offices of Greenberg Traurig, LLP, 200 Park Avenue, New York, New York 10166, at 10:00 a.m., New York time, on such date as the Company and Parent shall mutually agree following the satisfaction or waiver of the conditions set forth in Article VII (other than those conditions that, by their nature, are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions), or if the parties do not so agree, on the third Business Day following satisfaction of such conditions or (b) at such other place, date or time as may be mutually agreed in writing by the parties. The date of the Closing is referred to herein as the "*Closing Date.*" At the Closing, the parties hereto shall cause the Articles of Merger to be filed with, delivered in the manner required by the MGCL to, and accepted for record by, the Maryland State Department of Assessments and Taxation (the "*Department*") and shall make all other filings and recordings required under the MGCL. The "*Effective Time*" shall be the later of (a) the date and time of the acceptance for record of the Articles of Merger with the Department or (b) such later time as may be agreed by each of the parties hereto and specified in the Articles of Merger.

SECTION 2.03. *Effect of the Merger.* As a result of the Merger, the separate corporate existence of the Company shall cease and the Purchaser shall continue as the surviving corporation of the Merger (the "*Surviving Corporation*"). At the Effective Time, the effect of the Merger shall be as provided in the applicable provisions of the MGCL. Without limiting the generality of the foregoing, but subject to the terms and conditions of this Agreement, at the Effective Time, all the property, rights, privileges, powers and franchises of the Company and Purchaser shall vest in the Surviving Corporation, and all debts, liabilities, obligations, restrictions, disabilities and duties of the Company and Purchaser shall become the debts, liabilities, obligations, restrictions, disabilities and duties of the Surviving Corporation.

SECTION 2.04. *Charter; Bylaws.* (a) At the Effective Time, the Articles of Incorporation of the Purchaser, as in effect immediately prior to the Effective Time, shall be the Articles of Incorporation of the Surviving Corporation (the "*Surviving Corporation Charter*") until thereafter amended as provided by Law and such Articles.

(b) At the Effective Time, the Bylaws of Purchaser, as in effect immediately prior to the Effective Time, shall be the Bylaws of the Surviving Corporation (the "*Surviving Corporation Bylaws*") until thereafter amended as provided by Law, the Surviving Corporation Charter and such Bylaws.

SECTION 2.05. *Directors and Officers.* The directors and officers of Purchaser immediately prior to the Effective Time and such others as Parent shall have designated, if any, shall, from and after the Effective Time, be the directors and officers, respectively, of the Surviving Corporation until their successors shall have been duly elected or appointed and qualify or until their earlier death, resignation or removal in accordance with the Surviving Corporation Charter and the Surviving Corporation Bylaws.

SECTION 2.06. *Conversion of Securities.* At the Effective Time, as a result of the Merger and without any further action on the part of the Company, Parent, Purchaser or any holder of any capital stock of the Company, Parent or Purchaser:

(a) Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares owned by Parent, Purchaser or any other direct or indirect wholly-owned Subsidiary of Parent, shares that are owned by the Company or any direct or indirect wholly-owned Subsidiary of the Company, and in each case not held on behalf of third parties, and shares that are owned by stockholders ("*Dissenting Stockholders*") who have properly made and not properly withdrawn a demand for appraisal rights pursuant to Title 3, Subtitle 2 of the MGCL (each, an "*Excluded Share*" and collectively, "*Excluded Shares*")) shall be converted into, and become exchangeable for (i) $11.1293 in cash (the "*Cash Consideration*") and (ii) a number of shares of common stock, par value $1.00 per share, of Parent (the "*Parent Common Stock*") equal to the Exchange Ratio (the "*Stock Consideration*" and, together with the Cash Consideration, as the case may be, the "*Merger Consideration*"). At the Effective Time, all shares of Company Common Stock shall no longer be outstanding and shall automatically be cancelled and shall cease to exist, and (x) each share of Company Common Stock represented by a certificate (each, a "*Certificate*") (other than those representing Excluded Shares) shall thereafter represent only the right to receive, upon the surrender of such Certificate, the Merger Consideration and (y) each holder of shares of Company Common Stock not represented by a Certificate (each, an "*Uncertificated Share*") (other than those representing Excluded Shares) shall thereafter only have the right to receive the Merger Consideration, in each case, together with the right, if any, to receive pursuant to Section 2.08(g) cash in lieu of fractional shares into which such shares of Company Common Stock have been converted pursuant to this Section 2.06(a) and any dividends or other distributions pursuant to Section 2.08(i).

(b) Each Excluded Share (other than shares owned by Dissenting Stockholders) outstanding immediately prior to the Effective Time shall be automatically canceled without any conversion thereof, and no payment or distribution shall be made hereunder with respect thereto, and each Certificate formerly representing shares of Company Common Stock held by a Dissenting Stockholder shall thereafter represent only (and each Dissenting Stockholder owning Uncertificated Shares shall thereafter only have) the right to receive the payment set forth in Section 2.07; and

(c) Each share of common stock, par value $0.01 per share, of Purchaser issued and outstanding immediately prior to the Effective Time, shall remain outstanding and unchanged after the Effective Time and shall constitute all of the issued and outstanding equity interests of the Surviving Corporation after the Effective Time.

SECTION 2.07. *Appraisal Rights.* Stockholders of the Company objecting to the Merger will be entitled to demand and receive payment of the fair value of their shares of Company Common Stock from the Surviving Corporation, provided they comply with the requirements of Title 3, Subtitle 2 of the MGCL. No Person who has properly made a demand for appraisal rights pursuant to Title 3, Subtitle 2 of the MGCL shall be entitled to receive shares of Parent Common Stock or cash in lieu of fractional shares thereof or any dividends or other distributions pursuant to this Article II unless and until the holder thereof shall have effectively withdrawn or lost such holder's right to appraisal under the MGCL, and any Dissenting Stockholder shall be entitled to receive only the payment provided by Title 3, Subtitle 2 of the MGCL with respect to shares of Company Common Stock owned by such Dissenting Stockholder. The Company shall give Parent (i) prompt notice of any written demands for appraisal, attempted withdrawals of such demands, and any other instruments served pursuant to applicable law received by the Company relating to its stockholders' rights of appraisal and (ii) the opportunity to direct all negotiations and proceedings with respect to demand for appraisal by Dissenting Stockholders under the MGCL. The Company shall not, except with the prior written consent of Parent, voluntarily make any payment with respect to any demands for appraisals, offer to settle or settle any such demands or approve any withdrawal of any such demands.

SECTION 2.08. *Exchange.* (a) [Intentionally omitted.]

(b) Exchange Procedures.

(i) At or prior to the Effective Time, Parent shall deposit, or shall cause to be deposited, with an exchange agent selected by Parent, with the Company's prior approval, which shall not be unreasonably withheld or delayed (the "*Exchange Agent*"), for the benefit of the holders of shares of Company Common Stock, certificates representing the shares of Parent Common Stock, cash in immediately available funds in an amount necessary to pay the Cash Consideration and any dividends or other distributions with respect to the Parent Common Stock to be issued or paid pursuant to Sections 2.06 and 2.08(i) in exchange for outstanding shares of Company Common Stock (upon due surrender of the Certificate(s) if applicable) pursuant to the provisions of this Article II (such cash and certificates for shares of Parent Common Stock, together with the amount of any dividends or other distributions payable with respect thereto, being hereinafter referred to as the "*Exchange Fund*"). The Exchange Fund shall not be used for any purpose that is not expressly provided for in this Agreement; provided that the Exchange Agent shall invest the Exchange Fund (if at all) only in obligations of or guaranteed by the United States of America and backed by the full faith and credit of the United States of America or in commercial paper obligations rated A-1 or P-1 or better by Moody's Investor Services, Inc. or Standard & Poor's Corporation, respectively, as directed by Parent. Any interest and other income resulting from such investment shall become a part of the Exchange Fund, and any amounts in excess of the amounts payable under Section 2.06(a) shall be promptly returned by the Exchange Agent to Parent.

(ii) Promptly (but in no event later than five (5) Business Days) after the Effective Time, the Surviving Corporation shall if applicable cause the Exchange Agent to mail to each holder of record of shares of Company Common Stock (other than holders of Excluded Shares) notice advising such holders of the effectiveness of the Merger, including appropriate transmittal materials specifying that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates (or affidavits of loss in lieu thereof, as provided in Section 2.08(d) or appropriate guarantee of delivery of such Certificate by a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program) and instructions for surrendering the Certificates to the Exchange Agent. Upon the surrender of a Certificate (or delivery of affidavits of loss in lieu thereof as provided in Section 2.08(d) or notices of guaranteed delivery as described above) to the Exchange Agent (if applicable) in accordance with the terms of such transmittal materials (or, in the case of Uncertificated Shares, at or promptly following the Effective Time) the holder of such Certificate (or of any Uncertificated Share) shall be entitled to receive in exchange therefore (x) a certificate representing that number of whole shares of Parent Common Stock that such holder is entitled to receive pursuant to this Article II and (y) a check in an amount (after giving effect to any required tax withholdings as provided in Section 2.08(e)) equal to the sum of (A) the Cash Consideration, (B) any cash in lieu of fractional shares and (C) any unpaid non-stock dividends and any other dividends or other distributions that such holder has the right to receive pursuant to the provisions of this Article II, and the Certificate so surrendered (or Uncertificated Shares) shall forthwith be cancelled. No interest will be paid or accrued on any amount payable upon due surrender of the Certificates or otherwise with respect to Uncertificated Shares.

(c) If the Merger Consideration is to be delivered to a Person other than the Person in whose name the surrendered Certificate formerly evidencing shares of Company Common Stock is registered on the stock transfer books of the Company, it shall be a condition of delivery that the Certificate so surrendered shall be endorsed properly or otherwise be in proper form for transfer and that the Person requesting such delivery shall have paid all transfer and other taxes required by reason of the payment of the Merger Consideration to a Person other than the registered holder of the Certificate surrendered, or shall have established to the satisfaction of the Surviving Corporation that such taxes either have been paid or are not applicable.

(d) If any holder of shares of Company Common Stock is unable to surrender such holder's Certificates because such Certificates have been lost, mutilated or destroyed, such holder may deliver in lieu thereof an affidavit in form and substance and with surety reasonably satisfactory to the Surviving Corporation.

(e) The Exchange Agent on behalf of Parent and the Surviving Corporation shall be entitled to deduct and withhold from any amounts otherwise payable pursuant to this Agreement in respect of shares of Company Common Stock such amount as it reasonably determines is required to be deducted and withheld with respect to the making of such payment under the Internal Revenue Code of 1986, as amended through the date hereof (the "*Code*"). To the extent that amounts are so withheld, such withheld amounts shall be treated for purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made. The Exchange Agent shall promptly pay any amounts so withheld to the Internal Revenue Service or applicable state taxing authorities.

(f) In the event of any reclassification, stock split, reverse split, stock dividend (including any dividend or distribution of securities convertible into Company Common Stock or Parent Common Stock, as the case may be), reorganization, recapitalization or other like change with respect to Company Common Stock or Parent Common Stock, as the case may be, occurring (or for which a record date is established) after the date hereof and prior to the Effective Time, the Exchange Ratio shall be proportionately adjusted to reflect fully such event.

(g) No certificate or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates or cancellation of Uncertificated Shares pursuant to Section 2.06(a), and such fractional share interests shall not entitle the owner thereof to vote or to any other rights of a stockholder of Parent. Notwithstanding any other provision of this Agreement, each holder of shares of Company Common Stock converted pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock (after taking into account all Certificates delivered by such holder and all Uncertificated Shares that have been cancelled pursuant to Section 2.06(a)) shall receive, in lieu thereof, cash (without interest) in an amount equal to such fractional part of a share of Parent Common Stock multiplied by the weighted average of the per share closing prices of Parent Common Stock on The New York Stock Exchange (the "*NYSE*") Composite Transactions Reporting System during the ten consecutive trading days ending two trading days prior to the Effective Time.

(h) At any time following the sixth month after the Effective Time, the Surviving Corporation shall be entitled to require the Exchange Agent to deliver to it any funds which had been made available to the Exchange Agent and not disbursed to holders of shares of Company Common Stock (including all interest and other income received by the Exchange Agent in respect of all funds made available to it), and, thereafter, such holders shall be entitled to look to the Surviving Corporation (subject to abandoned property, escheat and other similar Laws) only as general creditors thereof with respect to any Merger Consideration that may be payable upon due surrender of the Certificates held by them or cancellation of Uncertificated Shares held by them pursuant to Section 2.06(a). Notwithstanding the foregoing, neither Parent, the Company, the Surviving Corporation nor the Exchange Agent shall be liable to any holder of a share of Company Common Stock for any Merger Consideration delivered in respect of such share of Company Common Stock to a public official pursuant to any abandoned property, escheat or other similar Law. Any amounts remaining unclaimed by such holders five years after the Effective Time (or such earlier date immediately prior to such time when the amounts would otherwise escheat to or become property of any Government Authority) shall become, to the extent permitted by applicable Law and public policy, the property of the Surviving Corporation free and clear of any claims or interest of any Person previously entitled thereto.

(i) All shares of Parent Common Stock to be issued pursuant to the Merger shall be deemed issued and outstanding as of the Effective Time and whenever a dividend or other distribution is declared by Parent in respect of the Parent Common Stock, the record date for which is at or after the Effective Time, that declaration shall include dividends or other distributions in respect of all shares issuable pursuant to this Agreement. In the case of shares of Company Common Stock represented by Certificate(s) only, no dividends or other distributions in respect of the Parent Common Stock shall be paid to any holder of any unsurrendered Certificate until such Certificate (or affidavits of loss in lieu thereof as provided in Section 2.08(d)) is surrendered for exchange in accordance with this Article II. Subject to the effect of applicable laws, following surrender of any such Certificate (or affidavits of loss in lieu thereof as provided in Section 2.08(d) or notice of guaranteed delivery as described above), or in the case of Uncertificated Shares, the cancellation of such shares in accordance with Section 2.06(a), there shall be issued and/or paid to the holder of the certificates representing whole shares of Parent Common Stock issued in exchange therefor, without interest, (A) at the time of such surrender or cancellation, the dividends or other distributions with a record date at or after the Effective Time theretofore payable with respect to such whole shares of Parent Common Stock and not paid and (B) at the appropriate payment date, the dividends or other distributions payable with respect to such whole shares of Parent Common Stock with a record date at or after the Effective Time but with a payment date subsequent to surrender.

(j) At the close of business on the day of the Effective Time, the stock transfer books of the Company shall be closed and thereafter there shall be no further registration of transfers of shares of Company Common Stock on the records of the Company. From and after the Effective Time, the holders of shares of Company Common Stock outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such shares of Company Common Stock except as otherwise provided herein or by applicable Law.

(k) It is intended that, in the case of Uncertificated Shares, the Exchange Agent shall issue at or promptly following the Effective Time the consideration set forth in Section 2.08(b)(ii) with respect to such shares without action by the holders thereof. The parties hereto shall make appropriate adjustments to this Section 2.08 to the extent reasonably necessary to effect such issuance.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth in the disclosure schedule that has been prepared by the Company and delivered by the Company to Parent in connection with the execution and delivery of this Agreement (the "*Company Disclosure Schedule*") (it being agreed that disclosure of any item in any section of the Company Disclosure Schedule with respect to any section or subsection of this Article III shall be deemed disclosure with respect to any other section or subsection of this Article III to the extent such relationship is reasonably inferable, *provided* that nothing in the Company Disclosure Schedule is intended to broaden the scope of any representation or warranty of the Company made herein), or as disclosed in SEC Reports filed with, or furnished to, as applicable, the SEC prior to the date of this Agreement, the Company hereby represents and warrants to Parent that:

SECTION 3.01. *Organization and Qualification; Subsidiaries.* (a) Each of the Company and each Significant Subsidiary of the Company is an entity duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization and has the requisite corporate or other business entity power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. With respect to each Subsidiary of the Company, other than a Significant Subsidiary, each such Subsidiary is an entity duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization and has the requisite corporate or other business entity power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted, except for any such failure to be so

organized, validly existing or in good standing or to have such power or authority as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company. The Company and each of its Subsidiaries is duly qualified or licensed as a foreign corporation, limited liability company or partnership, as the case may be, to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except for such failures to be so qualified or licensed and in good standing that would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company.

(b) Section 3.01(b) of the Company Disclosure Schedules sets forth a list (true and complete in all material respects with respect to the following clauses (i) and (ii) and true and complete with respect to the following clause (iii)) of: (i) each Subsidiary of the Company, (ii) the jurisdiction of incorporation or organization of such Subsidiary and (iii) the percentage of the outstanding capital stock or other equity interests of such Subsidiary owned directly or indirectly by the Company. Other than the Company's Subsidiaries, the Company does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any Person.

SECTION 3.02. *Articles of Incorporation and Bylaws.* The Company has heretofore made available to Parent a complete and correct copy of the Company Charter and the Company's Bylaws and the Articles of Incorporation and the Bylaws or equivalent organizational documents, each as amended to date, of (i) each Subsidiary of the Company that is a "*significant subsidiary*" of the Company as determined pursuant to Rule 1-02(w) of Regulation S-X of the SEC, but substituting 20% for each reference to 10% therein (a "*Significant Subsidiary*") and (ii) each Subsidiary of the Company that is a "*Taxable REIT Subsidiary*" under Section 856 of the Code. Such Company Charter, Articles of Incorporation, Bylaws or equivalent organizational documents are in full force and effect. Neither the Company nor any Significant Subsidiary is in violation (in the case of any Significant Subsidiary, in any material respect) of any of the provisions of the Company Charter, its Articles of Incorporation, Bylaws or equivalent organizational documents.

SECTION 3.03. *Capitalization.* (a) The authorized capital stock of the Company consists of 1,000,000,000 shares of Company Common Stock, 3,000,000 shares of preferred stock, no par value ("*Preferred Stock*"), and 103,000,000 Excess Shares. As of April 30, 2006, 264,191,182 shares of Company Common Stock were issued and outstanding, all of which were validly issued, fully paid and nonassessable and no shares of Company Common Stock have been issued since such date. As of the date hereof, no shares of Preferred Stock and no Excess Shares are issued and outstanding. There are no options, warrants or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock of the Company or any of its Subsidiaries or obligating the Company or any such Subsidiary to issue or sell any shares of capital stock of, or other equity interests in, the Company or such Subsidiary. There are no outstanding contractual obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of Company Common Stock or any capital stock of such Subsidiary or to provide funds to, or make any investment (in the form of a loan, capital contribution or otherwise) in, any such Subsidiary or any other Person.

(b) Each outstanding share of capital stock of, or other equity interest in, each Subsidiary of the Company is duly authorized, validly issued, fully paid and nonassessable, and each such share or other equity interest is owned, directly or indirectly, by the Company free and clear of any Liens, restrictions on transfer, preemptive rights and rights of first refusal.

SECTION 3.04. *Authority Relative to this Agreement.* (a) The Company has all necessary corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated

hereby have been duly and validly authorized by all necessary corporate action on the part of the Company, and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions contemplated hereby (other than, with respect to the Merger, the Company Stockholder Approval and the filing and recordation of appropriate merger documents as required by the MGCL). This Agreement has been duly and validly executed and delivered by the Company and, assuming the due authorization, execution and delivery by Parent and Purchaser, constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency (including all Laws relating to fraudulent transfers), reorganization, moratorium or similar Laws affecting creditors' rights generally and subject to the effect of general principles of equity (regardless of whether considered in a proceeding at Law or in equity).

(b) Each of the Company Board and the Special Committee, at a meeting duly called and held, (i) determined that the transactions contemplated hereby, including the Merger, are advisable and in the best interests of the Company and its stockholders, and approved this Agreement and the transactions contemplated hereby, including the Merger, (ii) directed that this Agreement, the Merger and the other transactions contemplated hereby be submitted to the stockholders of the Company for their approval and resolved to recommend that the stockholders of the Company vote in favor of the Merger and such other matters and (iii) if and to the extent necessary, adopted a resolution having the effect of causing, or have taken all other reasonable steps to cause, the parties hereto not to be subject to the Maryland Business Combination Act and Control Share Acquisition Act.

SECTION 3.05. *No Conflict; Required Filings and Consents.* (a) The execution and delivery of this Agreement by the Company do not, and the performance of this Agreement by the Company will not, and the consummation of the transactions contemplated hereby by the Company will not, (i) conflict with or violate the Company Charter or Bylaws or other equivalent organizational documents of the Company or any of its Subsidiaries, (ii) assuming that all consents, approvals and other authorizations described in Section 3.05(b) have been obtained and that all filings and other actions described in Section 3.05(b) have been made or taken, conflict with or violate any statute, law, regulation, judgment or decree ("*Law*") applicable to the Company or any of its Subsidiaries or by which any property or assets of the Company or such Subsidiary is bound or affected, or (iii) result in any breach of or constitute a default (or an event which, with notice or lapse of time or both, would become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or other encumbrance on any property or asset of the Company or such Subsidiary pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any such Subsidiary is a party or by which the Company or such Subsidiary or any property or asset of the Company or such Subsidiary is bound or affected, except, with respect to clauses (ii) and (iii), for any such conflicts, violations, breaches, defaults or other occurrences which would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company or prevent, materially delay or materially impair the consummation of the transactions contemplated by this Agreement.

(b) The execution and delivery of this Agreement by the Company do not, and the performance of this Agreement by the Company will not, require any consent, approval, authorization or permit of, or filing with or notification to, any United States government, regulatory authority, or any court, tribunal or judicial body (a "*Governmental Authority*"), except (i) for applicable requirements, if any, of the Securities Act, the Exchange Act and state securities or "*blue sky*" laws ("*Blue Sky Laws*"), (ii) as specified in Section 3.05(b) of the Company Disclosure Schedule, (iii) for the filing and recordation of appropriate merger documents as required by the MGCL and (iv) for where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to

the Company or prevent, materially delay or materially impair the consummation of the transactions contemplated by this Agreement.

SECTION 3.06. *Permits; Compliance.* Each of the Company and its Subsidiaries is in possession of all licenses, permits and approvals of any Governmental Authority necessary for each of the Company or such Subsidiary to own, lease and operate its properties or to carry on its business as it is now being conducted (the "*Permits*"), except where the failure to have, or the suspension or cancellation of, any of the Permits would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company. No suspension or cancellation of any of the Permits is pending or, to the Knowledge of the Company, threatened, except where the failure to have, or the suspension or cancellation of, any of the Permits would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company. The business of the Company and its Subsidiaries has not, since January 1, 2004, been, and is not being, conducted in conflict with, or in default, breach or violation of, (a) any Law applicable to the Company or such Subsidiary or by which any property or asset of the Company or such Subsidiary is bound or affected, or (b) any contract, Permit or other instrument or obligation to which the Company or such Subsidiary is a party or by which the Company or such Subsidiary or any property or asset of the Company or such Subsidiary is bound, except for any such conflicts, defaults, breaches or violations that would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company.

SECTION 3.07. *SEC Filings; Financial Statements.* (a) The Company has filed or furnished, as applicable, all forms, reports and documents required to be filed or furnished by it with the SEC since December 31, 2004 (the "*SEC Reports*"). The SEC Reports (i) were prepared or will be prepared in all material respects in accordance with either the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations promulgated thereunder, and (ii) did not or will not, at the time of filing or furnishing, or, if amended, as of the date of such amendment, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Each of the SEC Reports, at the time of its filing or being furnished complied, or if not yet filed or furnished, when so filed or furnished, will comply in all material respects with the applicable requirements of the Securities Act, the Exchange Act and the Sarbanes-Oxley Act of 2002 (the "*Sarbanes-Oxley Act*"), and any rules and regulations promulgated thereunder applicable to the SEC Reports.

(b) Except as permitted by the Exchange Act, including Sections 13(k)(2) and (3) or rules of the SEC, since the enactment of the Sarbanes-Oxley Act, neither the Company nor any of its "*Affiliates*" (as defined in Rule 405 promulgated under the Securities Act) has made, arranged or modified (in any material way) any extension of credit in the form of a personal loan to any executive officer or director of the Company.

(c) The Company maintains (i) disclosure controls and procedures (as defined in Rule 13a-15 or 15d-15, as applicable, under the Exchange Act) designed to ensure that information required to be disclosed by the Company is recorded and reported on a timely basis to the individuals responsible for the preparation of the Company's filings with the SEC and other public disclosure documents and (ii) a system of internal control over financial reporting (as defined in Rule 13a-15 or 15d-15, as applicable, under the Exchange Act) designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles ("*GAAP*") which includes policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with

authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements. The Company has disclosed, based on the most recent evaluation of its chief executive officer and its chief financial officer prior to the date hereof, to the Company's auditors and the audit committee of the Company Board (x) any significant deficiencies in the design or operation of its internal controls over financial reporting that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information (and has identified for the Company's auditors and audit committee of the Company Board any material weaknesses in internal control over financial reporting) and (y) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting. The Company has made available to Parent (i) a summary of any such disclosure made by management to the Company's auditors and the audit committee since December 31, 2004 and (ii) any communication since December 31, 2004 made by management or the Company's auditors to the audit committee required or contemplated by the audit committee's charter or professional standards of the Public Company Accounting Oversight Board. Since December 31, 2004, no material written complaints from any source regarding questionable accounting, internal accounting controls or auditing matters have been received by the Company. No attorney representing the Company or any of its Subsidiaries, whether or not employed by the Company or any of its Subsidiaries, has reported evidence of a material violation of securities laws, material breach of fiduciary duty or similar material violation by the Company or any of its officers, directors or agents to the Company's chief legal officer, audit committee (or other committee designated for the purpose) of the Company Board or the Company Board pursuant to the rules adopted pursuant to Section 307 of the Sarbanes-Oxley Act.

(d) Each of the consolidated financial statements (including, in each case, any notes and schedules thereto) contained in, or incorporated by reference into, the SEC Reports was or will be prepared in accordance with GAAP applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes and schedules thereto) and each fairly presents, or in the case of SEC Reports filed after the date hereof, will fairly present in all material respects the consolidated financial position, results of operations and cash flows of the Company and its consolidated Subsidiaries as at the respective dates thereof and for the respective periods indicated therein, except as otherwise noted therein (subject, in the case of unaudited statements, to normal and recurring year-end adjustments).

SECTION 3.08. *Absence of Certain Changes or Events.* Since December 31, 2005, except as contemplated by this Agreement, (a) the Company and its Subsidiaries have conducted their businesses in the Ordinary Course, (b) there has not been any Effect that, individually or in the aggregate, has had or would reasonably be likely to have a Material Adverse Effect with respect to the Company, and (c) none of the Company or any of its Subsidiaries has taken any action that, if taken after the date of this Agreement without the consent of Parent, would constitute a material breach of the covenants set forth in Section 5.01.

SECTION 3.09. *Absence of Litigation; Liabilities.* There is no litigation, action or proceeding (an "*Action*") pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries, or any property or asset of the Company or any of its Subsidiaries, before any Governmental Authority or arbitrator that (a) would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company or (b) seeks to materially delay or prevent the consummation of any of the transactions contemplated hereby. There are no obligations or liabilities of the Company or any of its Subsidiaries, whether or not accrued, contingent or otherwise and whether or not required to be disclosed or any other facts or circumstances of which the Company has Knowledge that could reasonably be expected to result in any claims against, or obligations or liabilities of, the Company or any of its Subsidiaries, including those relating to environmental and occupational safety and health matters, except for those that are not, individually or in the aggregate,

be reasonably likely to have a Material Adverse Effect with respect to the Company or prevent, materially delay or materially impair the consummation of the transactions contemplated by this Agreement. Neither the Company nor any of its Subsidiaries nor any property or asset of the Company or such Subsidiary is subject to any continuing order of, or consent decree, settlement agreement or similar written agreement with, any Governmental Authority or arbitrator, or any order, judgment, injunction or decree of any Governmental Authority or arbitrator that would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company or prevent, materially delay or materially impair the consummation of the transactions contemplated by this Agreement.

SECTION 3.10. *Employees and Employee Benefit Plans.* Neither the Company nor any of its Subsidiaries has any common law employees or has any independent contractors or consultants who may be reclassified as common law employees. Neither the Company nor any of its Subsidiaries maintains, sponsors, participates in, or contributes to or has any liability under or with respect to any Employee Plan.

SECTION 3.11. *Prospectus/Proxy Statement and Information Supplied.* The proxy statement to be sent to the stockholders of the Company in connection with the Company Stockholders' Meeting (as it may be amended or supplemented, the "*Prospectus/Proxy Statement*") shall not at the date the Prospectus/Proxy Statement (or any amendment or supplement thereto) is first mailed to stockholders of the Company or at the time of the Company Stockholders' Meeting, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not false or misleading. The information supplied by the Company for inclusion or incorporation by reference in the Registration Statement on Form S-4 registering the issuance of shares of Parent Common Stock in the Merger (the "*S-4 Registration Statement*") shall not, at the date when the S-4 Registration Statement (or any amendment or supplement thereto) becomes effective, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not false or misleading. Notwithstanding the foregoing, the Company makes no representation or warranty with respect to any information supplied by Parent, Purchaser or any of Parent's or Purchaser's representatives for inclusion or incorporation by reference in the Prospectus/Proxy Statement or the S-4 Registration Statement. The Prospectus/Proxy Statement shall comply in all material respects as to form with the requirements of the Exchange Act and the rules and regulations thereunder.

SECTION 3.12. *Property and Leases.* (a) (i) Section 3.12(a)(i) of the Company Disclosure Schedule sets forth a correct and complete list and address of all interests in real property owned by the Company and its Subsidiaries as of the date of this Agreement (all such interests in real property, together with all buildings, structures and other improvements and fixtures located on or under such real property and all easements, rights and other appurtenances to such real property, are individually referred to herein as "*Company Property*" and collectively referred to herein as the "*Company Properties*"). The Company and its Subsidiaries own fee simple title or leasehold title, as applicable, to each of the Company Properties, in each case free and clear of any Liens, or title defects, contractual restrictions, covenants or reservations of interests in title, restrictions, rights of first refusal, encroachments and any other burden or option (collectively, "*Property Restrictions*"), except for (i) Permitted Liens, (ii) Property Restrictions imposed or promulgated by Law or by any Governmental Authority and (iii) such other Property Restrictions that are shown in the Company Title Insurance Policies and as set forth in the Lease Documents, provided that such Permitted Liens and Property Restrictions are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect with respect to the Company (such matters in clauses (i), (ii) and (iii) above, collectively, "*Permitted Encumbrances*"). Neither the Company nor any of its Subsidiaries has Knowledge that the Company or the applicable Subsidiary has violated any covenants, conditions, easements or restrictions of record affecting any of the Company Properties, which violation has not been cured and, if not cured, would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company.

(ii) Section 3.12(a)(ii) of the Company Disclosure Schedule lists each material parcel of real property leased (including ground leases) or subleased as of the date of this Agreement by the Company and any of its Subsidiaries (collectively, the "*Leased Properties*"). The Company and the applicable Subsidiary owns a valid leasehold interest in the Leased Properties, subject to and as disclosed in the applicable Company Title Insurance Policy, *provided* that nothing contained therein is, individually or in the aggregate, reasonably likely to have a Material Adverse Effect with respect to the Company. True, correct and complete copies of all leases and each material amendment or other material modifications thereto concerning the Leased Properties ("*Lease Documents*") have been made available to Parent. Each of the Lease Documents is valid, binding and in full force and effect as against the Company or the applicable Subsidiary and, to the Knowledge of the Company, as against the other party thereto and none of the Company or any of its Subsidiaries is in breach or default of any such Lease Document, except, in each case, as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company. All material payments required to have been made under the Lease Documents by the Company or any of its Subsidiaries have been made. Except in accordance with the terms of the relevant Lease Document, neither the Company nor any of its Subsidiaries has exercised any option or right to terminate, renew or extend or otherwise affect the rights or obligations of the tenant under any Leased Properties, and no consent of any party is necessary for Parent and its Subsidiaries and affiliates to legally occupy each Leased Property.

(b) The Company and its Subsidiaries have good, valid and sufficient title to all the material personal and non-real properties and assets reflected in their books and records as being owned by them, free and clear of all Liens, except for Permitted Liens.

(c) Valid ALTA owner's policies of title insurance (each a "*Company Title Insurance Policy*") have been issued insuring, as of the effective date of each such Company Title Insurance Policy, the Company's or the applicable Subsidiary's (whether directly or as a successor-in-interest) fee simple or leasehold title to the Company Properties, subject only to Permitted Encumbrances, and to the Company's Knowledge, such policies are, at the date hereof, valid and in full force and effect and no written claim has been made against any such policy. To the Company's Knowledge, no Company Title Insurance Policy contains what is commonly referred to as a standard survey exception (i.e. any state of facts which an accurate survey would show). A correct and complete copy of each Company Title Insurance Policy has been previously made available to Parent.

(d) Section 3.12(d) of the Company Disclosure Schedule sets forth each contract to which the Company or its Subsidiaries are a party as of the date of this Agreement (i) for the acquisition, option to acquire, development or construction of any Company Property or any other real property that may result in total payments by or liability of the Company or any such Subsidiary in excess of $10,000,000 or (ii) for the disposition or the option to sell (by merger, purchase, or sale of assets or stock or otherwise) of any Company Property or any other real property for consideration in excess of $10,000,000.

(e) The Company and its Subsidiaries have obtained all required certificates, permits and licenses from any Governmental Authority having jurisdiction over any of the Company Properties, all of which are in full force and effect, except for such failures to obtain, to have in full force and effect or to renew, which would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company; there is no pending written threat of modification or cancellation of any of same, which would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company; and there is no physical damage to any Company Properties to an extent which would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company.

(f) (i) No condemnation or rezoning proceedings are pending or, to the Company's Knowledge, threatened with respect to any of the Company Properties, and (ii) no Laws including any zoning regulation or ordinance, building or similar Law, code, ordinance, order or regulation have been violated for any Company Property, or will be violated by the continued maintenance, operation or use of any buildings or other improvements on any of the Company Properties or by the continued maintenance, operation or use of the parking areas located thereon or appurtenant thereto or used in connection therewith, in the case of clauses (i) and (ii) above, which would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company.

(g) All work required to be performed, payments required to be made and actions required to be taken prior to the date of this Agreement pursuant to any application, submission or agreement the Company or any Subsidiary of the Company has entered into with a Governmental Authority in connection with a site approval, zoning reclassification or other similar action relating to any Company Properties (e.g., local improvement district, road improvement district, environmental compliance and environmental remediation, abatement and/or mitigation) have been and are being performed, paid or taken, as the case may be, in accordance with said application, submission or agreement and with applicable Laws, other than those where the failure to perform, pay or take would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company.

(h) Section 3.12(h) of the Company Disclosure Schedule sets forth a correct and complete list as of the date of this Agreement of each lease, ground lease or other occupancy agreement pursuant to which the Company or any of its Subsidiaries, as a landlord, leases any Company Property and which lease is for more than 100,000 square feet and is for a duration of six months or more (individually, "*Company Lease*" and collectively, "*Company Leases*"). Each Company Lease is in full force and effect and is valid, binding and enforceable in accordance with its terms against (a) the Company or a Subsidiary of the Company and (b) to the Knowledge of the Company, the other parties thereto, except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company. Except as listed in Section 3.12(h) of the Company Disclosure Schedule, or as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company, the Company and its Subsidiaries have performed all obligations required to be performed by it to date under each of the Company Leases and neither the Company nor any of its Subsidiaries is in default under any Company Lease, which default, individually or in the aggregate, is reasonably likely to have a Material Adverse Effect with respect to the Company (and to the Company's Knowledge, no event has occurred which, with due notice or lapse of time or both, would constitute such a default). The Company has made available to Parent a correct and complete copy of each Company Lease and all material amendments or material modifications thereto. Section 3.12(h) of the Company Disclosure Schedule includes any Company Lease which has been executed for which the term has not yet commenced. With respect to each Company Lease, Section 3.12(h) of the Company Disclosure Schedule sets forth (i) the name of the tenant, (ii) the expiration date and (iii) the base rent.

(i) All rent and other amounts due under the Company Leases have been properly calculated and billed to tenants in all respects pursuant to the Company Leases, except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company.

(j) Except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company and except as set forth in the Company Title Insurance Policies and the Lease Documents, as of the date of this Agreement neither the Company nor any of its Subsidiaries has granted any unexpired option agreements or rights of first refusal with respect to the purchase of a Company Property or any portion thereof or any other unexpired rights in favor of any third party to purchase or otherwise acquire a Company Property, which, in each case, would be triggered by the Merger.

(k) The Company has not received any notices from lenders or insurance carriers requiring material repairs or other material alterations to Company Properties which have not been completed as of the date of this Agreement.

(l) None of the Company Properties are managed by the Company or a Subsidiary of the Company.

(m) The material improvements on each parcel of Company Property have legal and valid access to such sewer, water, gas, electric, telephone and other utilities as are necessary to allow the business of the Company and each of its Subsidiaries operated thereon to be operated in the Ordinary Course, except where the failure to have such access, individually or in the aggregate, would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company. The major structural elements of the improvements comprising the Company Property, including, mechanical, electrical, heating, ventilation, air conditioning or plumbing systems, elevators or parking elements, are in sufficiently good condition (except for ordinary wear and tear) to allow the business of the Company and its Subsidiaries to be operated in the Ordinary Course, except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company. No material Company Property is located in a special flood hazard area designated by any Governmental Authority. Each Company Property has sufficient parking that complies with all applicable Law (including variances and legal non-conforming approvals) except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company. Each of the Company Properties is an independent property that does not rely on any facilities (other than public facilities, public roads and off-site parking) located in any real property which is not a Company Property to fulfill any requirement of any Governmental Authority or for the furnishing to such Company Property of any essential building system or utility, except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company.

SECTION 3.13. *Intellectual Property.* (a) Other than with respect to software programs that are commercially available on a general basis, the Company and its Subsidiaries own, license or otherwise possess legally enforceable rights to use all Intellectual Property used in the conduct of the business of the Company and its Subsidiaries, except where the failure to own, license or have rights to use such Intellectual Property would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company.

(b) Except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company, (i) all patents, patent applications and registrations and applications for registered trademarks, service marks and copyrights which are held by the Company or any of its Subsidiaries are valid and subsisting and (ii) the Company and its Subsidiaries have taken reasonable measures to protect the proprietary nature of the Intellectual Property owned by the Company or any of its Subsidiaries. No other Person is infringing, violating or misappropriating any of the Intellectual Property owned or used by the Company or any of its Subsidiaries, except for infringements, violations or misappropriations which would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company. To the Company's Knowledge, the Company has not infringed or otherwise violated the Intellectual Property of any third party during the five (5) year period immediately preceding the date of this Agreement.

SECTION 3.14. *Taxes.*

(a) All Tax Returns (as hereinafter defined) and all other material Tax Returns required to be filed by or on behalf of the Company or any of its Tax Subsidiaries have been properly and timely filed with the appropriate taxing authorities in all jurisdictions in which such Tax Returns are required to be filed (after giving effect to any valid extensions of time in which to make such filings), and all such Tax Returns, as amended, are accurate and complete in all material respects. Except as and to the extent

publicly disclosed by the Company in the SEC Reports, (i) all Taxes payable by or on behalf of the Company or any of its Tax Subsidiaries (whether or not shown in a Tax Return) have been fully and timely paid or adequately provided for in accordance with GAAP, and (ii) adequate reserves or accruals for Taxes have been provided in accordance with GAAP with respect to any period for which Tax Returns have not yet been filed or for which Taxes are not yet due and owing or for which Taxes are being contested in good faith. Neither the Company nor any of its Tax Subsidiaries has executed or filed with the IRS or any other taxing authority any agreement, waiver or other document or arrangement extending or having the effect of extending the period for assessment or collection of Taxes (including, but not limited to, any applicable statute of limitation), and no power of attorney with respect to any Tax matter is currently in force and to the Knowledge of the Company, no request for any such waiver or extension is currently pending.

(b) (i) The Company for all taxable years commencing in 1999, the year in which the Company first made a REIT tax election, through the most recent December 31, has elected to be subject to taxation as a REIT within the meaning of Section 856 of the Code and has satisfied all requirements to qualify as a REIT for such years, (ii) the Company has operated, and intends to continue to operate, in such a manner as to qualify as a REIT for the taxable year of this Agreement and, if different, the taxable year in which the Merger becomes effective, (iii) if the taxable year of the Company were to close on the date of the Closing, the Company would have satisfied all requirements to qualify as a REIT for such year end and (iv) to the Company's Knowledge, no challenge to the Company's status as a REIT is pending or threatened. Each Company Tax Subsidiary that is a partnership, joint venture, or limited liability company (i) has been since its formation and continues to be treated for federal income tax purposes as a partnership or disregarded entity, as the case may be, and not as a corporation or an association taxable as a corporation and (ii) has not since the later of the date of its formation or the acquisition by the Company of a direct or indirect interest therein, owned any assets that would cause the Company to violate the requirements of Section 856(c)(4) of the Code. Each Company Tax Subsidiary that is a corporation has been since the later of the date of its formation or the date on which such Company Tax Subsidiary became a Company Tax Subsidiary a "*qualified REIT subsidiary*" pursuant to Section 856(i) of the Code a "*Taxable REIT subsidiary*" pursuant to Section 856(l) of the Code. Neither the Company nor any of its Tax Subsidiaries holds any assets the disposition of which would be subject to rules similar to Section 1374 of the Code, including as a result of (A) an election under IRS Notice 88-19 or Treasury Regulations Section 1.337(d)-5 or Section 1.337(d)-6 or (B) the application of Treasury Regulations Section 1.337(d)-7.

(c) No audit or other proceeding by any taxing authority is pending with respect to any Taxes due from or with respect to the Company or any Company Tax Subsidiary, nor is there any material dispute with respect to any liability for Taxes of the Company or any Company Tax Subsidiary either claimed or raised.

(d) The Company and its Tax Subsidiaries (i) have complied in all material respects with all applicable Laws, rules and regulations relating to the payment and withholding of Taxes; and (ii) have duly and timely withheld from any compensation payable and from distributions to any stockholder or payments to any creditor and have paid over to the appropriate taxing authorities all amounts required to be withheld and paid over on or prior to the due date thereof under all applicable Laws.

(e) Neither the Company nor any of its Tax Subsidiaries has received notice from any taxing authority in a jurisdiction in which the Company or such Company Tax Subsidiary does not file a Tax Return stating that the Company or such Company Tax Subsidiary is or may be subject to taxation by that jurisdiction.

(f) Neither the Company nor any of its Tax Subsidiaries (i) is a party to any Tax sharing or similar agreement or arrangement, other than any agreement or arrangement between the Company and any of its Tax Subsidiaries, pursuant to which it will have any obligation to make any payments after the

Closing and (ii) has any material liability for the Taxes of any Person other than the Company and its Tax Subsidiaries (x) under Treasury Regulation §1.1502-6 (or similar provision of state, local or foreign law), (y) as transferee or successor or (z) by contract.

(g) As of the date of this Agreement, neither the Company nor any of its Tax Subsidiaries has requested a private letter ruling from the IRS or comparable rulings from other taxing authorities.

(h) Neither the Company nor any of its Tax Subsidiaries has engaged in any transaction that has given rise to or could be reasonably expected to give rise to a disclosure obligation as a "*listed transaction*" under Section 6011 of the Code and the regulations promulgated thereunder. The Company and all of its Tax Subsidiaries have complied with all obligations applicable to the Company or the relevant Company Tax Subsidiary under Sections 6111 and 6112 of the Code.

(i) Neither the Company nor any of its Subsidiaries has entered into any Prohibited Transaction (as defined in Section 857 of the Code).

SECTION 3.15. *Environmental Matters.* Except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to the Company:

(a) each of the Company and its Subsidiaries is and has been, and at all times during the Company's and each of its Subsidiaries' ownership and operation of the Company Properties, the Company Properties are and have been in compliance with Environmental Laws;

(b) each of the Company and its Subsidiaries has obtained and currently possesses and maintains in good standing, and in compliance with the terms and subject to the conditions thereof, all Permits required by Environmental Laws (collectively, "*Environmental Permits*") in connection with their ownership of the Company Properties or the development by the Company or its Subsidiaries of the Company Properties (provided that no representation or warranty is made with respect to any permit required to be obtained by any lessee of a Company Property or any Person other than the Company or its Subsidiaries with respect to the conduct of business on the Company Properties);

(c) none of the Company or any of its Subsidiaries or real property currently owned, leased or operated by the Company or its Subsidiaries is subject to any pending or, to the Knowledge of the Company, threatened Environmental Claim;

(d) none of the Company or any of its Subsidiaries has generated, arranged for the disposal of or otherwise caused to be disposed of any Hazardous Material at any off-site location with respect to which they have received notice of any investigation, monitoring, cleanup, removal, remediation or other response action;

(e) no release or disposal of Hazardous Material has occurred on any currently-owned Company Property or other property owned, leased or operated by the Company or any of its Subsidiaries that was in violation of or required investigation, monitoring, cleanup, removal, remediation or other response actions under Environmental Laws;

(f) except as permitted by Law, and to the Knowledge of the Company, there are no wetlands (as that term is defined in Section 404 of the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1254, and applicable state laws) at any of the Company Properties that would affect current development, nor is any Company Property subject to any current or, to the Knowledge of the Company, threatened environmental deed restriction, use restriction, institutional or engineering control or order or agreement with any Governmental Authority or any other restriction of record;

(g) except as reflected in the Company's consolidated financial statements, no capital expenditures are presently required to maintain or achieve compliance with Environmental Laws;

(h) to the Knowledge of the Company, except as permitted by Law, there are no underground storage tanks, polychlorinated biphenyls ("*PCB*") or PCB-containing equipment, except for PCB or

PCB-containing equipment owned by utility companies, or friable asbestos or asbestos-containing materials at any Company Property;

(i) there have been no material incidents of water damage or visible evidence of mold growth at any of the Company Properties that have not been corrected or repaired;

(j) except for customary terms in favor of lenders in mortgages and trusts, none of the Company or its Subsidiaries has assumed any liability of or duty to indemnify or pay contribution to any other party for any claim, damage or loss arising out of any Hazardous Material or pursuant to any Environmental Law;

(k) no filing, notification or other submission to any Governmental Authority or any approval from any Governmental Authority is required under any Environmental Law for the execution of this Agreement or for the consummation of the Merger or any of the other transactions contemplated hereby; and

(l) to the Knowledge of the Company, neither the Company nor any of its Subsidiaries has received any request for information from any Governmental Authority, pursuant to Section 104(e) of CERCLA or any similar Environmental Law.

The Company and its Subsidiaries have made available to Parent all material environmental audits, reports and other material environmental documents and reports in their possession or control relating to their current owned or operated properties, facilities or operations.

SECTION 3.16. *Material Contracts.* The Company has filed with the SEC copies of all material contracts that were required to be filed with the SEC Reports. Such contracts filed or required to be filed (other than the Company Leases) are herein referred to as "*Company Material Contracts*". Each Company Material Contract is valid and binding in all material respects on the Company or its applicable Subsidiary (as the case may be) that is a party thereto and, to the Company's Knowledge, each other party thereto, subject to the effect of any applicable bankruptcy, insolvency (including all Laws relating to fraudulent transfers), reorganization, moratorium or similar Laws affecting creditors' rights generally and subject to the effect of general principles of equity (regardless of whether considered in a proceeding at Law or in equity). None of the Company and its Subsidiaries has received any claim of default of any material provision under or cancellation of any Company Material Contract and none of the Company and its Subsidiaries is in breach or violation of, or default of any material provision under, any Company Material Contract. To the Company's Knowledge, no other party is in breach or violation of, or default under, any material provision of any Company Material Contract; and neither the execution of this Agreement nor the consummation of the transactions contemplated by this Agreement shall constitute a default under, or give rise to cancellation rights under, or otherwise adversely affect any of the Company's material rights under any Company Material Contract.

SECTION 3.17. *Insurance.* The Company and its Subsidiaries maintain insurance coverage with reputable insurers in such amounts and covering such risks as are in accordance with normal industry practice for companies engaged in businesses similar to that of the Company and its Subsidiaries (taking into account the cost and availability of such insurance). All such insurance agreements are listed on Schedule 3.17 of the Disclosure Schedule.

SECTION 3.18. *Affiliate Transactions.* There are no contracts, commitments, agreements, arrangements or other transactions between the Company or its Subsidiaries, on the one hand, and any (i) present or former officer or director of the Company or any of their immediate family members (including their spouses), (ii) affiliate of any such officer, director, family member or beneficial owner or (iii) the Advisor or any of its affiliates or any present or former officer or director of any such entity or any of their immediate family members (including their spouses), on the other hand.

SECTION 3.19. *Brokers.* No broker, finder or investment banker (other than Banc of America Securities, LLC and Houlihan Lokey Howard & Zukin) is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of the Company or any of its Subsidiaries. The Company has made available to Parent a complete and accurate copy of all agreements pursuant to which such entities are entitled to any fees and expenses in connection with any of the transactions contemplated by this Agreement.

SECTION 3.20. *Opinion of Financial Advisor.* The Special Committee and the Company Board have received an opinion of Banc of America Securities, LLC to the effect that, as of the date of this Agreement and subject to the various assumptions and limitations set forth therein, the Merger Consideration to be received by the holders of Company Common Stock is fair, from a financial point of view, to such holders. The Special Committee has received an opinion of Houlihan Lokey Howard & Zukin to the effect that, as of the date of this Agreement and subject to the various assumptions and limitations set forth therein, the Merger Consideration to be received by the holders of Company Common Stock is fair, from a financial point of view, to such holders.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PARENT AND PURCHASER

Except as set forth in the disclosure schedule that has been prepared by Parent and delivered by Parent to the Company in connection with the execution and delivery of this Agreement (the "*Parent Disclosure Schedule*") (it being agreed that disclosure of any item in any section of the Parent Disclosure Schedule with respect to any section or subsection of this Article IV shall be deemed disclosure with respect to any other section or subsection of this Article IV to the extent such relationship is reasonably inferable, provided that nothing in the Parent Disclosure Schedule is intended to broaden the scope of any representation or warranty of Parent or Purchaser made herein), or as disclosed in Parent SEC Reports filed with, or furnished to, as applicable, the SEC prior to the date of this Agreement, each of Parent and Purchaser hereby, jointly and severally, represents and warrants to the Company that:

SECTION 4.01. *Corporate Organization.* Each of Parent and Purchaser and each Parent Significant Subsidiary is an entity duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization and has the requisite corporate or other business entity power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. Parent, Purchaser and each Parent Significant Subsidiary is duly qualified or licensed as a foreign corporation, limited liability company or partnership, as the case may be, to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except for such failures to be so qualified or licensed and in good standing that would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent.

SECTION 4.02. *Articles of Incorporation and Bylaws.* Each of the Parent Charter and Parent's Bylaws, the Articles of Incorporation and Bylaws of Purchaser and the Articles of Incorporation and the Bylaws or equivalent organizational documents, each as amended to date, of (i) each Subsidiary of Parent that is a "*significant subsidiary*" of Parent as determined pursuant to Rule 1-02(w) of Regulation S-X of the SEC, but substituting 20% for each reference to 10% therein (a "*Parent Significant Subsidiary*") and (ii) each Subsidiary of Parent that is a "*Taxable REIT Subsidiary*" under Section 856 of the Code is in full force and effect. Neither Parent nor Purchaser nor any Parent Significant Subsidiary is in violation (in the case of any Parent Significant Subsidiary, in any material respect) of any of the provisions of the Parent Charter, its Articles of Incorporation, Bylaws or equivalent organizational documents.

SECTION 4.03. *Capitalization.* The authorized capital stock of Parent consists of 750,000,000 shares of Parent Common Stock and 50,000,000 shares of preferred stock of Parent, $1.00 par value ("*Parent Preferred Stock*"). As of April 24, 2006, 136,843,121 shares of Parent Common Stock were issued and outstanding, all of which were validly issued, fully paid and nonassessable and no shares of Parent Common Stock have been issued since such date other than pursuant to the exercise or conversion of Parent Rights. As of April 30, 2006, 4,000,000 shares of Parent Preferred Stock were issued and outstanding, all of which were validly issued, fully paid and nonassessable and no shares of Parent Preferred Stock have been issued since such date. All shares of Parent Common Stock subject to issuance pursuant to outstanding options, warrants or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock of Parent ("*Parent Rights*"), including all shares of Parent Common Stock to be issued in the Merger, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable or this Agreement, as the case may be, will be duly authorized, validly issued, fully paid and non-assessable and not subject to, or issued in violation of, any preemptive right purchase option, call option, right of first refusal, subscription or any other similar right. Parent's Annual Report on Form 10-K for the year ended December 31, 2005 contains an accurate description in all material respects of all outstanding Parent Rights as of December 31, 2005, and no material amount of Parent Rights have been issued since such date other than compensation awards.

SECTION 4.04. *Authority Relative to This Agreement.* Each of Parent and Purchaser has all necessary corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Parent and Purchaser and the consummation by Parent and Purchaser of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of Parent and Purchaser, and no other corporate proceedings on the part of Parent or Purchaser are necessary to authorize this Agreement or to consummate the transactions contemplated hereby, including the issuance of the Parent Common Stock in the Merger (other than, with respect to the Merger, the filing and recordation of appropriate merger documents as required by the MGCL). This Agreement has been duly and validly executed and delivered by Parent and Purchaser and, assuming due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of each of Parent and Purchaser enforceable against each of Parent and Purchaser in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency (including all Laws relating to fraudulent transfers), reorganization, moratorium or similar Laws affecting creditors' rights generally and subject to the effect of general principles of equity (regardless of whether considered in a proceeding at Law or in equity).

SECTION 4.05. *No Conflict.* The execution and delivery of this Agreement by Parent and Purchaser do not, and the performance of this Agreement by Parent and Purchaser will not, and the consummation of the transactions contemplated hereby by Parent and Purchaser will not, (i) conflict with or violate the Articles of Incorporation or Bylaws or other equivalent organizational documents of Parent or Purchaser or any of Parent's Subsidiaries, (ii) assuming that all consents, approvals and other authorizations described in Section 4.06 have been obtained and that all filings and other actions described in Section 4.06 have been made or taken, conflict with or violate any Law applicable to Parent or Purchaser or any of Parent's Subsidiaries or by which any property or assets of Parent or Purchaser or such Parent's Subsidiary is bound or affected, or (iii) result in any breach of, or constitute a default (or an event which, with notice or lapse of time or both, would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or other encumbrance on any property or asset of Parent or Purchaser or such Parent's Subsidiary pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Parent or Purchaser or any such Parent's Subsidiary is a party or by which Parent or Purchaser or such Parent's Subsidiary or any property or asset of Parent or Purchaser or such Parent's Subsidiary is bound or affected, except, with

respect to clauses (ii) and (iii), for any such conflicts, violations, breaches, defaults or other occurrences which would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent or prevent, materially delay or materially impair the consummation of the transactions contemplated hereby.

SECTION 4.06. *Consents and Approvals.* The execution and delivery of this Agreement by Parent and Purchaser do not, and the performance of this Agreement by Parent and Purchaser will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, except for (i) applicable requirements, if any, of the Securities Act, the Exchange Act or Blue Sky Laws, (ii) the filing and recordation of appropriate merger documents as required by the MGCL, (iii) the pre-merger notification requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as modified, to the extent applicable to the transactions contemplated by the Advisor Agreement, and (iv) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent or prevent, materially delay or materially impair the consummation of the transactions contemplated hereby. No vote of the holders of any class or series of Parent's capital stock is necessary to approve this Agreement or the Merger, or the Advisor Agreement or the Advisor Merger, and the other transactions contemplated hereby and thereby.

SECTION 4.07. *Compliance with Applicable Laws.* The business of Parent and its Subsidiaries has not, since January 1, 2004, been, and is not being, conducted in conflict with, or in default, breach or violation of, (a) any Law applicable to Parent or such Subsidiary or by which any property or asset of Parent or such Subsidiary is bound or affected, or (b) any contract, Permit or other instrument or obligation to which Parent or such Subsidiary is a party or by which Parent or such Subsidiary or any property or asset of Parent or such Subsidiary is bound, except for any such conflicts, defaults, breaches or violations that would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent.

SECTION 4.08. *SEC Filings; Financial Statements.* (a) Parent has filed or furnished, as applicable, all forms, reports and documents required to be filed or furnished by it with the SEC since December 31, 2004 (the "*Parent SEC Reports*"). The Parent SEC Reports (i) were prepared or will be prepared in all material respects in accordance with either the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations promulgated thereunder, and (ii) did not or will not, at the time of filing or furnishing, or, if amended, as of the date of such amendment, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Each of the Parent SEC Reports, at the time of its filing or being furnished complied, or if not yet filed or furnished, when so filed or furnished, will comply in all material respects with the applicable requirements of the Securities Act, the Exchange Act and the Sarbanes-Oxley Act, and any rules and regulations promulgated thereunder applicable to the Parent SEC Reports.

(b) Parent maintains (i) disclosure controls and procedures (as defined in Rule 13a-15 or 15d-15, as applicable, under the Exchange Act) designed to ensure that information required to be disclosed by Parent is recorded and reported on a timely basis to the individuals responsible for the preparation of Parent's filings with the SEC and other public disclosure documents and (ii) a system of internal control over financial reporting (as defined in Rule 13a-15 or 15d-15, as applicable, under the Exchange Act) designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP which includes policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of Parent, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial

statements in accordance with GAAP, and that receipts and expenditures of Parent are being made only in accordance with authorizations of management and directors of Parent, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Parent's assets that could have a material effect on its financial statements. Parent has disclosed, based on the most recent evaluation of its chief executive officer and its chief financial officer prior to the date hereof, to Parent's auditors and the audit committee of the Parent Board (x) any significant deficiencies in the design or operation of its internal controls over financial reporting that are reasonably likely to materially adversely affect Parent's ability to record, process, summarize and report financial information (and has identified for Parent's auditors and audit committee of the Parent Board any material weaknesses in internal control over financial reporting) and (y) any fraud, whether or not material, that involves management or other employees who have a significant role Parent's internal control over financial reporting.

(c) Each of the consolidated financial statements (including, in each case, any notes and schedules thereto) contained in, or incorporated by reference into, the Parent SEC Reports was or will be prepared in accordance with GAAP applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes and schedules thereto) and each fairly presents, or in the case of Parent SEC Reports filed after the date hereof, will fairly present, in all material respects the consolidated financial position, results of operations and cash flows of Parent and its consolidated Subsidiaries as at the respective dates thereof and for the respective periods indicated therein, except as otherwise noted therein (subject, in the case of unaudited statements, to normal and recurring year-end adjustments).

SECTION 4.09. *Absence of Certain Changes or Events.* Since December 31, 2005, there has not been any Effect that, individually or in the aggregate, has had or would reasonably be likely to have a Material Adverse Effect with respect to Parent.

SECTION 4.10. *Absence of Litigation; Liabilities.* There is no Action pending or, to the Knowledge of Parent, threatened against Parent, Purchaser or any of Parent's Subsidiaries, or any property or asset of Parent, Purchaser or any of Parent's Subsidiaries, before any Governmental Authority or arbitrator that (a) would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent or (b) seeks to materially delay or prevent the consummation of any of the transactions contemplated hereby. Except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent, there are no obligations or liabilities of Parent, Purchaser or any of Parent's Subsidiaries, whether or not accrued, contingent or otherwise. Neither Parent nor Purchaser nor any of Parent's Subsidiaries nor any property or asset of Parent or such Subsidiary is subject to any continuing order of, or consent decree, settlement agreement or similar written agreement with, any Governmental Authority or arbitrator, or any order, judgment, injunction or decree of any Governmental Authority or arbitrator that would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent or prevent, materially delay or materially impair the consummation of the transactions contemplated by this Agreement.

SECTION 4.11. *Employee Benefit Plans.* (a) "*Parent Employee Plan*" means any plan, program, policy, practice, contract, agreement or other arrangement providing for compensation, severance, change in control payments, termination pay, deferred compensation, retirement, pension, performance awards, stock or stock-related awards, fringe benefits or other employee benefits or remuneration of any kind, whether written, unwritten or otherwise, funded or unfunded, including each "*employee benefit plan,*" within the meaning of Section 3(3) of ERISA (whether or not ERISA is applicable to such plan), that is or has been maintained, contributed to, or required to be contributed to, by Parent, Purchaser or any Subsidiary of Parent for the benefit of any service provider of Parent, Purchaser or any Subsidiary of Parent, or with respect to which Parent, Purchaser or any Subsidiary of Parent has or may have any liability or obligation.

(b) Each Parent Employee Plan complies with its terms and the requirements of applicable Law, including ERISA and the Code, except where the failure to so comply would not have a Material Adverse Effect with respect to Parent.

(c) Each Parent Employee Plan that is intended to be qualified under Section 401(a) of the Code or Section 401(k) of the Code has received a favorable determination letter from the IRS and each trust established in connection with any Parent Employee Plan which is intended to be exempt from federal income taxation under Section 501(a) of the Code has received a determination letter from the IRS that it is so exempt, and no fact or event has occurred since the date of such determination letter or letters from the IRS to adversely affect the qualified status of any such Parent Employee Plan or the exempt status of any such trust.

(d) None of Parent, Purchaser or any Subsidiary of Parent maintains, sponsors or contributes to (nor is required to contribute to) (i) any "*multiemployer plan*" (within the meaning of Section 3(37) or Section 4001(a)(3) of ERISA) either currently or for the past ten years; (ii) any a "*defined benefit plan*" (within the meaning of Section 3 (35) of ERISA); or (iii) Parent Employee Plan that is subject to the laws of a country other than the United States of America.

(e) Except where any failure or liability with respect to any of the following has not had, and could not reasonably be expected to have a Material Adverse Effect with respect to Parent: (i) none of Parent, Purchaser or any Subsidiary of Parent has engaged in, and to Parent's Knowledge no fiduciary has engaged in, any "*prohibited transaction*" (within the meaning of Section 406 of ERISA or Section 4975(c) of the Code) that could subject Parent, Purchaser or any Subsidiary of Parent to a tax or penalty imposed by either Section 4975 of the Code or Section 502(i) of ERISA; (ii) there are no audits, inquiries or proceedings pending or, to the best knowledge of the Parent, threatened by the IRS, Department of Labor, or any other governmental entity with respect to any Parent Employee Plan.

(f) As of the date hereof, there is no pending or, to the Knowledge of Parent threatened, litigation (other than claims for benefits in the ordinary course) relating to the Parent Employee Plans that would reasonably be expected to have a Material Adverse Effect with respect to Parent;

(g) Except where any failure or liability with respect to any of the following has not had, and could not reasonably be expected to have a Material Adverse Effect with respect to Parent, Parent, Purchaser and any Subsidiary of Parent: (i) are in substantial compliance with all applicable legal requirements with respect to employment, employment practices, terms and conditions of employment and wages and hours, in each case, with respect to employees of the Parent, Purchaser or any Subsidiary of Parent; (ii) have withheld and reported all amounts required by law or by agreement to be withheld and reported with respect to wages, salaries and other payments to employees of the Parent, Purchaser or any Subsidiary of Parent; (iii) are not liable for any arrears of wages or any taxes or any penalty for failure to comply with the legal requirements applicable to the foregoing; and (iv) are not liable for any payment to any trust or other fund governed by or maintained by or on behalf of any governmental authority with respect to unemployment compensation benefits, social security or other benefits or obligations for employees of the Parent, Purchaser or any Subsidiary of Parent (other than routine payments to be made in the normal course of business and consistent with past practice).

SECTION 4.12. *Property and Leases.* Parent or one of its Subsidiaries (each a "*Parent Property Owner*") owns fee simple title to each of the real properties (or the applicable portion thereof) described in Parent's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 as being owned in fee, as adjusted to reflect purchases and sales since such date (collectively, the "*Parent Properties*"), and a valid leasehold estate to each of the real properties described as being subject to a lease in Parent's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as adjusted to reflect purchases and sales (collectively, the "*Parent Leased Properties*"), except as would

not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent. Except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent, (i) the interests of the Parent Property Owners in the Parent Properties and the Parent Leased Properties are good and marketable, and the same are owned free and clear of Liens except for (A) Permitted Liens, (B) Property Restrictions imposed or promulgated by Law or by any Governmental Authority and (C) such other Property Restrictions that are shown in any title insurance policy insuring Parent's or any of its Subsidiaries' fee simple or leasehold title to any Parent Property or Parent Leased Property and as set forth in the leases and any material amendment or other material modifications thereto with respect to the Parent Leased Properties, *provided* that such Permitted Liens and Property Restrictions are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect with respect to Parent, (ii) except in the Ordinary Course, no Parent Property requires any extraordinary capital expenditure by Parent or any of its Subsidiaries, except as required by California Senate Bill 1953, (iii) the execution and delivery of this Agreement by Parent and Purchaser do not, and the performance of this Agreement by Parent and Purchaser will not, violate any Lien on any Parent Property, (iv) to Parent's Knowledge, no Person is in default under any lease, ground lease or other occupancy agreement pursuant to which Parent or any of its Subsidiaries, as a landlord, leases any Parent Property and (v) as of the date of this Agreement neither Parent nor any of its Subsidiaries has granted any unexpired option agreements or rights of first refusal with respect to the purchase of a Parent Property or any portion thereof or any other unexpired rights in favor of any third party to purchase or otherwise acquire a Parent Property, which, in each case, would be accelerated by the Merger.

SECTION 4.13. *Taxes.* (a) All Tax Returns and all other material Tax Returns required to be filed by or on behalf of Parent, Purchaser or any of Parent Tax Subsidiaries have been properly and timely filed with the appropriate taxing authorities in all jurisdictions in which such Tax Returns are required to be filed (after giving effect to any valid extensions of time in which to make such filings), and all such Tax Returns, as amended, are accurate and complete in all material respects. Except as and to the extent publicly disclosed by Parent in the Parent SEC Reports, (i) all Taxes payable by or on behalf of Parent, Purchaser or any of Parent Tax Subsidiaries (whether or not shown in a Tax Return) have been fully and timely paid or adequately provided for in accordance with GAAP, and (ii) adequate reserves or accruals for Taxes have been provided in accordance with GAAP with respect to any period for which Tax Returns have not yet been filed or for which Taxes are not yet due and owing or for which Taxes are being contested in good faith. Neither Parent nor Purchaser nor any of Parent Tax Subsidiaries has executed or filed with the IRS or any other taxing authority any agreement, waiver or other document or arrangement extending or having the effect of extending the period for assessment or collection of Taxes (including, but not limited to, any applicable statute of limitation), and no power of attorney with respect to any Tax matter is currently in force and to the Knowledge of Parent, no request for any such waiver or extension is currently pending.

(b) (i) Parent for all taxable years commencing in the year that the Parent first made a REIT tax election, through the most recent December 31, has elected to be subject to taxation as a REIT within the meaning of Section 856 of the Code and has satisfied all requirements to qualify as a REIT for such years, (ii) Parent has operated, and intends to continue to operate, in such a manner as to qualify as a REIT for the taxable year of this Agreement and, if different, the taxable year in which the Merger becomes effective, (iii) if the taxable year of Parent were to close on the date of the Closing, Parent would have satisfied all requirements to qualify as a REIT for such year end and (iv) to Parent's Knowledge, no challenge to Parent's status as a REIT is pending or threatened.

(c) No audit or other proceeding by any taxing authority is pending with respect to any Taxes due from or with respect to Parent, Purchaser or any Parent Tax Subsidiary, nor is there any material dispute with respect to any liability for Taxes of Parent, Purchaser or any Parent Tax Subsidiary either claimed or raised.

(d) Neither Parent nor Purchaser nor any of Parent Tax Subsidiaries has engaged in any transaction that has given rise to or could be reasonably expected to give rise to a disclosure obligation as a "*listed transaction*" under Section 6011 of the Code and the regulations promulgated thereunder. Parent, Purchaser and all of Parent Tax Subsidiaries have complied with all obligations applicable to Parent, Purchaser or the relevant Parent Tax Subsidiary under Sections 6111 and 6112 of the Code.

(e) Neither Parent nor Purchaser nor any of its Subsidiaries has entered into any Prohibited Transaction (as defined in Section 857 of the Code).

SECTION 4.14. *Environmental Matters.* Except for such matters that, individually or in the aggregate, would not be reasonably likely to have a Material Adverse Effect with respect to Parent: (i) Parent and its Subsidiaries are in compliance with all applicable Environmental Laws; (ii) neither Parent nor any of its Subsidiaries has received since January 1, 2003 any written notice from any Governmental Authority or any third party indicating that Parent or any such Subsidiary is in violation of any Environmental Law, which matter has not been resolved; (iii) Parent and its Subsidiaries are not subject to any court order, administrative order or decree arising under any Environmental Law; (iv) no Hazardous Substance has been transported from any of the properties owned or operated by Parent or any of its Subsidiaries, other than as permitted under applicable Environmental Law; (v) to the Knowledge of Parent, except as permitted by Law, there are no underground storage tanks, PCB or PCB-containing equipment, except for PCB or PCB-containing equipment owned by utility companies, or friable asbestos or asbestos-containing materials at any of the properties owned or operated by Parent or any of its Subsidiaries; and (vi) to the Knowledge of Parent, there has been no material incidents of water damage or visible evidence of mold growth at any of the properties owned or operated by Parent or any its Subsidiaries that have not been corrected or repaired.

SECTION 4.15. *Material Contracts.* Parent has filed with the SEC copies of all material contracts that were required to be filed with the SEC Reports. Such contracts filed or required to be filed, other than Parent leases, are herein referred to as "*Parent Material Contracts*". Except as would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect with respect to Parent, (i) none of Parent and its Subsidiaries has received any claim of default of any material provision under or cancellation of any Parent Material Contract and none of Parent and its Subsidiaries is in breach or violation of, or default of any material provision under, any Parent Material Contract, (ii) to Parent's Knowledge, no other party is in breach or violation of, or default under, any material provision of any Parent Material Contract and (iii) neither the execution of this Agreement nor the consummation of the transactions contemplated by this Agreement shall constitute a default under, or give rise to cancellation rights under, or otherwise adversely affect any of Parent's material rights under any Parent Material Contract.

SECTION 4.16. *Insurance.* Parent and Parent's Subsidiaries maintain insurance coverage with reputable insurers in such amounts and covering such risks as are in accordance with normal industry practice for companies engaged in businesses similar to that of Parent and Parent's Subsidiaries (taking into account the cost and availability of such insurance).

SECTION 4.17. *Affiliate Transactions.* Neither Parent nor any of its Subsidiaries is a party to any relationships or transactions of the type described in Item 404 of Regulation S-K of the SEC that has not been disclosed in one or more Parent SEC Reports.

SECTION 4.18. *Financing.* Parent has, and Parent and Purchaser shall have, sufficient funds to permit Parent and Purchaser to perform all of their respective obligations under this Agreement and to consummate all the transactions contemplated hereby, including paying the Cash Consideration in the Merger and paying all fees and expenses of Parent and Purchaser related thereto.

SECTION 4.19. *Information Supplied.* The information supplied by Parent or Purchaser for inclusion or incorporation by reference in the Prospectus/Proxy Statement and the S-4 Registration Statement shall not, in the case of the Prospectus/Proxy Statement, at the date the Prospectus/Proxy Statement (or any amendment or supplement thereto) is first mailed to stockholders of the Company or at the time of the Company Stockholders' Meeting, and in the case of the S-4 Registration Statement, at the date when the S-4 Registration Statement (or any amendment or supplement thereto) becomes effective, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not false or misleading. Notwithstanding the foregoing, Parent makes no representation or warranty with respect to any information supplied by the Company or any of the Company's representatives for inclusion or incorporation by reference in the Prospectus/Proxy Statement or the S-4 Registration Statement. The S-4 Registration Statement shall comply in all material respects as to form with the requirements of the Securities Act and the rules and regulations thereunder.

SECTION 4.20. *Ownership of Purchaser; No Prior Activities.* Purchaser is a direct wholly-owned Subsidiary of Parent. Purchaser was formed solely for the purpose of engaging in the transactions contemplated by this Agreement and has not engaged in any business activities or conducted any operations other than in connection with the transactions contemplated by this Agreement. All the issued and outstanding shares of capital stock of Purchaser are owned of record and beneficially by Parent.

SECTION 4.21. *No Ownership of Company Capital Stock.* As of the date of this Agreement, neither Parent nor any of its Subsidiaries, including Purchaser, own any shares of Company Common Stock or other securities of the Company.

SECTION 4.22. *Brokers.* No broker, finder or investment banker (other than USB Securities LLC and Cohen & Steers Capital Advisors, LLC) is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of Parent or Purchaser.

ARTICLE V
CONDUCT OF BUSINESS PENDING THE MERGER

SECTION 5.01. *Conduct of Business by the Company Pending the Merger.* The Company agrees that, between the date of this Agreement and the Effective Time, except as expressly set forth in this Agreement or Section 5.01 of the Company Disclosure Schedule, the businesses of the Company and its Subsidiaries shall be conducted in the Ordinary Course, and the Company shall use its reasonable efforts to preserve substantially intact the business organization of the Company and its Subsidiaries and to preserve the current relationships of the Company and its Subsidiaries with customers, suppliers and other Persons with which the Company or any of its Subsidiaries has significant business relations. Except as expressly set forth in this Agreement or set forth in Section 5.01 of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries shall, between the date of this Agreement and the Effective Time, directly or indirectly, do, or propose to do, any of the following without the prior written consent of Parent, which consent shall not be unreasonably withheld or delayed:

(a) amend or otherwise change the Company Charter or Bylaws of the Company or any equivalent organizational documents of any Significant Subsidiaries of the Company;

(b) issue, sell, pledge, dispose of, grant or encumber, or authorize the issuance, sale, pledge, disposition, grant or encumbrance of, any shares of any class of capital stock of the Company or any of its Subsidiaries, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of such capital stock, or any other ownership interest, of the Company or any of its Subsidiaries;

(c) except to the extent necessary to maintain its status as a REIT (provided that any dividend or distribution materially in excess of dividends or distributions paid prior to the date hereof shall require prior consultation with Parent), declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its capital stock except for (i) distributions by the Company or any wholly-owned Subsidiary of the Company to the Company or another wholly-owned Subsidiary of the Company and (ii) monthly dividends payable quarterly of $0.0592 or quarterly dividends of $0.1776 per share of Company Common Stock consistent with past practice;

(d) reclassify, combine, split, subdivide or redeem, or purchase or otherwise acquire, directly or indirectly, any of its capital stock except in the Ordinary Course;

(e) (i) acquire any corporation, partnership, other business organization or any division thereof in any transaction or series of related transactions (including by merger, consolidation or acquisition of stock or assets or any other business combination) other than acquisitions pursuant to agreements or commitments in effect as of the date hereof which agreements are listed on Schedule 5.01 hereto; (ii) acquire any asset having a value in excess of $500,000 without first providing Parent five (5) Business Days' prior notice and consulting with Parent with respect thereto and acquire any asset with a value or for consideration in excess of $5,000,000 or in excess of the Aggregate Limit in the aggregate, other than acquisitions pursuant to contracts or agreements in effect as of the date of this Agreement (including by merger, consolidation, or acquisition of stock or assets or any other business combination) and provided that the agreements with respect to any asset acquisitions entered into as permitted under this clause (i) are on an arm's-length basis; (iii) except for borrowings under that certain Amended and Restated Credit Agreement dated as of August 23, 2005 by and among the Company (and various CNL entities) and Bank of America, N.A. and various other financial institutions in an amount not to exceed $25,000,000 and indebtedness for borrowed money assumed in connection with any asset acquisition permitted under Section 5.01(e)(ii) incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise become responsible for, the obligations of any Person, or make any loans or advances, or grant any security interest in any of its assets; (iv) enter into or amend or modify in any material respect or terminate any material contract or agreement other than (1) renewals or extensions of Company Leases on terms substantially equivalent to such Company Lease so renewed or extended, (2) leases with respect to real property entered into by the Company or a Subsidiary of the Company as landlord in connection with any asset acquisition permitted under Section 5.02(e)(ii) (*provided that*, in connection with any asset acquisition permitted under such Section without the prior consent of Parent, the Company shall also have consulted with Parent on such leases during the five (5) Business Day period referred to therein), (3) any other lease of real property entered into by the Company or a Subsidiary of the Company as landlord provided that the lease does not represent in excess of 10% of the gross leasable area with respect thereto and (4) any other material contract other than a lease provided that such contract is terminable by the Company or one of its Subsidiaries on no more than 90 days' notice without the payment of a penalty or premium, and provided that any material contract or amendment or modification of any material contract under any of clauses (1) through (4) is on an arm's-length basis; or (v) authorize, or make any commitment with respect to or make any single capital expenditure that is in excess of $5,000,000 or capital expenditures that are, in the aggregate, in excess of the Aggregate Limit, except for capital expenditures in accordance with and on the timetable contemplated by the capital budget of the Company attached hereto as Schedule 5.01(e);

(f) voluntarily create or incur any Lien material to it or any of its Subsidiaries on any of its assets or any assets of its Subsidiaries having a value in excess of $500,000;

(g) make any loans, advances or capital contributions to or investments in any Person (other than between itself and any of its direct or indirect wholly-owned Subsidiaries);

(h) cancel, modify or waive any debts or claims held by it or waive any rights having in each case a value in excess of $5,000,000 or settle any litigation or other proceedings before a Governmental Authority or arbitrator or make any payments in respect thereof in excess of $100,000 for any individual litigation or proceeding or $750,000 in the aggregate (it being understood that this clause shall not apply to any fees and expenses paid in connection with the defense of any such litigation or proceeding);

(i) transfer, sell, lease, license, mortgage, pledge, surrender, encumber, divest, cancel, abandon or allow to lapse or expire or otherwise dispose of any of its assets, including (with respect to assets of the Company) capital stock of any of its Subsidiaries, having a value in excess of $500,000 individually or $1,500,000 in the aggregate other than pursuant to agreements or contracts in effect as of the date of this Agreement and provided that all contracts entered into as permitted under this clause (i) shall be on an arm's-length basis;

(j) take any material action with respect to accounting policies or procedures;

(k) enter into an agreement with respect to any merger, consolidation, liquidation or business combination, or any acquisition or disposition of all or substantially all of the assets or securities of the Company or any of its Significant Subsidiaries;

(l) except to the extent reasonably necessary to maintain the Company's status as a REIT, make or rescind any material Tax election, settle or compromise any material Tax liability or make any material amendment to any Tax Return;

(m) enter into any Prohibited Transaction (as defined in Section 857 of the Code);

(n) take any action (or fail to take any action) that would cause the Company to fail to qualify as a REIT;

(o) fail to timely file any Tax Returns that are required to be filed by the Company or any Company Tax Subsidiary; or

(p) announce an intention, enter into any agreement or otherwise make a commitment, to do any of the foregoing.

SECTION 5.02. *Conduct of Business by Parent and Purchaser Pending the Merger.* Parent agrees that, between the date of this Agreement and the Effective Time, Parent shall use its reasonable efforts to preserve substantially intact the business organization of Parent, Purchaser and Parent's Subsidiaries, to retain the services of its executive officers and key employees and to preserve the current relationships of Parent, Purchaser and Parent's Subsidiaries with material customers, suppliers and other Persons with which Parent, Purchaser or any of Parent's Subsidiaries has significant business relations. Except as expressly set forth in this Agreement or set forth in Section 5.02 of the Parent Disclosure Schedule, Parent shall not, between the date of this Agreement and the Effective Time, directly or indirectly, do, or propose to do, any of the following without the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed: (i) make any amendment to the Parent Charter that changes the fundamental attributes of Parent Common Stock (it being understood that the authorization and/or issuance of preferred stock shall not be a change in the fundamental attributes of Parent Common Stock); (ii) except to the extent necessary to maintain its status as a REIT (provided that any dividend or distribution materially in excess of dividends or distributions paid prior to the date hereof shall require prior consultation with the Company), declare, set aside, make or pay any extraordinary dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its capital stock; (iii) take any action (or fail to take any action) that would cause Parent to fail to qualify as a REIT; (iv) permit or cause any of Parent's Subsidiaries to do any of the foregoing or agree or commit to any of the foregoing (except for distributions by

Parent or any wholly-owned Subsidiary of Parent to Parent or another wholly-owned Subsidiary of Parent); or (v) agree in writing or otherwise to take any of the foregoing actions.

ARTICLE VI
ADDITIONAL AGREEMENTS

SECTION 6.01. *Stockholders' Meeting.* Subject to Section 6.04, the Company shall, (i) use its reasonable best efforts to duly call, give notice of, convene and hold, in accordance with applicable Law and the Company Charter and Bylaws, no later than the 60th calendar day following the commencement of mailing of the Prospectus/Proxy Statement to its stockholders, an annual or special meeting of its stockholders for the purpose of considering and taking action on this Agreement and the transactions contemplated hereby, including the Merger, and obtaining the Company Stockholder Approval (the "*Company Stockholders' Meeting*") and

(ii) (A) include in the Prospectus/Proxy Statement the recommendation of the Company Board and the Special Committee that the stockholders of the Company approve the Merger (the "*Company Recommendation*") and (B) use its reasonable efforts to obtain such approval and adoption; *provided* that, the Company may adjourn or postpone the Company Stockholders' Meeting to the extent necessary to ensure that any required supplement or amendment to the Prospectus/Proxy Statement is provided to the Company's stockholders or if, as of the time for which the Company Stockholders' Meeting is originally scheduled (as set forth in the Prospectus/Proxy Statement), there are insufficient shares of Company Common Stock represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of the Company Stockholders' Meeting.

SECTION 6.02. *Proxy Statement; S-4 Registration Statement.* As promptly as reasonably practicable after the date hereof, the Company shall prepare and file with the SEC the Prospectus/Proxy Statement, and Parent shall prepare and file with the SEC the S-4 Registration Statement. The Company and Parent shall each use its reasonable efforts to have the Prospectus/Proxy Statement cleared and the S-4 Registration Statement declared effective, respectively, by the SEC as promptly as practicable after filing thereof, and the Company shall as promptly as practicable thereafter mail the Prospectus/Proxy Statement to its stockholders. Parent, Purchaser and the Company shall cooperate with each other in the preparation of the Prospectus/Proxy Statement and the S-4 Registration Statement, and each party shall notify the other of the receipt of any comments of the SEC with respect thereto and of any requests by the SEC for any amendment or supplement thereto or for additional information and shall provide to the other party copies of all correspondence between them or any of their representatives and the SEC with respect thereto. Each party shall give the other party and its counsel a reasonable opportunity to review and comment on the S-4 Registration Statement and the Prospectus/Proxy Statement, including all amendments and supplements thereto, prior to such documents being filed with the SEC or disseminated to stockholders of the Company and shall give the other party and its counsel a reasonable opportunity to review and comment on all responses to requests for additional information and replies to comments prior to their being filed with, or sent to, the SEC. Each of the Company, Parent and Purchaser agrees to use its reasonable efforts, after consultation with the other parties hereto, to respond promptly to all such comments of and requests by the SEC and to cause the Prospectus/Proxy Statement and all required amendments and supplements thereto to be mailed to the holders of shares of Company Common Stock entitled to vote at the Company Stockholders' Meeting at the earliest practicable time.

SECTION 6.03. *Access to Information; Confidentiality.* (a) Subject to applicable Law and confidentiality agreements, from the date hereof until the Effective Time, the Company shall (i) cause its Subsidiaries and the officers and representatives of the Company and its Subsidiaries and (ii) use reasonable efforts to cause the officers and employees of the Advisor to, afford the officers, employees and agents of Parent and Purchaser reasonable access during normal business hours (and in such a way

as to not unduly interfere with the operation of the businesses of the Company or its Subsidiaries) to the personnel, properties, offices, plants and other facilities, books and records of the Company and its Subsidiaries, and shall furnish Parent and Purchaser with such financial, operating and other data and information as Parent or Purchaser may reasonably request.

(b) Subject to applicable Law and confidentiality agreements, from the date hereof until the Effective Time, Parent shall (i) cause Purchaser, Parent's Subsidiaries and the officers and representatives of Parent, Purchaser and Parent's Subsidiaries to afford the officers, employees and agents of the Company reasonable access during normal business hours (and in such a way as to not unduly interfere with the operation of the businesses of Parent, Purchaser or Parent's Subsidiaries) to the personnel, properties, offices, plants and other facilities, books and records of Parent, Purchaser and Parent's Subsidiaries, and shall furnish the Company with such financial, operating and other data and information as the Company may reasonably request; provided that in no event shall Parent be obligated to afford to the Company or such officers, employees and agents greater access to such personnel, properties, offices, plants and other facilities, books and records than was afforded to the Company and such officers, employees and agents prior to the date hereof.

(c) All information obtained by Parent, Purchaser or the Company pursuant to this Section 6.03 shall be kept confidential in accordance with the confidentiality agreement, dated March 10, 2006, as amended on April 14, 2006 (the "*Confidentiality Agreement*"), among Parent, the Company and the Advisor.

SECTION 6.04. *No Solicitation of Transactions.* (a) The Company will, and will cause each of its Subsidiaries to, and its and their respective officers, directors and representatives to, immediately cease any existing solicitations, discussions or negotiations with any Person that has made or indicated an intention to make an Acquisition Proposal.

(b) The Company shall not, and shall cause its Subsidiaries and any of their respective directors, officers and representatives not to, (i) solicit, initiate, knowingly encourage or facilitate (including by way of furnishing non-public information) any inquiries with respect to an Acquisition Proposal, or (ii) initiate, participate in or knowingly encourage any discussions or negotiations regarding an Acquisition Proposal; *provided, however*, that, at any time prior to the Company Stockholder Approval, if the Company receives a bona fide Acquisition Proposal or a proposal that may reasonably be expected to lead to an Acquisition Proposal that was not solicited after the date of this Agreement or that did not otherwise result from a breach of this Section 6.04, the Company may furnish, or cause to be furnished, non-public information with respect to the Company and its Subsidiaries to the Person who made such proposal and may participate in discussions and negotiations regarding such proposal if (A) each of the Company Board and the Special Committee determines in good faith, after consultation with its financial advisor and outside counsel, that such action is necessary in order for such directors to comply with the directors' statutory duties under Section 2-405.1 of the MGCL and fiduciary duties under the Company Charter, (B) each of the Company Board and the Special Committee determines in good faith, after consultation with its financial advisor, that such Acquisition Proposal either constitutes a Superior Proposal or is reasonably likely to result in a Superior Proposal, and (C) prior to taking such action, the Company enters into a confidentiality agreement with respect to such proposal that contains confidentiality provisions no less restrictive than the Confidentiality Agreement. The Company shall promptly (and, in any event, within 24 hours) notify Parent after receipt by the Company of any Acquisition Proposal, including the material terms and conditions thereof, to the extent known, the identity of the third party making any proposal and any material change in the status of discussions or negotiations (including any material amendments to the proposal) between the Company and the Person making such proposal.

(c) Prior to the Effective Time the Company Board and the Special Committee shall not (i) withdraw, qualify or modify or publicly propose to withdraw, qualify or modify in a manner adverse

to Parent or Purchaser, the Company Recommendation or (ii) approve, adopt or recommend, or publicly propose to approve, adopt or recommend, an Acquisition Proposal to holders of the Company Common Stock; *provided, however*, that in the event an Acquisition Proposal is made prior to the Company Stockholder Approval, each of the Company Board and the Special Committee may take such action if the Company has complied with the notice provisions set forth in the last sentence of Section 6.04(b) and each has determined in good faith (x) after consultation with outside legal counsel that such action is necessary in order for such directors to comply with the directors' statutory duties under Section 2-405.1 of the MGCL and fiduciary duties under the Company Charter and (y) after consultation with its financial advisor and outside legal counsel, that such Acquisition Proposal is a Superior Proposal. In the event that the Company Board and the Special Committee comply with their respective obligations in the preceding sentence, the Company may enter into a definitive agreement to effect a Superior Proposal, but not prior to such time as the Company has provided Parent with written notice that the Company has elected to terminate this Agreement pursuant to Section 8.01(e) and otherwise complied with the Company's obligations in the preceding sentence and in Section 8.01(e).

(d) Nothing contained in this Section 6.04 shall prohibit the Company from at any time taking and disclosing to its stockholders a position contemplated by Rule 14d-9 or Rule 14e-2(a) promulgated under the Exchange Act or making any disclosure required by Rule 14a-9 promulgated under the Exchange Act or Item 1012(a) of Regulation M-A or from making any other disclosure to its stockholders or in any other regulatory filing if, in the good faith judgment of the Company Board and the Special Committee, based on the advice of their respective outside counsel, failure to so disclose would be inconsistent with their or the Company's obligations under applicable Law (it being understood that nothing in this Section 6.04(d) shall affect Parent's termination rights under Section 8.01(f)).

SECTION 6.05. *Employees and Employee Benefits Matters.* Neither the Company nor any of its Subsidiaries shall hire any natural person as an employee, nor will the Company or any of its Subsidiaries enter into any agreement with a natural person for the provision of services to the Company or any of its Subsidiaries in the capacity of an employee. Neither the Company nor any of its Subsidiaries shall establish, adopt or enter into any Employee Plan.

SECTION 6.06. *Directors' and Officers' Indemnification and Insurance.* (a) For a period of six years from the Effective Time, the Surviving Corporation Charter and the Surviving Corporation Bylaws shall contain provisions for the indemnification to the full extent permitted by Law of individuals who, at or prior to the Effective Time, were directors, officers, fiduciaries or agents of the Company or any of its Subsidiaries, which provisions shall not be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would affect adversely the rights thereunder of those individuals, unless such modification shall be required by Law and then only to the minimum extent required by Law.

(b) After the Effective Time, the Surviving Corporation and Parent shall, jointly and severally, to the fullest extent permitted under applicable Law or any applicable contract or agreement in effect on the date hereof and made available to Parent, indemnify and hold harmless, and provide advancement of expenses to, each present and former director and officer of the Company and each of its Subsidiaries (collectively, the "*Indemnified Parties*") against all costs and expenses (including attorneys' fees), judgments, fines, penalties, losses, claims, damages, liabilities and settlement amounts paid in connection with any claim, action, suit, proceeding or investigation (whether arising before or after the Effective Time), whether civil, criminal, administrative or investigative, arising out of or pertaining to any action or omission, or alleged act or omission, in their capacity as an officer or director, whether occurring before or at the Effective Time, for a period of six years after the date hereof. In the event of any such claim, action, suit, proceeding or investigation, any Indemnified Party wishing to claim indemnification hereunder shall promptly notify Parent upon learning of same; provided that the failure to so notify shall not relieve Parent of any liability it may have hereunder except to the extent such

failure materially prejudices Parent. In the event of any such claim, action, suit, proceeding or investigation, (i) the Surviving Corporation shall pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to the Surviving Corporation, promptly after statements therefor are received and (ii) the Surviving Corporation shall cooperate in the defense of any such matter; *provided, however*, that the Surviving Corporation shall not be liable for any settlement effected without its written consent (which consent shall not be unreasonably withheld or delayed); and *provided, further*, that neither the Company nor the Surviving Corporation shall be obligated pursuant to this Section 6.06(b) to pay the fees and expenses of more than one counsel (in addition to local counsel) for all Indemnified Parties in any single action except to the extent that two or more of such Indemnified Parties shall have conflicting interests in the outcome of such action; and *provided, further*, that, in the event that any claim for indemnification is asserted or made within such six year period, all rights to indemnification in respect of such claim shall continue until the disposition of such claim.

(c) The Surviving Corporation shall maintain in effect for six years from the Effective Time, if available, the current directors' and officers' liability insurance policies maintained by the Company (provided that the Surviving Corporation may substitute therefor policies of at least the same coverage with respect to matters occurring prior to the Effective Time containing terms and conditions that are not in the aggregate less favorable; provided, however, that in no event shall the Surviving Corporation be required to expend pursuant to this Section 6.06(c) more than an amount per year equal to 250% of current annual premiums paid by the Company for such insurance; provided, however, that in the event of an expiration, termination or cancellation of such current policies, Purchaser or the Surviving Corporation shall use their reasonable best efforts to obtain as much coverage as is possible under substantially similar policies for such maximum annual amount in aggregate annual premiums.

(d) In the event the Surviving Corporation or any of its successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then, and in each such case, Parent shall, and shall cause the Surviving Corporation or its successors or assigns, to maintain the policies and honor the obligations provided for in this Section 6.06.

(e) Parent shall cause the Surviving Corporation to perform all of the obligations of the Surviving Corporation under this Section 6.06. The provisions of this Section 6.06 are intended for the benefit of and shall be enforceable by, each of the Indemnified Parties and their respective heirs and representatives.

SECTION 6.07. *Further Action; Reasonable Best Efforts.* (a) Upon the terms and subject to the conditions of this Agreement, each of the parties hereto shall use its reasonable efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable under applicable Law to consummate and make effective the transactions contemplated hereby, including using its reasonable best efforts to obtain all Permits, consents, approvals, authorizations, qualifications and orders of Governmental Authorities and parties to contracts with the Company and its Subsidiaries as are necessary for the consummation of the transactions contemplated hereby and to fulfill the conditions to the Merger. In case, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of each party to this Agreement shall use their reasonable best efforts to take all such action. Without limiting the generality of the foregoing, Parent shall discuss in good faith and agree to increase the amount of the Cash Consideration (subject to a corresponding decrease in the amount of the Stock Consideration) in the event that it is determined that the number of shares of Parent Common Stock to be issued in the Merger and the Advisor Merger would require the approval of the stockholders of Parent under the listing standards of the NYSE.

(b) The parties hereto agree to cooperate and assist one another in connection with all actions to be taken pursuant to Section 6.07(a), including the preparation and making of any filings referred to therein and, if requested, amending or furnishing additional information thereunder, including, subject to applicable Law and the Confidentiality Agreement, providing copies of all related documents to the non-filing party and their advisors prior to filing, and to the extent practicable and permissible under applicable Law neither of the parties will file any such document or have any communication with any Governmental Authority without prior consultation with the other party. Each party shall keep the other apprised reasonably promptly of the content and status of any communications with, and communications from, any Governmental Authority with respect to the transactions contemplated hereby. To the extent practicable and permitted by a Governmental Authority, each party hereto shall permit representatives of the other party to participate in meetings and calls with such Governmental Authority.

(c) Notwithstanding any other provision contained herein, the Company shall, with respect to any U.S. federal tax filing relating to the REIT status of the Company that is filed by the Company between the date hereof and Closing, give Parent a reasonable opportunity to comment on such filing before it is filed with the IRS and shall accept any reasonable comments (the reasonableness of which shall be determined by the Company in its sole discretion) that are provided by Parent with respect to the content of such filing.

(d) Each of the parties hereto agrees to cooperate and use its reasonable efforts to vigorously contest and resist any Action, including administrative or judicial Action, and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order (whether temporary, preliminary or permanent) that is in effect and that restricts, prevents or prohibits consummation of the transactions contemplated hereby, including by vigorously pursuing all available avenues of administrative and judicial appeal.

SECTION 6.08. *Public Announcements.* Parent, Purchaser and the Company agree that no public release or announcement concerning the transactions contemplated hereby or the Merger shall be issued by either party without the prior consent of the other party (which consent shall not be unreasonably withheld), except as such release or announcement may be required by Law or the rules or regulations of any securities exchange, in which case the party required to make the release or announcement shall use its reasonable best efforts to allow the other party reasonable time to comment on such release or announcement in advance of such issuance. The parties have agreed upon the form of a joint press release announcing the execution of this Agreement.

SECTION 6.09. *Affiliates.* Prior to the date of the Company Stockholders' Meeting, the Company shall deliver to Parent a list of names and addresses of those Persons who are, in the Company's reasonable judgment, as of the time of the Company Stockholders' Meeting, "affiliates" of the Company within the meaning of Rule 145 under the Securities Act. There shall be added to such list the names and addresses of any other Person subsequently identified by the Company (in consultation with Parent) as a Person who may be deemed to be such an affiliate of the Company. The Company shall exercise its reasonable efforts to deliver or cause to be delivered to Parent, prior to the Closing, from each affiliate of the Company identified in the foregoing list (as the same may be supplemented as aforesaid), a letter dated as of the Closing Date substantially in the form attached as Exhibit D (the "Affiliate Letter").

SECTION 6.10. *Dividends.* The Company and Parent shall coordinate the declaration, setting of record dates and payment dates of dividends on shares of Company Common Stock and Parent Common Stock so that holders of shares of Company Common Stock do not receive dividends on both shares of Company Common Stock and shares of Parent Common Stock received in the Merger in respect of the calendar quarter in which the Closing occurs or fail to receive a dividend on either shares of Company Common Stock or shares of Parent Common Stock received in the Merger in

respect of such calendar quarter; *provided, however*, that nothing herein is intended to prevent holders of shares of Company Common Stock from receiving a dividend on (i) shares of Company Common Stock with respect to the period from the beginning of the calendar quarter in which the Closing occurs to the Closing Date, and (ii) on shares of Parent Common Stock received in the Merger in respect of shares of Company Common Stock with respect to the period from the Closing Date to the end of the calendar quarter in which the Closing occurs.

SECTION 6.11. *Stock Exchange Listing.* Parent shall use its reasonable best efforts to cause the shares of Parent Common Stock to be issued in the Merger to be approved for listing on the NYSE subject to official notice of issuance, prior to the Closing Date. Prior to the Closing Date, the Company shall cooperate with Parent and use reasonable efforts to take, or cause to be taken, all actions, and do or cause to be done all things, reasonably necessary, proper or advisable on its part under applicable Laws to enable the deregistration of the shares of Company Common Stock under the Exchange Act as promptly as practicable after the Effective Time.

SECTION 6.12. *1031 Exchange.* The Company agrees to cooperate, subject to the restrictions and conditions stated herein, should Parent elect to acquire, immediately before and in connection with the closing of the Merger, one or more of the Company's assets as part of a like-kind exchange under Section 1031 of the Code (such assets thus acquired hereinafter referred to as "Replacement Properties"), including the execution of such documents and the taking of such actions as Parent may reasonably request to complete the acquisition of the Replacement Properties immediately prior to and in connection with the closing of the Merger, provided, however, (i) that any such like-kind exchange shall be consummated through the use of a qualified intermediary or exchange accommodation titleholder (the "Assignee"); (ii) Parent's contemplated exchange shall not impose upon the Company any cost, additional liability or financial obligation, and Parent agrees to hold the Company harmless from any liability that might arise in connection with such exchange. The Company agrees to cooperate with Parent in attempting to close the acquisition of the Replacement Properties two days before the closing for the Merger; provided however that the Company may refuse to consent to an acquisition of the Replacement Properties that does not close immediately before and in connection with the Merger if Company in its sole discretion believes that an earlier closing could have adverse consequences to the Company. Without limiting the generality of the immediate preceding sentence, any real property transfer, sales, use, transfer, value added, stock transfer and stamp taxes, stamp duties, and any transfer, recording, registration and other fees, charges, premiums and any similar taxes shall be borne solely by Parent; and Parent shall unconditionally guarantee the full and timely performance by the Assignee of each and every one of the representations, warranties, indemnities, obligations and undertakings of the Parent under this Agreement (and any amendments or modifications hereto) that relate to the Replacement Properties. As such guarantor, Parent shall be treated as primary obligor with respect to those representations, warranties, indemnities, obligations and undertakings, and, in the event of breach, the Company may proceed directly against Parent on this guarantee without the need to join Assignee.

In the event any exchange contemplated by Parent should fail to occur, for whatever reason, the Merger shall nonetheless be consummated as provided herein. Notwithstanding anything in this Agreement to the contrary, the Company makes no representation or warranty, and undertakes no other obligation, in each case with respect to the tax consequences of the transactions referred to in this Section 6.12 (including whether the transactions qualify under Section 1031 of the Code) and shall not be responsible for any loss or liability relating to any tax liability to Parent from such transactions.

ARTICLE VII
CONDITIONS TO THE MERGER

SECTION 7.01. *Conditions to the Merger.* The obligations of each party to effect the Merger shall be subject to the satisfaction, at or prior to the Effective Time, of the following conditions:

(a) *Stockholder Approval*. The Company shall have obtained the Company Stockholder Approval.

(b) *NYSE Listing*. The shares of Parent Common Stock issuable to the Company stockholders pursuant to this Agreement shall have been authorized for listing on the New York Stock Exchange (or in the event Parent has delisted from the NYSE prior to Closing and listed on another national securities exchange or on the Nasdaq National Market, such other national securities exchange or the Nasdaq National Market, as applicable) upon official notice of issuance.

(c) *No Order*. No Governmental Authority of competent jurisdiction shall have enacted or issued an order, decree, judgment, injunction or taken any other action (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits or makes illegal the consummation of the Merger (collectively, an "*Order*"); *provided, however*, that the party claiming the failure of the condition set forth in this Section 7.01(b) shall have used reasonable best efforts to have such Order vacated.

(d) *S-4*. The S-4 Registration Statement shall have become effective under the Securities Act. No stop order suspending the effectiveness of the S-4 Registration Statement shall have been issued, and no proceedings for that purpose shall have been initiated or be threatened by the SEC.

SECTION 7.02. *Conditions to the Obligations of Parent and Purchaser.* The obligations of Parent and Purchaser to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(a) *Representations and Warranties*. The representations and warranties of the Company contained in this Agreement shall be true and correct as of the date hereof and as of the Effective Time as though made on and as of the Effective Time (except to the extent expressly made as of an earlier date, in which case as of such earlier date), except for failures to be true and correct that individually or in the aggregate would not reasonably be likely to have a Material Adverse Effect with respect to the Company; *provided*, that for purposes of determining whether the condition in this Section 7.02(a) is satisfied, references to "Material Adverse Effect" and any other materiality qualification contained in such representations and warranties shall be ignored.

(b) *Agreements and Covenants*. The Company shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Effective Time.

(c) *Officer Certificate*. The Company shall have delivered to Parent a certificate, dated the date of the Closing, signed by the Chief Executive Officer or Chief Financial Officer of the Company, certifying as to the satisfaction of the conditions specified in Sections 7.02(a) and 7.02(b).

(d) *No Material Adverse Effect*. Since the date of this Agreement, there shall not have occurred any Effect that, individually or in the aggregate, has had, or is reasonably likely to have, a Material Adverse Effect with respect to the Company.

(e) *REIT Opinion*. Parent shall have received the opinion, in the form attached hereto as *Exhibit E*, of Greenberg Traurig, LLP, dated the Closing Date, regarding the Company's tax status as a REIT. In rendering such opinion, Greenberg Traurig, LLP may rely on customary assumptions, qualifications and representations as to factual matters, each reasonably acceptable to Parent. Such opinion may be conditioned on representations made by the Company's management (including the Advisor in its capacity as advisor to the Company) regarding its organization, assets, sources of gross

income and other matters related to the conduct of the Company's business operations, each reasonably acceptable to Parent.

(f) *Advisor Agreement*. The Advisor Merger shall have simultaneously closed.

SECTION 7.03. *Conditions to the Obligations of the Company.* The obligations of the Company to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(a) *Representations and Warranties*. The representations and warranties of Parent and Purchaser contained in this Agreement shall be true and correct in all material respects as of the date hereof and as of the Effective Time, as though made on and as of the Effective Time (except to the extent expressly made as of an earlier date, in which case as of such earlier date), except for failures to be true and correct that individually or in the aggregate would not reasonably be likely to have a Material Adverse Effect with respect to Parent; *provided*, that for purposes of determining whether the condition in this Section 7.03(a) is satisfied, references to "Material Adverse Effect" and any other materiality qualification contained in such representations and warranties shall be ignored.

(b) *Agreements and Covenants*. Parent and Purchaser shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Effective Time.

(c) *Officer Certificate*. Parent shall have delivered to the Company a certificate, dated the date of the Closing, signed by the Chief Executive Officer or Chief Financial Officer of Parent, certifying as to the satisfaction of the conditions specified in Sections 7.03(a) and 7.03(b).

(d) *No Material Adverse Effect*. Since the date of this Agreement, there shall not have occurred any Effect that, individually or in the aggregate, has had, or is reasonably likely to have, a Material Adverse Effect with respect to Parent.

(e) *REIT Opinion*. The Company shall have received the opinion, in the form attached hereto as Exhibit F, of Latham & Watkins LLP, counsel to Parent, dated the Closing Date, regarding Parent's tax status as a REIT. In rendering such opinion, Latham & Watkins LLP may rely on customary opinions of counsel which opinions are reasonably acceptable to the Company on the date of this Agreement and on customary assumptions, qualifications and representations as to factual matters, each reasonably acceptable to the Company. Such opinion may be conditioned on representations made by Parent's management regarding its organization, assets, sources of gross income and other matters related to the conduct of Parent's business operations, each reasonably acceptable to the Company.

SECTION 7.04. *Frustration of Closing Conditions.* No party may rely on the failure of any condition set forth in this Article VII to be satisfied if such party's failure to comply with any provision of this Agreement in a material respect has been the proximate cause of, or resulted in, the failure of the condition.

ARTICLE VIII
TERMINATION, AMENDMENT AND WAIVER

SECTION 8.01. *Termination.* This Agreement may be terminated and abandoned prior to the Closing Date only as follows:

(a) by the mutual written consent of Parent and the Company;

(b) by either of the Company or Parent by written notice to the other:

(i) if at the Company Stockholders' Meeting (or at any adjournment or postponement thereof) the Company Stockholder Approval is not obtained;

(ii) if any Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Order that is in effect and restrains, enjoins or otherwise prohibits or makes illegal the consummation of the Merger, and such Order shall have become final and non-appealable, *provided, however*, that the party terminating this Agreement pursuant to this Section 8.01(b)(ii) shall have used reasonable best efforts to have such Order vacated; or

(iii) if the consummation of the Merger shall not have occurred on or before October 31, 2006 (the "Drop Dead Date"); provided, however, that the right to terminate this Agreement under this Section 8.01(b)(iii) shall not be available to either party if such party's breach of any representation, warranty or covenant herein in a material respect has been the proximate cause of, or resulted in, the failure of the Merger to occur on or before the Drop Dead Date.

(c) by written notice from Parent to the Company, if the Company breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in this Agreement, which breach or failure to perform would give rise to the failure of a condition set forth in Section 7.02(a) or 7.02(b), and such condition is incapable of being satisfied by the Drop Dead Date or such breach has not been cured by the Company within 30 Business Days after the Company's receipt of written notice of such breach from Parent; provided that Parent's right to terminate under this paragraph shall lapse and be of no effect if not exercised in writing within 15 Business Days following the date upon which the right to terminate hereunder first accrued;

(d) by written notice from the Company to Parent if Parent or Purchaser breaches or fails to perform in any material respect any of its representations, warranties or covenants contained in this Agreement, which breach or failure to perform would give rise to the failure of a condition set forth in Section 7.03(a) or 7.03(b) and such condition is incapable of being satisfied by the Drop Dead Date or such breach has not been cured by Parent or Purchaser within 30 Business Days after Parent's receipt of written notice of such breach from the Company; provided that Company's right to terminate under this paragraph shall lapse and be of no effect if not exercised in writing within 15 Business Days following the date upon which the right to terminate hereunder first accrued;

(e) by written notice from the Company to Parent, in connection with entering into a binding written agreement to effect a Superior Proposal; *provided, however*, that prior to terminating this Agreement pursuant to this Section 8.01(e), (i) the Company (with the authorization of the Company Board and the Special Committee) shall have (1) notified Parent in writing of the Company's receipt of such Superior Proposal (and the material terms and conditions thereof) and its intention to enter into such binding written agreement Proposal, and (2) otherwise complied in all material respects with its obligations under Section 6.04, (ii) Parent does not make, within three Business Days after receipt of the Company's written notice pursuant to clause (i) above, an offer that the Company Board and the Special Committee shall have concluded in good faith (following consultation with their respective financial advisors and outside counsel) is at least as favorable, from a financial point of view, to the stockholders of the Company as such Superior Proposal, and (iii) the Company shall have paid to Parent the Break-up Fee as provided in Section 8.02(b). The Company agrees (x) that it will not enter into the binding agreement referred to in this Section 8.01(e) until at least the fourth Business Day after it has provided the notice to Parent required hereby and (y) to notify Parent promptly if its intention to enter into such agreement referred to in its notice to Parent will change at any time after giving such notice.

(f) by written notice of Parent to the Company, if the Company Board and the Special Committee shall, prior to the Company Stockholder Approval, (A) fail to include the Company Recommendation in the Prospectus/Proxy Statement, (B) publicly withdraw or knowingly modify, in a manner adverse to Parent or Purchaser, the Company Recommendation, (C) approve any Acquisition Proposal or publicly recommend that the holders of the Company Common Stock accept or approve any other Acquisition Proposal, (D) at any time after the end of fifteen (15) Business Days following

receipt of an Acquisition Proposal, have failed to reaffirm the Company Recommendation as promptly as practicable (but in any event within five (5) Business Days) after receipt of any written request to do so from Parent (which five Business Day period will be extended for an additional five (5) Business Days if the Company certifies to Parent prior to the expiration of the initial five (5) Business Day period that the Company Board and the Special Committee are in good faith seeking to obtain additional information regarding their decision to reaffirm the Company Recommendation), or (E) if a tender offer or exchange offer for no less than twenty percent (20%) of the outstanding shares of Company Common Stock has been publicly disclosed (other than by Parent or an affiliate of Parent) and the Company Board recommends that the stockholders of the Company tender their shares in such tender or exchange offer; provided, further, that Parent's right to terminate under this Section 8.01(f) shall lapse and be of no effect if not exercised in writing within 15 Business Days following the date upon which the right to terminate hereunder first accrued; or

(g) by Parent in the event the Advisor Agreement is terminated in accordance with its terms; *provided* that Parent's right to terminate under this Section 8.01(g) shall lapse and be of no further force and effect if not exercised in writing within 15 Business Days following the date upon which the right to Terminate hereunder first accrued.

SECTION 8.02. *Effect of Termination.* (a) Subject to the remainder of this Section 8.02 and to Section 8.03, in the event of the termination of this Agreement pursuant to Section 8.01, this Agreement shall forthwith become null and void and have no effect, without any liability on the part of Parent, Purchaser or the Company and each of their respective directors, trustees, officers, employees, partners, stockholders or stockholders and all rights and obligations of any party hereto shall cease, except for the agreements contained in Sections 6.03 (Confidentiality), 6.08 (Public Announcements), 8.02 (Effect of Termination), 8.03 (Fees and Expenses) and Article IX (General Provisions), which shall remain in full force and effect and survive any termination of this Agreement; *provided, however*, that nothing contained in this Section 8.02(a) shall relieve any party hereto from liabilities or damages arising out of any fraud or willful breach by such party of any of its representations, warranties, covenants or other agreements contained in this Agreement.

(b) The Company shall pay to Parent an amount in cash equal to $107,000,000 (the "*Break-Up Fee*") if:

(i) this Agreement is terminated by the Company pursuant to Section 8.01(e);

(ii) this Agreement is terminated by Parent pursuant to Section 8.01(f); or

(iii) this Agreement is terminated by the Company or Parent pursuant to Section 8.01(b)(i); at any time after the date of this Agreement and before such termination, a bona fide Acquisition Proposal shall have been publicly announced and remains outstanding; and within 12 months of such termination the Company shall have entered into a definitive agreement with respect to or shall have consummated an Acquisition Proposal (substituting 50% for 20% in the definition thereof).

(c) Any fee due under Section 8.02(b) shall be paid by the Company by wire transfer of same-day funds:

(i) in the case of Section 8.02(b)(i), concurrently with such termination;

(ii) in the case of Sections 8.02(b)(ii), within two Business Days of such termination; and

(iii) in the case of Section 8.02(b)(iii), concurrently with the earlier of entering into such definitive agreement or consummation of such Acquisition Proposal.

SECTION 8.03. *Fees and Expenses.* (a) Except as set forth in Sections 8.02 and this Section 8.03, whether or not the Merger is consummated, all fees, costs and expenses incurred in

connection with the preparation, execution and performance of this Agreement and the transactions contemplated hereby, including all fees, costs and expenses of agents, representatives, financial advisors, counsel and accountants shall be paid by the party incurring such fees, costs or expenses.

(b) If this Agreement is terminated by Parent pursuant to Section 8.01(c), the Company shall pay to Parent within three Business Days after the date of termination all documented, reasonable out-of-pocket costs and expenses, including the reasonable fees and expenses of lawyers, accountants, financial advisors and investment bankers, incurred by Parent in connection with the entering into of this Agreement and the carrying out of any and all acts contemplated hereunder, provided that such fees and expenses to be paid by the Company hereunder shall not exceed $3,000,000.

(c) If this Agreement is terminated by the Company pursuant to Section 8.01(d), Parent shall pay to the Company within three Business Days after the date of termination all documented, reasonable out-of-pocket costs and expenses, including the reasonable fees and expenses of lawyers, accountants, financial advisors and investment bankers, incurred by the Company in connection with the entering into of this Agreement and the carrying out of any and all acts contemplated hereunder, provided that such fees and expenses to be paid by Parent hereunder shall not exceed $3,000,000.

SECTION 8.04. *Deferral Provisions to Insure Compliance with REIT Gross Income Tests.* (a) Notwithstanding any other provision in this Agreement, any payments otherwise to be made by the Parent to the Company pursuant to Section 8.03(c) or by the Company to Parent under Section 8.02 or Section 8.03(b) for any calendar year shall not exceed the sum of (a) the amount that it is determined should not be gross income of the party receiving such payment (the "Receiving Party") for purposes of the requirements of Sections 856(c)(2) and (3) of the Code, with such determination to be set forth in an opinion of outside tax counsel selected by the Receiving Party (the "*Counsel's Gross Income Opinion*") plus (b) such additional amount that it is estimated can be paid to the Receiving Party in such taxable year without creating a risk that the payment would cause the Receiving Party to fail to meet the requirements of Section 856(c)(2) and (3) of the Code, determined as if the payment of such amount did not constitute income described in Section 856(c)(2)(A) -(H) and 856(c)(3)(A) (I) of the Code ("*Qualifying Income*"), which determination shall be made by independent tax accountants to the Receiving Party and (c) in the event the Receiving Party receives a letter from outside tax counsel to the Receiving Party ("*Counsel's Ruling Letter*") indicating that Receiving Party has received a ruling from the Internal Revenue Service holding that the Receiving Party's receipt of the additional amount otherwise to be paid under Section 8.03(c) either would constitute Qualifying Income or would be excluded from gross income of the Receiving Party for purposes of Sections 856(c)(2) and (3) of the Code (the "*Specified REIT Requirements*"), the aggregate payments otherwise required to be made under this Agreement (determined without regard to this Section 8.04) less the amount otherwise previously paid under clauses (a) and (b) above. The obligation of the party required to make such payment (the "Paying Party") to pay any unpaid portion of the payment otherwise required under this Agreement that remains unpaid solely by reason of this Section 8.04 shall terminate five years from the date such payment otherwise would have been made but for this Section 8.04.

(b) The Paying Party shall place the full amount of any payments otherwise to be made by the Paying Party to the Receiving Party under Section 8.02 or 8.03(c) or 8.03(d), as the case may be, in a mutually agreed escrow account upon mutually acceptable terms which shall provide that any portion thereof shall not be released to the Receiving Party unless and until the Paying Party receives any of the following: (x) a letter from the Receiving Party's independent tax accountants indicating the amount that it is estimated can be paid at the time to the Receiving Party without creating a risk that the payment would cause the Receiving Party to fail to meet the Specified REIT Requirements for the taxable year in which the payment would be made, which determination shall be made by such independent tax accountants, (y) Counsel's Ruling Letter or (z) an opinion of outside tax counsel selected by the Receiving Party, to the effect that, based upon a change in Law or interpretation after the date on which payment was first deferred hereunder, receipt of the additional amount otherwise to

be paid under this Agreement either would be excluded from gross income of the Receiving Party for purposes of the Specified REIT Requirements or would constitute Qualifying Income, in any of which events the Paying Party shall pay to the Receiving Party the lesser of the unpaid amounts due under this Agreement (determined without regard to this Section 8.04 or the maximum amount stated in the letter referred to in clause (x) above). At the end of the five year period referred to above in this Section 8.04 with respect to any amount placed in such escrow, if none of the events referred to in clauses (x), (y) or (z) or the preceding sentences shall have occurred, such amount shall be released from such escrow to be used as determined by the Paying Party in its sole and absolute discretion.

ARTICLE IX
GENERAL PROVISIONS

SECTION 9.01. *Non-Survival of Representations and Warranties.* The representations and warranties in this Agreement shall terminate at the Effective Time or upon the termination of this Agreement pursuant to Section 8.01, as the case may be.

SECTION 9.02. *Notices.* All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by delivery in person, by overnight courier, by facsimile or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 9.02):

if to Parent or Purchaser:

Health Care Property Investors, Inc.
3760 Kilroy Airport Way, Suite 300
Long Beach, CA 90806
Telecopier No: (562) 733-5204
Telephone No: (562) 733-5100
Attention: Edward J. Henning
General Counsel, Senior Vice President
and Corporate Secretary

with a copy to:

Sullivan & Cromwell LLP,
1888 Century Park East, Suite 2100
Los Angeles, CA 90292
Telecopier No.: (310) 712-8800
Telephone No.: (310) 712-6600
Attention: Alison S. Ressler, Esq.
Patrick S. Brown, Esq.

if to the Company:

CNL Retirement Properties, Inc.
420 South Orange Avenue
Orlando, FL 32801
Telecopier No: (407) 835-3235
Telephone No: (407) 650-1000
Attention: Clark Hettinga
Chief Financial Officer and Senior Vice President

with a copy to:

Greenberg Traurig, LLP
200 Park Avenue
New York, New York 10166
Telecopier No: (212) 801-6400
Telephone No.: (212) 801-9200
Attention: Judith D. Fryer, Esq.
Lorenzo Borgogni, Esq.

and to:

Akin Gump Strauss Hauer & Feld, LLP
590 Madison Avenue
New York, NY 10022-2524
Telecopier No: (212) 872-1002
Telephone No.: (212) 872-1000
Attention: Patrick J. Dooley, Esq.

SECTION 9.03. *Severability.* If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

SECTION 9.04. *Entire Agreement; Assignment.* This Agreement constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes, except as set forth in Section 6.03(c), all prior agreements and undertakings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof. This Agreement and any of the rights or obligations hereunder shall not be assigned (whether pursuant to a merger, by operation of Law or otherwise) by any party hereto without the prior written consent of the other parties and any such purported assignment shall be null and void, except that Parent and Purchaser may assign all or any of their rights and obligations hereunder to any wholly owned Subsidiary of Parent, provided that no such assignment shall relieve the assigning party of its obligations hereunder and such assignment does not alter the type or amount of the Merger Consideration and would not and would not reasonably be likely to prevent, materially delay or materially impair the consummation of the transactions contemplated by this Agreement. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.

SECTION 9.05. *Parties in Interest.* This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, other than Section 6.06 (which is intended to be for the benefit of the Indemnified Parties and may be enforced by such parties).

SECTION 9.06. *Remedies.* Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party shall be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by Law or equity upon such party, and the exercise by a party of any one remedy shall not preclude the exercise of any other remedy. The parties hereto agree that irreparable

damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, this being in addition to any other remedy to which the parties are entitled at Law or in equity.

SECTION 9.07. *Governing Law.* This Agreement shall be governed by, and construed in accordance with, the Laws of the State of New York applicable to contracts executed in and to be performed in that State (other than the Merger and those provisions set forth herein that are required to be governed by the MGCL). All actions and proceedings arising out of or relating to this Agreement shall be heard and determined exclusively in any New York state or federal court sitting in New York, New York (Borough of Manhattan). The parties hereto hereby (a) submit to the exclusive jurisdiction of any such court for the purpose of any Action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such Action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the Action is brought in an inconvenient forum, that the venue of the Action is improper, or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts. Without limiting the foregoing, each party agrees that service of process on such party as provided in Section 9.02 as to giving notice hereunder shall be deemed effective service of process on such party.

SECTION 9.08. *Waiver of Jury Trial.* EACH OF THE PARTIES HERETO HEREBY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 9.09. *Interpretation.* All references in this Agreement and either Disclosure Schedule to Articles, Sections and Exhibits refer to Articles and Sections of, and Exhibits to, this Agreement unless the context requires otherwise. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Wherever used herein, a pronoun in the masculine gender shall be considered as including the feminine gender unless the context clearly indicates otherwise and the word "including" shall mean "including without limitation." The phrases "herein," "hereof," "hereunder" and words of similar import will be deemed to refer to this Agreement as a whole, including the Exhibits and Schedules hereto, and not to any particular provision of this Agreement. The word "or" will be inclusive and not exclusive unless the context requires otherwise. All references in this Agreement to any particular Law will be deemed to refer also to any rules and regulations promulgated under that Law. References to a Person also refer to its predecessors and successors and permitted assigns.

SECTION 9.10. *Performance Guaranty.* Parent hereby guarantees the due, prompt and faithful performance and discharge by, and compliance with, all of the obligations, covenants, terms, conditions and undertakings of Purchaser under this Agreement in accordance with the terms hereof.

SECTION 9.11. *Amendment.* This Agreement may be amended by the parties hereto by action taken by or on behalf of their respective Boards of Directors at any time prior to the Effective Time; *provided, however*, that, after the approval and adoption of this Agreement and the transactions contemplated hereby by the stockholders of the Company, no amendment may be made that would, under applicable Law, require further approval by such stockholders without such further approval. This Agreement may not be amended except by an instrument in writing signed by each of the parties hereto.

SECTION 9.12. *Waiver.* At any time prior to the Effective Time, any party hereto may (a) extend the time for the performance of any obligation or other act of any other party hereto, (b) waive any inaccuracy in the representations and warranties of any other party contained herein or in any document delivered pursuant hereto and (c) waive compliance with any agreement of any other party or any condition to its own obligations contained herein. Any such extension or waiver shall be valid if set forth in an instrument in writing signed by the party or parties to be bound thereby.

SECTION 9.13. *Counterparts.* This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Parent, Purchaser and the Company have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

HEALTH CARE PROPERTY INVESTORS, INC.

By /s/ EDWARD J. HENNING

Name: Edward J. Henning
Title: Senior Vice President, General Counsel and Corporate Secretary

OCEAN ACQUISITION 1, INC.

By /s/ EDWARD J. HENNING

Name: Edward J. Henning
Title: Authorized Representative

CNL RETIREMENT PROPERTIES, INC.

By /s/ STUART J. BEEBE

Name: Stuart J. Beebe
Title: Chief Executive Officer and President

Annex B

Banc of America Securities Opinion

May 1, 2006

Special Committee of the Board of Directors and
Board of Directors
CNL Retirement Properties, Inc.
CNL Center at City Commons
450 South Orange Avenue
Orlando, Florida 32801

Members of the Special Committee and the Board of Directors:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of Company Common Stock (as defined below) of the consideration proposed to be received by such holders pursuant to the terms of the Agreement and Plan of Merger, dated as of May 1, 2006 (the "Agreement"), among CNL Retirement Properties, Inc. (the "Company"), Health Care Property Investors, Inc. (the "Purchaser") and Ocean Acquisition 1, Inc., a wholly owned subsidiary of the Purchaser ("Merger Sub"). As more fully described in the Agreement, the Company will be merged with and into Merger Sub (the "Merger"), with Merger Sub continuing as the surviving corporation in the Merger, and each share of common stock, par value $0.01 per share, of the Company (the "Company Common Stock") will be converted into the right to receive (i) $11.1293 in cash (the "Cash Consideration") and (ii) 0.0865 shares (such number of shares, the "Stock Consideration", and together with the Cash Consideration, the "Merger Consideration") of common stock, par value $1.00 per share, of the Purchaser (the "Purchaser Common Stock"). In addition, the Agreement provides that if the number of shares of Purchaser Common Stock to be issued in the Merger and the Advisor Merger (as defined below) would require the approval of the stockholders of the Purchaser under the listing standards of the New York Stock Exchange, then the Purchaser will discuss in good faith and agree to increase the amount of Cash Consideration, subject to a corresponding decrease in the amount of Stock Consideration (the "Consideration Adjustment"). The terms and conditions of the Merger are more fully set out in the Agreement.

We understand that, concurrently with the execution of the Agreement, the Purchaser, CNL Retirement Corp., the advisor to the Company (the "Advisor"), and Ocean Acquisition 2, LLC, a wholly owned subsidiary of the Purchaser (the "Advisor Merger Sub"), will enter into a definitive agreement pursuant to which the Advisor will be merged with and into the Advisor Merger Sub (the "Advisor Merger") and all of the outstanding common stock of the Advisor will be converted into the right to receive aggregate consideration of approximately $120 million in shares of Purchaser Common Stock. We also understand that the closing of the Merger will be conditioned upon, among other things, the closing of the Advisor Merger.

For purposes of the opinion set forth herein, we have:

(i) reviewed certain publicly available financial statements and other business and financial information of the Company and the Purchaser, respectively;

(ii) reviewed certain internal financial statements and other financial and operating data concerning the Company and the Purchaser, respectively;

(iii) reviewed certain financial forecasts relating to the Company prepared by the management of the Company (the "Company Forecasts");

(iv) reviewed with Purchaser's management certain financial forecasts relating to the Purchaser prepared by the management of the Purchaser for calendar year 2006 (the "Purchaser

Forecasts") and discussed with Purchaser's management publicly available research analysts' estimates of the future financial performance of the Purchaser, which included a certain research analyst's estimates of the future financial performance of the Purchaser for calendar years 2006 and 2007 (the "Research Estimates");

(v) reviewed and discussed with senior executives of the Company and the Purchaser information relating to cost savings estimated by the management of the Company to result from the Merger (the "Cost Savings");

(vi) discussed the past and current operations, financial condition and prospects of the Company and the Purchaser with senior executives of the Company and the Purchaser;

(vii) reviewed the potential pro forma financial impact of the Merger on the future financial performance of the Purchaser, including the potential effect on the Purchaser's funds from operations, cash flow, consolidated capitalization and financial ratios;

(viii) reviewed the reported prices and trading activity for the Purchaser Common Stock;

(ix) compared the financial performance of the Company and the Purchaser and the prices and trading activity of the Purchaser Common Stock with that of certain other publicly traded companies we deemed relevant;

(x) compared certain financial terms of the Merger to financial terms, to the extent publicly available, of certain other business combination transactions we deemed relevant;

(xi) participated in discussions and negotiations among representatives of the Company and the Purchaser and their respective advisors;

(xii) reviewed the Agreement and certain related documents; and

(xiii) performed such other analyses and considered such other factors as we have deemed appropriate.

We have assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information reviewed by us for the purposes of this opinion. With respect to the Company Forecasts, we have assumed, at the direction of the Company, that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of the Company as to the future financial performance of the Company. With respect to the Purchaser Forecasts, we have assumed, upon the advice of the Purchaser, that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of the Purchaser as to the future financial performance of the Purchaser for calendar year 2006. As you are aware, we have not been provided with, and did not have any access to, any financial projections of the Purchaser prepared by management of the Purchaser for periods beyond calendar year 2006. Accordingly, after discussions with the Purchaser's management concerning publicly available research analysts' estimates of the future financial performance of the Purchaser generally and with the Company's consent, we have assumed that the Research Estimates are a reasonable basis upon which to evaluate the future financial performance of the Purchaser for calendar years 2006 and 2007 and, we have relied, at the direction of the Company, on the Research Estimates for purposes of our opinion. With respect to the Cost Savings estimated by the management of the Company to result from the Merger, we have assumed that such Cost Savings will be realized substantially in accordance with such estimates. We have not made any independent valuation or appraisal of the assets or liabilities of the Company, nor have we been furnished with any such valuations or appraisals. For purposes of our opinion we have assumed, at the direction of the Company, that no Consideration Adjustment will be made and that the Merger will be consummated as provided in the Agreement, with full satisfaction of all covenants and conditions set forth in the Agreement and without any waivers thereof. We also have assumed, with your consent, that all

governmental, regulatory or other consents and approvals necessary for the consummation of the Merger will be obtained without any adverse effect on the Company, the Purchaser or the Merger. We have been advised by the managements of the Company and the Purchaser that each of the Company and the Purchaser has operated in conformity with the requirements for qualification as a real estate investment trust ("REIT") for federal income tax purposes since its formation as a REIT and further have assumed, with your consent, that the Merger will not adversely affect the status or operations of the Company or the Purchaser as a REIT.

We express no view or opinion as to any terms or aspects of the transactions contemplated by the Agreement other than the Merger Consideration (assuming no Consideration Adjustment is made) to the extent expressly specified herein (including, without limitation, the form or structure of the Merger, any terms or aspects of the Advisor Merger or the fairness, from a financial point of view, of the consideration to be received by the Advisor's stockholders in the Advisor Merger). In addition, no opinion is expressed as to the relative merits of the Merger in comparison to other transactions available to the Company or in which the Company might engage or as to whether any transaction might be more favorable to the Company as an alternative to the Merger, nor are we expressing any opinion as to the underlying business decision of the Special Committee of the Board of Directors of the Company to recommend, or the Board of Directors of the Company to proceed with or effect, the Merger. In addition, we are not expressing any opinion as to the value of the Advisor or what the value of Purchaser Common Stock actually will be when issued or the prices at which Purchaser Common Stock may trade at any time.

We have acted as sole financial advisor to the Board of Directors of the Company in connection with the Merger for which services we have received and will receive fees, a portion of which was payable upon our engagement, a portion of which is payable upon the rendering of this opinion and a significant portion of which is payable upon the consummation of the Merger. We or our affiliates have provided and in the future may provide financial advisory and financing services to the Company, the Purchaser, certain of their respective affiliates and to certain entities owned or controlled by, or affiliated with, James Seneff, the Chairman of the Board of the Company and the Chairman of the Board and a significant stockholder of the Advisor (the "Chairman"), and have received and in the future may receive fees for the rendering of these services, including, among other things, acting as (i) lead arranger, book manager, book runner, administrative agent and lender for certain credit facilities of the Company and certain of its and the Chairman's affiliates, (ii) financial advisor to certain affiliates of the Company and the Chairman in connection with certain acquisitions and dispositions by such affiliates, (iii) provider of acquisition financing to certain affiliates of the Company and the Chairman in connection with certain acquisitions by such affiliates, (iv) lead manager and sole book runner for certain debt and equity offerings by certain affiliates of the Company and the Chairman, (v) co-lead arranger, joint book manager, administrative agent and lender for a credit facility of the Purchaser, (vi) manager for certain debt offerings by the Purchaser and (vii) agent for certain medium term note issuances by the Purchaser. In addition, a member of the board of directors of one of our affiliates is also a member of the board of directors of the Purchaser. In the ordinary course of our businesses, we and our affiliates may actively trade the debt and equity securities or loans of the Company, the Purchaser, certain of their respective affiliates and certain entities owned or controlled by, or affiliated with, the Chairman for our own account or for the accounts of customers, and accordingly, we or our affiliates may at any time hold long or short positions in such securities or loans.

It is understood that this letter is for the benefit and use of the Special Committee of the Board of Directors of the Company and the Board of Directors of the Company in connection with and for purposes of their respective evaluations of the Merger. Our opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this opinion, and we do not have any obligation to update, revise, or reaffirm this opinion. In addition, we express no opinion or

recommendation as to how the stockholders of the Company should vote or act in connection with the Merger.

Based upon and subject to the foregoing, including the various assumptions and limitations set forth herein, we are of the opinion on the date hereof that the Merger Consideration to be received by the holders of Company Common Stock in the proposed Merger is fair, from a financial point of view, to such holders.

Very truly yours,

/s/ Banc of America Securities LLC

BANC OF AMERICA SECURITIES LLC

Annex C

Houlihan Lokey Howard & Zukin Financial Advisors, Inc. Opinion

May 1, 2006

The Special Committee of the Board of Directors
CNL Retirement Properties, Inc.
450 South Orange Avenue
Orlando, FL 32801

Dear Members of the Special Committee of the Board of Directors:

We understand that CNL Retirement Properties, Inc., a Maryland corporation, (the "Company") is a publicly held REIT that owns approximately 263 assets consisting primarily of medical office buildings and retirement communities. The Company's day to day operations are performed by an affiliate of the Company, CNL Retirement Corp., a Florida corporation (the "Advisor"). Specifically, the Advisor or its affiliates provide management, acquisition, advisory, and administrative services to the Company.

We further understand that the Company intends to enter into an Agreement and Plan of Merger (the "Merger Agreement") by and among Healthcare Property Investors Inc. ("HCP"), a subsidiary of HCP ("Purchaser"), and the Company pursuant to which the Company shall merge into Purchaser (the "Merger") and in connection therewith each of the outstanding shares of the Company's common stock shall be converted into, and become exchangeable for consideration consisting of (i) $11.1293 in cash (the "Cash Consideration") and (ii) .0865 shares of HCP's common stock (with such shares of HCP common stock being referred to herein as the "Stock Consideration" and, together with the Cash Consideration, the "Merger Consideration"). The Merger and the associated exchange of Company shares for the Merger Consideration is referred to herein as the "Transaction."

Finally, we understand that simultaneously with the execution of the Merger Agreement, HCP and a wholly owned merger subsidiary of HCP are entering into an agreement and plan of merger (the "Advisor Agreement") with the Advisor pursuant to which at the closing of the transactions contemplated by the Advisor Agreement, the Advisor shall merge with and into such subsidiary of HCP (the "Advisor Merger") and the owners of the Advisor shall receive shares of HCP common stock in accordance with the terms of the Advisor Agreement and, to the extent contemplated by the Advisor Agreement, certain other consideration (collectively, the "Advisor Consideration" and together with the Merger Consideration, the "Aggregate Consideration").

You have requested that Houlihan Lokey Howard & Zukin Financial Advisors, Inc. ("Houlihan Lokey") provide an opinion (the "Opinion") as to whether, as of the date hereof, the Merger Consideration to be received by the stockholders of the Company in the Transaction is fair to them from a financial point of view and as to whether the portion of the Aggregate Consideration that consists of the Advisor Consideration is fair to the stockholders of the Company from a financial point of view.

In giving our opinion as to the fairness of the Advisor Consideration to the stockholders of the Company from a financial point of view, we considered (i) whether the Advisor Consideration is less than or within a reasonable range of fair market values of the Advisor, (ii) whether the Advisor Consideration relative to the fair market value of the Advisor is less than or approximately equivalent to the Merger Consideration relative to the fair market value of the Company, and (iii) whether the portion of the Aggregate Consideration that consists of the Advisor Consideration is within the range indicated by other transactions that we deemed relevant to our opinion.

In connection with this Opinion, we have made such reviews, analyses and inquiries as we have deemed necessary and appropriate under the circumstances. Among other things, we have:

1. reviewed the Company's annual report to shareholders on Form 10-K for the fiscal year ended December 31, 2005;

2. reviewed the Advisor's audited financial statements for the fiscal years ended December 31, 2004 and December 31, 2005;

3. reviewed HCP's annual report to shareholders on Form 10-K for the fiscal year ended December 31, 2005;

4. held conversations with representatives of the Company and the Advisor regarding the operations, financial condition, future prospects and projected operations and performance of the Company and the Advisor and regarding the Transaction;

5. held conversations with representatives of the Company's counsel regarding the Company, the Transaction, and related matters;

6. held conversations with the representatives of the Advisor's investment bankers regarding the Advisor, the Transaction and related matters;

7. reviewed the draft Merger Agreement by and among the Purchaser and the Company, dated May 1, 2006;

8. reviewed the draft Advisor Agreement by and among the Purchaser and the Advisor dated May 1, 2006;

9. reviewed the Offering Memorandum pertaining to the Company and prepared by Banc of America Securities on behalf of the Company dated March 2006;

10. reviewed the Offering Memorandum pertaining to the Advisor, and prepared by Stifel Nicolaus & Company, Incorporated dated March 2006;

11. held conversations with Banc of America Securities, CRP's financial advisor, regarding CRP's sale process;

12. reviewed the fiscal year ended December 31, 2006 Budget for the Advisor prepared by the Advisor's management;

13. reviewed forecasts and projections prepared by the Company's management with respect to the Company for the fiscal years ending December 31, 2006 through 2010;

14. reviewed forecasts and projections prepared by the Advisor's management with respect to the Advisor for the fiscal years ending December 31, 2006 through 2010;

15. reviewed the HCP Financial Review and 2006 Annual Operating Plan prepared by HCP management and dated February 10, 2006;

16. reviewed the historical market prices and trading volume for HCP's publicly traded securities and those of certain publicly traded companies which we deemed relevant;

17. reviewed certain publicly available financial data for certain companies that we deemed relevant and publicly available transaction prices and premiums paid in other change of control transactions that we deemed relevant for companies in related industries to the Company and the Advisor; and

18. conducted such other financial studies, analyses and inquiries, as we deemed appropriate.

We have relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to us, discussed with or reviewed by us, or publicly available, and do not assume any responsibility with respect to such data, material and other information. In addition, management of the Company and the Advisor have advised us, and we have assumed, without independent verification, that the financial forecasts and projections (including without limitation any synergies) have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial results and condition of the Company and the Advisor, and we express no opinion with respect to such forecasts and projections or the assumptions on which they are based. We have relied upon and assumed, without independent verification, that there has been no material change in the assets, liabilities, financial condition, results of operations, business or prospects of the Company, or the Advisor, or the Purchaser and HCP since the date of the most recent financial statements provided to us, and that there is no information or facts that would make the information reviewed by us incomplete or misleading. We have also assumed that neither the Company, the Advisor, the Purchaser nor HCP is a party to any material pending transaction, including, without limitation, any external financing, recapitalization, acquisition or merger, divestiture or spin-off (other than the Transaction and the Advisor Merger).

We have relied upon and assumed, without independent verification, that (a) the representations and warranties of all parties to the agreements identified in items 7 - 8 above and all other related documents and instruments that are referred to therein are true and correct, (b) each party to all such agreements will perform all of the covenants and agreements required to be performed by such party, (c) all conditions to the consummation of the Transaction will be satisfied without waiver thereof, and (d) the Transaction will be consummated in a timely manner in accordance with the terms described in the agreements provided to us, without any amendments or modifications thereto or any adjustment to the aggregate consideration (through offset, reduction, indemnity claims, post-closing purchase price adjustments or otherwise). We have also relied upon and assumed, without independent verification, that all governmental, regulatory, and other consents and approvals necessary for the consummation of the Transaction will be obtained and that no delay, limitations, restrictions or conditions will be imposed that would result in the disposition of any material portion of the assets of the Company, or the Advisor, or the Purchaser or HCP, or otherwise have an adverse effect on the Company, or the Advisor, or the Purchaser or HCP, or the expected benefits of the Transaction. In addition, we have relied upon and assumed, without independent verification, that the final forms of the draft documents identified above will not differ in any material respect from such draft documents.

Furthermore, we have not been requested to make, and have not made, any physical inspection or independent appraisal or evaluation of any of the assets, properties or liabilities (contingent or otherwise) of the Company, the Advisor, the Purchaser or HCP, or any other party, nor were we provided with any such appraisal or evaluation. We express no opinion regarding the liquidation value of any entity. Furthermore, we have undertaken no independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which the Company, the Advisor, the Purchaser or HCP is a party or may be subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which the Company, the Advisor, the Purchaser or HCP is a party or may be subject. With your consent, this Opinion makes no assumption concerning, and therefore does not consider, the potential effects of any such litigation, claims or investigations or possible assertions of claims, outcomes or damages arising out of any such matters.

We have not been requested to, and did not, (a) initiate any discussions with, or solicit any indications of interest from, third parties with respect to the Transaction or any alternatives to the Transaction, (b) negotiate the terms of the Transaction, or (c) advise the Board of Directors of the Company or the Special Committee of the Board of Directors of the Company or any other party with

respect to alternatives to the Transaction. This Opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. We have not undertaken, and are under no obligation, to update, revise, reaffirm or withdraw this Opinion, or otherwise comment on or consider events occurring after the date hereof. We have not considered, nor are we expressing any opinion herein with respect to, the prices at which the Company's common stock or HCP's common stock has traded or may trade subsequent to the disclosure or consummation of the Transaction. We have assumed that HCP's common stock to be issued in the Transaction to the Company's common stockholders will be freely tradable and listed on the New York Stock Exchange or any other securities exchange as set forth in the Merger Agreement**.**

This Opinion is furnished for the use and benefit of the Special Committee of the Board of Directors in connection with its consideration of the Transaction, and is not intended to be used, and may not be used, for any other purpose, without our express, prior written consent. This Opinion is not intended to be, and does not constitute, a recommendation to any security holder as to how such security holder should vote in connection with the Transaction.

In the ordinary course of business, certain of our affiliates may acquire, hold or sell, long or short positions, or trade or otherwise effect transactions, in debt, equity, and other securities and financial instruments (including bank loans and other obligations) of the Company, the Advisor, HCP and any other party that may be involved in the Transaction.

Houlihan Lokey, or its affiliates, have provided certain other financial advisory and investment banking services for the Company, and have received fees for rendering such services, and we may continue to do so in the future. Certain of Houlihan Lokey's affiliates engaged in the lending business is a lender to the Company with respect to a certain mortgage relating to the Company's asset known as Prime Care in an amount of approximately $19.340 million.

We have not been requested to opine as to, and this Opinion does not address: (i) the underlying business decision of the Company or its security holders or any other party to proceed with or effect the Transaction, (ii) the fairness of any portion or aspect of the Transaction not expressly addressed in this Opinion, (iii) the fairness of any portion or aspect of the Transaction to the holders of any class of securities, creditors or other constituencies of the Company, or any other party other than those set forth in this Opinion, (iv) the relative merits of the Transaction as compared to any alternative business strategies that might exist for the Company or any other party or the effect of any other transaction in which the Company or any other party might engage, (v) the tax or legal consequences of the Transaction to the Company or its security holders or any other party, or (vi) whether or not the Company or its security holders or any other party is receiving or paying reasonably equivalent value in the Transaction. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained by the Company and other parties from the appropriate professional sources.

Based upon and subject to the foregoing, and in reliance thereon, it is our opinion that, as of the date hereof, (i) the Merger Consideration to be received by the stockholders of the Company in the Transaction is fair to them from a financial point of view and (ii) the portion of the Aggregate Consideration that consists of the Advisor Consideration is fair to the stockholders of the Company from a financial point of view.

/s/ HOULIHAN LOKEY HOWARD & ZUKIN FINANCIAL ADVISORS, INC.

Annex D

Sections 3-201 et. Seq. of Maryland General Corporation Law

§ 3-201. "Successor" defined.

(a) Corporation amending charter. In this subtitle, except as provided in subsection (b) of this section, "successor" includes a corporation which amends its charter in a way which alters the contract rights, as expressly set forth in the charter, of any outstanding stock, unless the right to do so is reserved by the charter of the corporation.

(b) Corporation whose stock is acquired. When used with reference to a share exchange, "successor" means the corporation the stock of which was acquired in the share exchange.

§ 3-202. Right to fair value of stock.

(a) General rule. Except as provided in subsection (c) of this section, a stockholder of a Maryland corporation has the right to demand and receive payment of the fair value of the stockholder's stock from the successor if:

(1) The corporation consolidates or merges with another corporation;

(2) The stockholder's stock is to be acquired in a share exchange;

(3) The corporation transfers its assets in a manner requiring action under § 3-105(e) of this title;

(4) The corporation amends its charter in a way which alters the contract rights, as expressly set forth in the charter, of any outstanding stock and substantially adversely affects the stockholder's rights, unless the right to do so is reserved by the charter of the corporation; or

(5) The transaction is governed by § 3-602 of this title or exempted by § 3-603(b) of this title.

(b) Basis of fair value.

(1) Fair value is determined as of the close of business:

(i) With respect to a merger under § 3-106 of this title of a 90 percent or more owned subsidiary with or into its parent corporation, on the day notice is given or waived under § 3-106; or

(ii) With respect to any other transaction, on the day the stockholders voted on the transaction objected to.

(2) Except as provided in paragraph (3) of this subsection, fair value may not include any appreciation or depreciation which directly or indirectly results from the transaction objected to or from its proposal.

(3) In any transaction governed by § 3-602 of this title or exempted by § 3-603(b) of this title, fair value shall be value determined in accordance with the requirements of § 3-603(b) of this title.

(c) When right to fair value does not apply. Unless the transaction is governed by § 3-602 of this title or is exempted by § 3-603(b) of this title, a stockholder may not demand the fair value of the stockholder's stock and is bound by the terms of the transaction if:

(1) The stock is listed on a national securities exchange, is designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or is designated for trading on the NASDAQ Small Cap Market:

(i) With respect to a merger under § 3-106 of this title of a 90 percent or more owned subsidiary with or into its parent corporation, on the date notice is given or waived under § 3-106; or

(ii) With respect to any other transaction, on the record date for determining stockholders entitled to vote on the transaction objected to;

(2) The stock is that of the successor in a merger, unless:

(i) The merger alters the contract rights of the stock as expressly set forth in the charter, and the charter does not reserve the right to do so; or

(ii) The stock is to be changed or converted in whole or in part in the merger into something other than either stock in the successor or cash, scrip, or other rights or interests arising out of provisions for the treatment of fractional shares of stock in the successor;

(3) The stock is not entitled, other than solely because of § 3-106 of this title, to be voted on the transaction or the stockholder did not own the shares of stock on the record date for determining stockholders entitled to vote on the transaction;

(4) The charter provides that the holders of the stock are not entitled to exercise the rights of an objecting stockholder under this subtitle; or

(5) The stock is that of an open-end investment company registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and the value placed on the stock in the transaction is its net asset value.

§ 3-203. Procedure by stockholder.

(a) Specific duties. A stockholder of a corporation who desires to receive payment of the fair value of the stockholder's stock under this subtitle:

(1) Shall file with the corporation a written objection to the proposed transaction:

(i) With respect to a merger under § 3-106 of this title of a 90 percent or more owned subsidiary with or into its parent corporation, within 30 days after notice is given or waived under § 3-106; or

(ii) With respect to any other transaction, at or before the stockholders' meeting at which the transaction will be considered or, in the case of action taken under § 2-505(b) of this article, within 10 days after the corporation gives the notice required by § 2-505(b) of this article;

(2) May not vote in favor of the transaction; and

(3) Within 20 days after the Department accepts the articles for record, shall make a written demand on the successor for payment for the stockholder's stock, stating the number and class of shares for which the stockholder demands payment.

(b) Failure to comply with section. A stockholder who fails to comply with this section is bound by the terms of the consolidation, merger, share exchange, transfer of assets, or charter amendment.

§ 3-204. Effect of demand on dividend and other rights.

A stockholder who demands payment for his stock under this subtitle:

(1) Has no right to receive any dividends or distributions payable to holders of record of that stock on a record date after the close of business on the day as at which fair value is to be determined under § 3-202 of this subtitle; and

(2) Ceases to have any rights of a stockholder with respect to that stock, except the right to receive payment of its fair value.

§ 3-205. Withdrawal of demand.

A demand for payment may be withdrawn only with the consent of the successor.

§ 3-206. Restoration of dividend and other rights.

(a) When rights restored. The rights of a stockholder who demands payment are restored in full, if:

(1) The demand for payment is withdrawn;

(2) A petition for an appraisal is not filed within the time required by this subtitle;

(3) A court determines that the stockholder is not entitled to relief; or

(4) The transaction objected to is abandoned or rescinded.

(b) Effect of restoration. The restoration of a stockholder's rights entitles him to receive the dividends, distributions, and other rights he would have received if he had not demanded payment for his stock. However, the restoration does not prejudice any corporate proceedings taken before the restoration.

§ 3-207. Notice and offer to stockholders.

(a) Duty of successor.

(1) The successor promptly shall notify each objecting stockholder in writing of the date the articles are accepted for record by the Department.

(2) The successor also may send a written offer to pay the objecting stockholder what it considers to be the fair value of his stock. Each offer shall be accompanied by the following information relating to the corporation which issued the stock:

(i) A balance sheet as of a date not more than six months before the date of the offer;

(ii) A profit and loss statement for the 12 months ending on the date of the balance sheet; and

(iii) Any other information the successor considers pertinent.

(b) Manner of sending notice. The successor shall deliver the notice and offer to each objecting stockholder personally or mail them to him by certified mail, return receipt requested, bearing a postmark from the United States Postal Service, at the address he gives the successor in writing, or, if none, at his address as it appears on the records of the corporation which issued the stock.

§ 3-208. Petition for appraisal; consolidation of proceedings; joinder of objectors.

(a) Petition for appraisal. Within 50 days after the Department accepts the articles for record, the successor or an objecting stockholder who has not received payment for his stock may petition a

court of equity in the county where the principal office of the successor is located or, if it does not have a principal office in this State, where the resident agent of the successor is located, for an appraisal to determine the fair value of the stock.

(b) Consolidation of suits; joinder of objectors.

(1) If more than one appraisal proceeding is instituted, the court shall direct the consolidation of all the proceedings on terms and conditions it considers proper.

(2) Two or more objecting stockholders may join or be joined in an appraisal proceeding.

§ 3-209. Notation on stock certificate.

(a) Submission of certificate. At any time after a petition for appraisal is filed, the court may require the objecting stockholders parties to the proceeding to submit their stock certificates to the clerk of the court for notation on them that the appraisal proceeding is pending. If a stockholder fails to comply with the order, the court may dismiss the proceeding as to him or grant other appropriate relief.

(b) Transfer of stock bearing notation. If any stock represented by a certificate which bears a notation is subsequently transferred, the new certificate issued for the stock shall bear a similar notation and the name of the original objecting stockholder. The transferee of this stock does not acquire rights of any character with respect to the stock other than the rights of the original objecting stockholder.

§ 3-210. Appraisal of fair value.

(a) Court to appoint appraisers. If the court finds that the objecting stockholder is entitled to an appraisal of his stock, it shall appoint three disinterested appraisers to determine the fair value of the stock on terms and conditions the court considers proper. Each appraiser shall take an oath to discharge his duties honestly and faithfully.

(b) Report of appraisers Filing. Within 60 days after their appointment, unless the court sets a longer time, the appraisers shall determine the fair value of the stock as of the appropriate date and file a report stating the conclusion of the majority as to the fair value of the stock.

(c) Same Contents. The report shall state the reasons for the conclusion and shall include a transcript of all testimony and exhibits offered.

(d) Same Service; objection.

(1) On the same day that the report is filed, the appraisers shall mail a copy of it to each party to the proceedings.

(2) Within 15 days after the report is filed, any party may object to it and request a hearing.

§ 3-211. Action by court on appraisers' report.

(a) Order of court. The court shall consider the report and, on motion of any party to the proceeding, enter an order which:

(1) Confirms, modifies, or rejects it; and

(2) If appropriate, sets the time for payment to the stockholder.

(b) Procedure after order.

(1) If the appraisers' report is confirmed or modified by the order, judgment shall be entered against the successor and in favor of each objecting stockholder party to the proceeding for the appraised fair value of his stock.

(2) If the appraisers' report is rejected, the court may:

(i) Determine the fair value of the stock and enter judgment for the stockholder; or

(ii) Remit the proceedings to the same or other appraisers on terms and conditions it considers proper.

(c) Judgment includes interest.

(1) Except as provided in paragraph (2) of this subsection, a judgment for the stockholder shall award the value of the stock and interest from the date as at which fair value is to be determined under § 3-202 of this subtitle.

(2) The court may not allow interest if it finds that the failure of the stockholder to accept an offer for the stock made under § 3-207 of this subtitle was arbitrary and vexatious or not in good faith. In making this finding, the court shall consider:

(i) The price which the successor offered for the stock;

(ii) The financial statements and other information furnished to the stockholder; and

(iii) Any other circumstances it considers relevant.

(d) Costs of proceedings.

(1) The costs of the proceedings, including reasonable compensation and expenses of the appraisers, shall be set by the court and assessed against the successor. However, the court may direct the costs to be apportioned and assessed against any objecting stockholder if the court finds that the failure of the stockholder to accept an offer for the stock made under § 3-207 of this subtitle was arbitrary and vexatious or not in good faith. In making this finding, the court shall consider:

(i) The price which the successor offered for the stock;

(ii) The financial statements and other information furnished to the stockholder; and

(iii) Any other circumstances it considers relevant.

(2) Costs may not include attorney's fees or expenses. The reasonable fees and expenses of experts may be included only if:

(i) The successor did not make an offer for the stock under § 3-207 of this subtitle; or

(ii) The value of the stock determined in the proceeding materially exceeds the amount offered by the successor.

(e) Effect of judgment. The judgment is final and conclusive on all parties and has the same force and effect as other decrees in equity. The judgment constitutes a lien on the assets of the successor with priority over any mortgage or other lien attaching on or after the effective date of the consolidation, merger, transfer, or charter amendment.

§ 3-212. Surrender of stock.

The successor is not required to pay for the stock of an objecting stockholder or to pay a judgment rendered against it in a proceeding for an appraisal unless, simultaneously with payment:

(1) The certificates representing the stock are surrendered to it, indorsed in blank, and in proper form for transfer; or

(2) Satisfactory evidence of the loss or destruction of the certificates and sufficient indemnity bond are furnished.

§ 3-213. Rights of successor with respect to stock.

(a) General rule. A successor which acquires the stock of an objecting stockholder is entitled to any dividends or distributions payable to holders of record of that stock on a record date after the close of business on the day as at which fair value is to be determined under § 3-202 of this subtitle.

(b) Successor in transfer of assets. After acquiring the stock of an objecting stockholder, a successor in a transfer of assets may exercise all the rights of an owner of the stock.

(c) Successor in consolidation, merger, or share exchange. Unless the articles provide otherwise, stock in the successor of a consolidation, merger, or share exchange otherwise deliverable in exchange for the stock of an objecting stockholder has the status of authorized but unissued stock of the successor. However, a proceeding for reduction of the capital of the successor is not necessary to retire the stock or to reduce the capital of the successor represented by the stock.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages. However, a Maryland corporation may not limit liability resulting from actual receipt of an improper benefit or profit in money, property or services. Also, liability resulting from active and deliberate dishonesty may not be eliminated if a final judgment establishes that the dishonesty is material to the cause of action. HCP's charter contains a provision which limits the liability of directors and officers for money damages to the maximum extent permitted by Maryland law. This provision does not limit HCP's right or that of HCP's stockholders to obtain equitable relief, such as an injunction or rescission.

HCP's bylaws obligate it, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination as to the ultimate entitlement to indemnification, to pay or reimburse reasonable expenses before final disposition of a proceeding to:

- any present or former director or officer who is made a party to the proceeding by reason of his service in that capacity; or
- any individual who, while one of HCP's directors or officers and at HCP's request, serves or has served another corporation, partnership, joint venture, trust, employee benefit plan or any other enterprise as a director, officer, partner or trustee of such corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise and who is made a party to the proceeding by reason of his service in that capacity.

The bylaws authorize HCP, with the approval of HCP's board of directors, to provide indemnification and advancement of expenses to HCP's agents and employees.

Unless limited by a corporation's charter, Maryland law requires a corporation to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he is made a party by reason of his service in that capacity, or in the defense of any claim, issue or matter in the proceeding. HCP's charter does not alter this requirement.

Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against:

- judgments;
- penalties;
- fines;
- settlements; and
- reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities.

Maryland law does not permit a corporation to indemnify its present and former directors and officers if it is established that:

- 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.

Under Maryland law, a Maryland corporation generally may not indemnify for an adverse judgment in a suit by or in the right of the corporation. Also, a Maryland corporation generally may not indemnify for a judgment of liability on the basis that personal benefit was improperly received. In either of these cases, a court may nevertheless determine that the director or officer is fairly and reasonably entitled to indemnification under all of the relevant circumstances and may order such indemnification as it deems proper, but such indemnification is limited to expenses.

Maryland law permits a corporation to advance reasonable expenses to a director or officer. First, however, the corporation must receive 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. The corporation must also receive a written undertaking, either by the director or officer or on his behalf, to repay the amount paid or reimbursed by the corporation if it shall ultimately be determined that the standard of conduct was not met. The termination of any proceeding by conviction, or upon a plea of nolo contendere or its equivalent, or an entry of any order of probation prior to judgment, creates a rebuttable presumption that the director or officer did not meet the requisite standard of conduct required for indemnification to be permitted.

It is the position of the Commission that indemnification of directors and officers for liabilities arising under the Securities Act is against public policy and is unenforceable pursuant to Section 14 of the Securities Act.

Item 21. Exhibits.

(a) Exhibits

3.1	Articles of Restatement of HCP (incorporated by reference to exhibit 3.1 to HCP's report on form 10-Q for the period of September 30, 2004).
3.2	Third Amended and Restated Bylaws of HCP (incorporated by reference to exhibit 3.2 to HCP's report on form 10-Q for the period of September 30, 2004).
5.1	Opinion of Ballard Spahr Andrews & Ingersoll, LLP.
8.1	Opinion of Latham & Watkins, LLP.
8.2	Opinion of Sullivan & Cromwell LLP.
8.3	Opinion of Greenberg Traurig, LLP.
23.1	Consent of Independent Registered Accounting Firm, Ernst & Young LLP.
23.2	Consent of Independent Registered Accounting Firm, PricewaterhouseCoopers LLP (CRP).
23.3	Consent of Independent Registered Accounting Firm, PricewaterhouseCoopers LLP (Advisor).
24.1	Power of Attorney.*
99.1	Consent of Banc of America Securities LLC.
99.2	Consent of Houlihan Lokey Howard & Zukin Financial Advisors, Inc.
99.3	Form of Proxy Card

* Previously filed.

(b) Financial Statement Schedules. Not applicable.

(c) Fairness Opinions. The opinions of Banc of America Securities LLC and Houlihan Lokey & Zukin Financial Advisors, Inc. are included as Annex B and Annex C, respectively, to the proxy statement/prospectus in Part I of this Registration Statement.

Item 22. Undertakings.

(a) The undersigned registrant hereby undertakes as follows:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering; and

(4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933 (the "Securities Act"), each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act 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 Securities 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 Securities Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11, or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(e) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Long Beach, State of California, on August 3, 2006.

HEALTH CARE PROPERTY INVESTORS, INC.

By: /s/ EDWARD J. HENNING

Edward J. Henning
General Counsel, Senior Vice President and Corporate Secretary

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Principal Executive Officer:	James F. Flaherty III* President, Chief Executive Officer and Director
Principal Financial Officer:	Mark A. Wallace* Senior Vice President and Chief Financial Officer
Principal Accounting Officer:	George P. Doyle* Vice President and Chief Accounting Officer

Directors:

By: /s/ EDWARD J. HENNING

Edward J. Henning
as attorney-in-fact for Messrs. Flaherty, Wallace and Doyle, and the Directors.

August 3, 2006

Kenneth B. Roath*

Mary A. Cirillo*

Robert R. Fanning, Jr.*

David B. Henry*

Michael D. McKee*

Harold M. Messmer, Jr.*

Peter L. Rhein*

Richard M. Rosenberg*

Joseph P. Sullivan*

*By power of attorney

EXHIBIT INDEX

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