AVIV REIT, INC.
Form 10-Q
August 15, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2011

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from __________ to __________

Commission file number 333-173824-103 (Aviv REIT, Inc.)
Commission file number 333-173824 (Aviv Healthcare Properties Limited Partnership)

AVIV REIT, INC.
AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP
(Exact Name of Registrant as Specified in Its Charter)

Maryland (Aviv REIT, Inc.) **Delaware (Aviv Healthcare Properties Limited Partnership)** **(State or Other Jurisdiction of Incorporation or Organization)**	**27-3200673 (Aviv REIT, Inc.)** **35-2249166 (Aviv Healthcare Properties Limited Partnership)** **(I.R.S. Employer Identification No.)**
303 W. Madison Street, Suite 2400 **Chicago, Illinois** **(Address of Principal Executive Offices)**	**60606** **(Zip Code)**

(312) 855-0930
(Registrant s Telephone Number, Including Area Code)
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No þ

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large Accelerated Filer o	Accelerated Filer o	Non-Accelerated Filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of August 15, 2011, Aviv REIT, Inc. had 235,898 shares of common shares outstanding.

As of August 15, 2011, Aviv Healthcare Properties Limited Partnership had 13,467,223 Class A Units, 4,523,145 Class B Units, 100 Class C Units, 8,050 Class D Units, 100 Class F Units and 235,898 Class G Units outstanding.

EXPLANATORY NOTE

This combined Form 10-Q is being filed separately by Aviv REIT, Inc. (Aviv REIT) and Aviv Healthcare Properties Limited Partnership (the Partnership). Unless the context requires otherwise or except as otherwise noted, as used herein the words we, company, us and our refer to Aviv REIT, Inc. and Subsidiaries and Aviv Healthcare Properties Limited Partnership and Subsidiaries, as the operations of the two aforementioned entities are materially comparable for the periods presented.

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PART I. FINANCIAL INFORMATION.
Item 1. FINANCIAL STATEMENTS (UNAUDITED).

AVIV REIT, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(unaudited)

	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 24,738,826	$ 13,029,474
Deferred rent receivable	30,822,931	30,660,773
Tenant receivables, net	4,170,480	1,168,842
Rental properties and financing leases, at cost:		
Land	88,333,715	76,466,020
Buildings and improvements	684,230,073	615,806,273
Assets under direct financing leases	10,847,395	10,777,184
	783,411,183	703,049,477
Less accumulated depreciation	(85,929,763)	(75,948,944)
Net rental properties	697,481,420	627,100,533
Deferred finance costs, net	13,994,132	9,957,636
Loan receivables, net	32,104,535	36,610,638
Other assets	6,909,824	12,872,323
Total assets	$810,222,148	$731,400,219
Liabilities and equity		
Accounts payable and accrued expenses	$ 14,700,368	$ 6,012,809
Tenant security and escrow deposits	15,226,792	13,658,384
Other liabilities	29,083,911	25,996,492
Mortgage and other notes payable	511,456,067	440,575,916
Total liabilities	570,467,138	486,243,601
Equity:		
Stockholders equity		
Common stock (par value $0.01; 235,898 and 227,003 shares outstanding, respectively)	2,359	2,270
Additional paid-in-capital	234,445,277	223,838,999
Accumulated deficit	(9,557,013)	(2,261,839)
Accumulated other comprehensive income	552,913	2,188,155
Stockholders equity	225,443,536	223,767,585
Noncontrolling interests	14,311,474	21,389,033
Total equity	239,755,010	245,156,618
Total liabilities and equity	$810,222,148	$731,400,219

See accompanying notes to consolidated financial statements.

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AVIV REIT, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(unaudited)			
Revenues				
Rental income	$24,112,746	$21,271,652	$ 43,802,837	$ 42,421,987
Tenant recoveries	1,836,064	1,682,182	3,525,060	3,211,236
Interest on loans to lessees capital expenditures	520,905	511,405	927,602	962,073
Interest on loans to lessees working capital and capital lease	828,110	876,367	1,753,522	1,556,897
Total revenues	27,297,825	24,341,606	50,009,021	48,152,193
Expenses				
Rent and other operating expenses	191,141	115,646	392,805	284,976
General and administrative	3,542,963	2,685,208	7,011,539	4,109,456
Real estate taxes	2,013,361	1,707,069	3,702,455	3,312,499
Depreciation	5,182,251	4,435,289	9,980,819	8,797,190
Total expenses	10,929,716	8,943,212	21,087,618	16,504,121
Operating income	16,368,109	15,398,394	28,921,403	31,648,072
Other income and expenses:				
Interest and other income	827,253	(7,366)	832,868	55,932
Interest expense	(9,359,466)	(5,047,080)	(16,915,651)	(10,912,396)
Change in fair value of derivatives		1,121,276		2,441,997
Amortization of deferred financing costs	(650,444)	(139,295)	(1,329,439)	(278,590)
Earnout accretion	(66,726)		(66,726)	
Loss on extinguishment of debt	(663,505)		(3,806,513)	
Total other income and expenses	(9,912,888)	(4,072,465)	(21,285,461)	(8,693,057)
Net income	6,455,221	11,325,929	7,635,942	22,955,015
Distributions and accretion on Class E Preferred Units		(4,019,317)		(8,018,087)
Net income allocable to common units of Partnership/noncontrolling interests	(2,943,762)	(7,306,612)	(3,482,204)	(14,936,928)
Net income allocable to stockholders	$ 3,511,459	$	$ 4,153,738	$
Net income	$ 6,455,221		$ 7,635,942	
Unrealized loss on derivative instrument	(3,586,630)		(3,077,996)	
Total comprehensive income	$ 2,868,591		$ 4,557,946	

Net income allocable to stockholders	$ 3,511,459	$ 4,153,738
Unrealized loss on derivative instrument, net of noncontrolling interest portion of $1,674,706 and $1,442,754, respectively	(1,911,924)	(1,635,242)
Total comprehensive income allocable to stockholders	$ 1,599,535	$ 2,518,496

See accompanying notes to consolidated financial statements.

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AVIV REIT, INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
Six Months Ended June 30, 2011 (unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders Equity	Non-controlling Interests	Total Equity
Balance at January 1, 2011	227,003	$2,270	$223,838,999	$ (2,261,839)	$ 2,188,155	$223,767,585	$21,389,033	$245,156,618
Non-cash stock (unit)-based compensation			606,367			606,367	474,718	1,081,085
Distributions to partners							(9,591,727)	(9,591,727)
Capital contributions	8,895	89	9,999,911			10,000,000		10,000,000
Unrealized loss on derivative instruments					(1,635,242)	(1,635,242)	(1,442,754)	(3,077,996)
Dividends to stockholders				(11,448,912)		(11,448,912)		(11,448,912)
Net income				4,153,738		4,153,738	3,482,204	7,635,942
Balance at June 30, 2011	235,898	$2,359	$234,445,277	$ (9,557,013)	$ 552,913	$225,443,536	$14,311,474	$239,755,010

See accompanying notes to consolidated financial statements.

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AVIV REIT, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(unaudited)	
Operating activities		
Net income	$ 7,635,942	$ 22,955,015
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,980,819	8,797,190
Amortization	1,329,439	278,590
Change in fair value of derivatives		(2,441,997)
Deferred rental income, net	(296,146)	(1,237,278)
Rental income from intangible amortization, net	(724,393)	(2,263,298)
Non-cash stock (unit)-based compensation	1,081,085	203,000
Non-cash loss on extinguishment of debt	3,806,513	
Reserve for uncollectible loan receivables	323,639	
Accretion of earn-out provision for previously acquired rental properties	66,726	
Changes in assets and liabilities:		
Tenant receivables	(4,266,191)	17,116
Other assets	2,562,218	(772,511)
Accounts payable and accrued expenses	8,632,062	678,563
Tenant security deposits and other liabilities	3,153,499	2,453,520
Net cash provided by operating activities	33,285,212	28,667,910
Investing activities		
Purchase of rental properties	(65,919,101)	(3,380,000)
Capital improvements and other developments	(11,109,860)	(4,740,957)
Payment of earn-out provision for previously acquired rental properties		(2,000,000)
Loan receivables received from (funded to) others, net	5,447,017	(8,463,408)
Net cash used in investing activities	(71,581,944)	(18,584,365)
Financing activities		
Borrowings of debt	313,868,117	
Repayment of debt	(242,987,966)	(5,169,934)
Payment of financing costs	(9,116,952)	
Capital contributions	10,000,000	
Cash distributions to partners	(9,994,770)	(17,440,308)
Cash dividends to stockholders	(11,762,345)	
Net cash provided by (used in) financing activities	50,006,084	(22,610,242)
Net increase (decrease) in cash and cash equivalents	11,709,352	(12,526,697)
Cash and cash equivalents:		
Beginning of period	13,029,474	15,542,507

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Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2011	2010
	(unaudited)	
End of period	$24,738,826	$ 3,015,810
Supplemental cash flow information		
Cash paid for interest	$10,084,582	$11,039,343
Supplemental disclosure of noncash activity		
Accrued dividends payable to stockholders	$ 5,779,477	$
Accrued distributions payable to partners	$ 4,843,773	$ 3,390,685
Earn-out accrual and addition to rental properties	$ 3,332,745	$ 8,120,656
Write-off of deferred rent receivable	$ 3,281,374	$ 2,233,768
Write-off of in-place lease intangibles, net	$	$ 1,224,594
Write-off of deferred financing costs, net	$ 3,806,513	$

See accompanying notes to consolidated financial statements.

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AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited)

1. Description of Operations and Formation

Aviv REIT, Inc., a Maryland corporation, and Subsidiaries (the REIT) is the sole general partner of Aviv Healthcare Properties Limited Partnership, a Delaware limited partnership, and Subsidiaries (the Partnership). The Partnership is a majority owned subsidiary that owns all of the real estate properties. In these footnotes, the Company refers generically to Aviv REIT, Inc., the Partnership, and their subsidiaries. The Partnership was formed in 2005 and directly or indirectly owned or leased 197 properties, principally skilled nursing facilities, across the United States at June 30, 2011. The Company generates the majority of its revenues by entering into long-term triple-net leases with qualified local, regional, and national operators. In addition to the base rent, leases provide for tenants to pay the Company an ongoing escrow for real estate taxes. Furthermore, all operating and maintenance costs of the buildings are the responsibility of the tenants. Substantially all depreciation expense reflected in the consolidated statements of operations relates to the ownership of real estate properties. The Company manages its business as a single business segment as defined in Accounting Standards Codification (ASC) 280, *Segment Reporting.*

The Partnership is the general partner of Aviv Healthcare Properties Operating Partnership I, L.P. (the Operating Partnership), a Delaware limited partnership, and Aviv Healthcare Capital Corporation, a Delaware company. The Operating Partnership has five wholly owned subsidiaries: Aviv Financing I, LLC (Aviv Financing I), a Delaware limited liability company; Aviv Financing II, LLC (Aviv Financing II), a Delaware limited liability company; Aviv Financing III, LLC (Aviv Financing III), a Delaware limited liability company; Aviv Financing IV, LLC (Aviv Financing IV), a Delaware limited liability company; and Aviv Financing V, LLC (Aviv Financing V), a Delaware limited liability company.

On September 17, 2010, the predecessor to the Partnership entered into an agreement (the Merger Agreement), by and among the REIT, Aviv Healthcare Merger Sub LP, a Delaware limited partnership of which the REIT is the general partner (Merger Sub), Aviv Healthcare Merger Sub Partner LLC, a Delaware limited liability company and a wholly owned subsidiary of the REIT, and the predecessor to the Partnership. Pursuant to the Merger Agreement, the predecessor to the Partnership merged (the Merger) with and into Merger Sub, with Merger Sub continuing as the surviving entity with the identical name (the Surviving Partnership). Following the Merger, the REIT remains as the sole general partner of the Surviving Partnership and the Surviving Partnership, as the successor to the predecessor to the Partnership, became the general partner of the Operating Partnership. All of the business, assets and operations will continue to be held by the Operating Partnership and its subsidiaries. The REIT s equity interest in the Surviving Partnership will be linked to future investments in the REIT, such that future equity issuances by the REIT (pursuant to the Stockholders Agreement, the REIT s management incentive plan or otherwise as agreed between the parties) will result in a corresponding increase in the REIT s equity interest in the Surviving Partnership. The REIT is authorized to issue 2 million shares of common stock (par value ($0.01) and 1,000 shares of preferred stock (par value $1,000)). At June 30, 2011, there are 235,898 shares of common stock and 125 shares of preferred stock outstanding. Dividends on each outstanding share of preferred stock accrue on a daily basis at the rate of 12.5% per annum of the sum of $1,000 plus all accumulated and unpaid dividends thereon which are in arrears. The REIT makes annual distributions on the preferred shares in the aggregate amount of $15,625 per year. With respect to the payment of dividends or other distributions and the distribution of the REIT s assets upon dissolution, liquidation, or winding up, the preferred stock will be senior to all other classes and series of stock of the REIT. The preferred stock has not been shown separately in the consolidated balance sheets, is immaterial, and included in additional paid-in-capital.

As a result of the common control of the REIT (which was newly formed) and the predecessor to the Partnership, the Merger, for accounting purposes, did not result in any adjustment to the historical carrying value of the assets or liabilities of the Partnership. The REIT was funded in September 2010 with approximately $235 million from its stockholders. The REIT contributed the net proceeds of its capital raise to the Partnership in exchange for Class G Units in the Partnership. Periods prior to September 17, 2010 represent the results of operations and financial condition of the Partnership, as predecessor to the Company. An additional $10 million was contributed by the REIT s stockholders on January 25, 2011.

The operating results of the Partnership are allocated based upon the respective economic interests therein. For the three and six months ended June 30, 2011, the REIT owned 54.4% of the Partnership.

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AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

2. Summary of Significant Accounting Policies

Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the REIT, the Partnership, the Operating Partnership, and all controlled subsidiaries. The Company considers itself to control an entity if it is the majority owner of and has voting control over such entity or the power to control a variable interest entity. The portion of the net income or loss attributed to third parties is reported as net income allocable to noncontrolling interests on the consolidated statements of operations, and such parties portion of the net equity in such subsidiaries is reported on the consolidated balance sheets as noncontrolling interests. All significant intercompany balances and transactions have been eliminated in consolidation.

Quarterly Reporting

The accompanying unaudited financial statements and notes of the Company as of June 30, 2011 and for the three and six months ended June 30, 2011 and 2010 have been prepared in accordance with GAAP for interim financial information. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under GAAP have been condensed or omitted pursuant to such rules. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company s balance sheets, statements of operations, statement of changes in equity, and statements of cash flows have been included and are of a normal and recurring nature. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the Company for the years ended December 31, 2010, 2009, and 2008. The consolidated statements of operations and cash flows for the three and six months ended June 30, 2011 and 2010 are not necessarily indicative of full year results.

The balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, including definitions of capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in each of the Company s and the Partnership s annual reports for the year ended December 31, 2010 filed as part of the Partnership s Registration Statement on Form S-4 declared effective by the Securities and Exchange Commission on July 21, 2011.

Rental Properties

The Company periodically assesses the carrying value of rental properties and related intangible assets in accordance with ASC 360, *Property, Plant, and Equipment* (ASC 360), to determine if facts and circumstances exist that would suggest that assets might be impaired or that the useful lives should be modified. In the event impairment in value occurs and a portion of the carrying amount of the rental properties will not be recovered in part or in whole, a provision will be recorded to reduce the carrying basis of the rental properties and related intangibles to their estimated fair value. The estimated fair value of the Company s rental properties is determined by using customary industry standard methods that include discounted cash flow and/or direct capitalization analysis.

Revenue Recognition

Rental income is recognized on a straight-line basis over the term of the lease when collectability is reasonably assumed. Differences between rental income earned and amounts due under the lease are charged or credited, as applicable, to deferred rent receivable. Income recognized from this policy is titled deferred rental income. Additional rents from expense reimbursements for insurance, real estate taxes, and certain other expenses are recognized in the period in which the related expenses are incurred and are reflected as tenant recoveries on the consolidated statements of operations.

Below is a summary of the components of rental income for the respective periods:

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AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Cash rental income	$ 22,288,482	$ 19,637,134	$ 42,782,298	$ 38,921,411
Deferred rental income	1,462,068	1,141,885	296,146	1,237,278
Rental income from intangible amortization	362,196	492,633	724,393	2,263,298
Total rental income	$ 24,112,746	$ 21,271,652	$ 43,802,837	$ 42,421,987

During the three and six months ended June 30, 2011 and 2010, deferred rental revenue includes a write-off (expense) of deferred rent receivable of $254,406, $3,281,374, $0 and $2,233,768, respectively, due to the early termination of leases and replacement of operators.

Lease Accounting

The Company, as lessor, makes a determination with respect to each of its leases whether they should be accounted for as operating leases or direct financing leases. The classification criteria is based on estimates regarding the fair value of the leased facilities, minimum lease payments, effective cost of funds, the economic life of the facilities, the existence of a bargain purchase option, and certain other terms in the lease agreements. Payments received under operating leases are accounted for in the statement of operations as rental income for actual rent collected plus or minus a straight-line adjustment for estimated minimum lease escalators. Assets subject to operating leases are reported as rental properties in the consolidated balance sheets. For facilities leased as direct financing arrangements, an asset equal to the Company s net initial investment is established on the balance sheet titled assets under direct financing leases. Payments received under the financing lease are bifurcated between interest income and principal amortization to achieve a consistent yield over the stated lease term using the interest method. Principal amortization (accretion) is reflected as an adjustment to the asset subject to a financing lease. Such accretion was $32,747, $70,212, $33,975, $72,514 and for the three and six months ended June 30, 2011 and 2010, respectively.

All of the Company s leases contain fixed or formula-based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease.

Loan Receivables

Loan receivables consist of capital improvement loans to tenants and working capital loans to operators. Loan receivables are carried at their principal amount outstanding. Management periodically evaluates outstanding loans and notes receivable for collectability. When management identifies potential loan impairment indicators, such as nonpayment under the loan documents, impairment of the underlying collateral, financial difficulty of the operator, or other circumstances that may impair full execution of the loan documents, and management believes it is probable that all amounts will not be collected under the contractual terms of the loan, the loan is written down to the present value of the expected future cash flows. As of June 30, 2011 and December 31, 2010, loan receivable reserves amounted to $1,073,639 and $750,000, respectively. No other circumstances exist that would suggest that additional reserves are necessary at the balance sheet dates.

Stock-Based Compensation

The Company follows ASC 718, Stock Compensation (ASC 718), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statements of operations based on their grant date fair values. On September 17, 2010, the Company adopted a 2010 Management Incentive Plan (the Plan) as part of the Merger transaction. A pro-rata allocation of non-cash stock-based compensation expense is made to the Company and noncontrolling interests for awards granted under the Plan. The Plan s non-cash stock-based compensation expense by the Company through June 30, 2011 is summarized in Footnote 9.

AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or;

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company s interest rate swaps are valued using models developed internally by the respective counterparty that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy.

Cash and cash equivalents and derivative financial instruments are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Company s current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding mortgage and other notes payable obligations with a carrying value of approximately $511.5 million and $440.6 million as of June 30, 2011 and December 31, 2010, respectively. The fair values of debt as of June 30, 2011 was $520.7 million and as of December 31, 2010 approximates its carrying value based upon interest rates available to the Company on similar borrowings. Management estimates the fair value of its loan receivables using a discounted cash flow analysis based upon the Company s current interest rates for loan receivables with similar maturities and collateral securing the indebtedness. The Company had outstanding loan receivables with a carrying value of $32.1 million and $36.6 million as of June 30, 2011 and December 31, 2010, respectively. The fair values of loan receivables as of June 30, 2011 and as of December 31, 2010 approximate its carrying value based upon interest rates available to the Company on similar borrowings.

Derivative Instruments

The Company has implemented ASC 815, *Derivatives and Hedging* (ASC 815), which establishes accounting and reporting standards requiring that all derivatives, including certain derivative instruments embedded in other contracts, be recorded as either an asset or liability measured at their fair value unless they qualify for a normal purchase or normal sales exception. When specific hedge accounting criteria are not met, ASC 815 requires that changes in a derivative s fair value be recognized currently in earnings. Changes in the fair market values of the Company s derivative instruments are recorded in the consolidated statements of operations if the derivative does not qualify for or the Company does not elect to apply hedge accounting. If the derivative is deemed to be eligible for hedge accounting, such changes are reported in accumulated other comprehensive income within the consolidated statement of changes in equity, exclusive of ineffectiveness amounts, which are recognized as adjustments to net income. All of the changes in the fair market values of our derivative instruments are recorded in the consolidated statements of operations for our interest rate swaps that were terminated in September 2010. In November 2010, we entered into two interest rate swaps and account for changes in fair value of such hedges through changes in equity in our financial statements via hedge accounting.

Income Taxes

For federal income tax purposes, the Company intends to elect, with the filing of its initial 1120 REIT, U.S. Income Tax Return for Real Estate Investment Trusts, to be taxed as a Real Estate Investment Trust (REIT) effective at the time of the Merger. To qualify as a REIT, the Company must meet certain organizational, income, asset and distribution tests. The Company currently intends to comply with these requirements and maintain REIT status. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not elect REIT status for four subsequent years. However, the Company may still be subject to federal excise tax. In addition, the Company may be subject to certain state and local income and franchise taxes. Historically, the Company and its predecessor have generally only incurred certain state and local income and franchise taxes, but these amounts were immaterial in each of the periods presented. Prior to the Merger, the Partnership was a limited partnership and the consolidated operating results were included in the income tax returns of the individual partners. No uncertain income tax positions exist as of June 30, 2011 or December 31, 2010.

AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

Business Combinations

The Company applies ASC 805, *Business Combinations* (ASC 805), in determining how to account for and identify business combinations while allocating fair value to tangible and identified intangible assets acquired and liabilities assumed. Acquisition related costs are expensed as incurred. Prior to the Merger on September 17, 2010, Aviv Asset Management, L.L.C. (AAM) was a non-consolidated management company to the Partnership based on the application of appropriate accounting guidance (as discussed in Footnote 10). Upon the Merger, AAM became a consolidated entity of the Company and is presented as such for all periods included herein with all periods shown at historical cost (carryover basis with no adjustments to fair value). This treatment is in accordance with ASC 805 due to the fact that AAM was under common control prior and subsequent to the Merger.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no effect on the Company s consolidated financial position or results of operations.

3. Rental Property Activity

The Company had the following rental property activity during the three and six months ended June 30, 2011 as described below:

In January 2011, Aviv Financing I acquired a property in Kansas from an unrelated third party for a purchase price of $3,045,000. The Company financed this purchase through cash and borrowings of $2,131,000 under the Mortgage (see Footnote 7).

In March 2011, Aviv Financing II acquired a property in Pennsylvania from an unrelated third party for a purchase price of approximately $2,200,000. The Company financed this purchase through cash.

In March 2011, Aviv Financing II acquired a property in Ohio from an unrelated third party for a purchase price of approximately $9,581,000. The Company financed this purchase through cash.

In March 2011, Aviv Financing II acquired a property in Florida from an unrelated third party for a purchase price of approximately $10,000,000. The Company financed this purchase through borrowings of $10,200,000 under the Revolver (see Footnote 7).

In April 2011, Aviv Financing II acquired three properties in Ohio from an unrelated third party for a purchase price of $9,250,000. The Company financed this purchase through cash.

In April 2011, Aviv Financing II acquired a property in Kansas from an unrelated third party for a purchase price of $1,300,000. The Company financed this purchase through cash.

In April 2011, Aviv Financing II acquired a property in Texas from an unrelated third party for a purchase price of $2,093,000. The Company financed this purchase through cash.

In April 2011, Aviv Financing II acquired three properties in Texas from an unrelated third party for a purchase price of $8,707,000. The Company financed this purchase through cash.

In May 2011, Aviv Financing II acquired three properties in Kansas from an unrelated third party for a purchase price of $2,273,000. The Company financed this purchase through cash.

In May 2011, Aviv Financing II acquired a property in Missouri from an unrelated third party for a purchase price of $5,470,000. The Company financed this purchase through cash.

In May 2011, Aviv Financing II acquired a property in Connecticut from an unrelated third party for a purchase price of $12,000,000. As part of this acquisition, the Company recognized an approximate $3,333,000 addition to the

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AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

purchase price as per the guidance within ASC 805 as it relates to an earn-out provision defined at closing (Level 3). The Company financed this purchase through cash.

Related to the above business combinations, the Company incurred $568,000 of acquisition costs that are expensed in general and administrative expenses in the consolidated statements of operations. In accordance with ASC 805, the Company allocated the approximate net purchase price of these properties acquired in 2011 as follows:

Land	$ 10,495,000
Buildings and improvements	55,424,000
Borrowings and available cash	$ 65,919,000

The Company considers renewals on below-market leases when ascribing value to the in-place lease intangible liabilities at the date of a property acquisition. In those instances where the renewal lease rate pursuant to the terms of the lease does not adjust to a current market rent, the Company evaluates whether the stated renewal rate is below current market rates and considers the past and current operations of the property, the current rent coverage ratio of the tenant, and the number of years until potential renewal option exercise. If renewal is considered probable based on these factors, an additional lease intangible liability is recorded at acquisition and amortized over the renewal period.

4. Loan Receivables

The following summarizes the Company s loan receivables at:

	June 30, 2011	December 31, 2010
Beginning balance, January 1, 2011 and 2010, respectively	$36,610,638	$ 28,970,129
New capital improvement loans issued	523,943	1,415,579
Working capital and other loans issued	3,350,244	14,705,259
Reserve for uncollectible loans	(323,639)	(750,000)
Loan write offs	(86,156)	
Loan amortization and repayments	(7,970,495)	(7,730,329)
	$32,104,535	$ 36,610,638

The Company s reserve for uncollectible loan receivables balances at June 30, 2011 and December 31, 2010 was $1,073,639 and $750,000, respectively. The activity for the three and six months ended June 30, 2011 consisted of additional reserves of $166,322 and $323,639, respectively.

During 2011 and 2010, the Company funded loans for both working capital and capital improvement purposes to various operators and tenants. All loans held by the Company accrue interest. The payments received from the operator or tenant cover both interest accrued as well as amortization of the principal balance due. Any payments received from the tenant or operator made outside of the normal loan amortization schedule are considered principal prepayments and reduce the outstanding loan receivables balance.

Interest income earned on loan receivables for the three and six months ended June 30, 2011 and 2010 was $994,243, $1,972,757, $1,037,667, and $1,819,973, respectively.

5. Deferred Finance Costs

The following summarizes the Company s deferred finance costs at:

June 30,	December 31,

	2011	2010
Gross amount	$15,469,067	$10,567,931
Accumulated amortization	(1,474,935)	(610,295)
Net	$13,994,132	$ 9,957,636

Amortization of deferred financing costs is reported in the amortization expense line item in the consolidated statements of operations.

AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

During the three and six months ended June 30, 2011, the Company wrote-off deferred financing costs of $746,443 and $4,271,312 respectively with $82,938 and $464,799 of accumulated amortization associated with the Mortgage (see Footnote 7) pay down for a net recognition as loss on extinguishment of debt of $663,505 and $3,806,513, respectively.

6. In-Place Lease Intangibles

The following summarizes the Company s in-place lease intangibles classified as part of other assets or other liabilities at:

	June 30, 2011		December 31, 2010	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Gross amount	$ 8,393,488	$ 25,798,147	$ 8,393,488	$ 25,798,147
Accumulated amortization	(3,371,378)	(15,096,368)	(3,049,093)	(14,049,691)
Net	$ 5,022,110	$ 10,701,779	$ 5,344,395	$ 11,748,456

Amortization expense for the in-place lease intangible assets for the three and six months ended June 30, 2011 and 2010 was $161,142, $322,285, $177,884 and $421,605 respectively. Accretion for the in-place lease intangible liabilities for the three and six months ended June 30, 2011 and 2010 was $523,339, $1,046,678, $670,517 and $1,460,309 respectively.

For both the three and six months ended June 30, 2010, the Company wrote-off in-place lease intangible assets of $2,678,000 with accumulated amortization of $1,316,232, and in-place lease intangible liabilities of $4,660,000 with accumulated accretion of $2,073,638, for a net recognition of $1,224,594 in rental income from intangible amortization. These write-offs were in connection with properties that had been transitioned to new operators.

7. Mortgage and Other Notes Payable

The Company s mortgage and other notes payable consisted of the following:

	June 30, 2011	December 31, 2010
Mortgage (interest rates of 5.75% on June 30, 2011 and December 31, 2010, respectively)	$ 198,730,787	$ 402,794,111
Acquisition Credit Line (interest rates of 5.75% on June 30, 2011 and December 31, 2010, respectively)		28,677,230
Construction loan (interest rates of 5.95% on June 30, 2011 and December 31, 2010, respectively)	2,293,087	1,312,339
Acquisition loans (interest rates of 6.00% on June 30, 2011 and December 31, 2010, respectively)	7,744,823	7,792,236
Senior Notes (interest rate of 7.75% on June 30, 2011), inclusive of $2.7 million net premium balance	302,687,370	
Total	$ 511,456,067	$ 440,575,916

Senior Notes

On February 4, 2011 and April 5, 2011, Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation (the Issuers) issued $200 million and $100 million of Senior Notes (the Senior Notes), respectively. The REIT is a guarantor of the Issuers Senior Notes. The Senior Notes are unsecured senior obligations of the Issuers and will mature on February 15, 2019. The Senior Notes bear interest at a rate of 7.750% per annum, payable semiannually to holders of record at the close of business on the February 1 or the August 1 immediately preceding the interest payment date on February 15 and August 15 of each year, commencing August 15, 2011. A premium of $2.75 million was received with the offering of the $100 million of Senior Notes on April 5, 2011. The premium will be amortized as an adjustment to the yield on the Senior Notes over their term. The Company used the proceeds, amongst other things, to pay down approximately $201.6 million on the Mortgage and the balance of $28.7 million on the Acquisition Credit Line.

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AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

Revolver

In conjunction with the Senior Notes issuance on February 4, 2011, the Company, under Aviv Financing IV, LLC, acquired a $25 million revolver with Bank of America (the Revolver). On each payment date, the Company shall pay interest only in arrears on any outstanding principal balance of the Revolver. The interest rate under the Company s Revolver is generally based on LIBOR (subject to a floor of 1.0% and subject to the Company s option to elect to use a prime base rate) plus a margin that is determined by the Company s leverage ratio from time to time. As of June 30, 2011 the interest rates are based upon the base rate (3.25% at June 30, 2011) plus the applicable percentage based on the consolidated leverage ratio (3.00% at June 30, 2011). The base rate is the rate announced by Bank of America as the prime rate . Additionally, an unused fee equal to 0.5% per annum of the daily unused balance on the Revolver is due monthly. The Revolver commitment terminates in February 2014. The Revolver has an outstanding balance of $0 at both June 30, 2011 and December 31, 2010.

8. Partnership Equity and Incentive Program

Distributions to the Partnership s partners are summarized as follows for the three months ended June 30:

	Class A	Class B	Class C	Class D	Class E	Class F	Class G
2011	$ 1,683,430	$1,042,643	$1,563,964	$	$	$ 553,761	$ 5,783,373
2010	$ 3,390,685	$	$	$	$1,849,315	$1,104,487	$

Distributions to the Partnership s partners are summarized as follows for the six months ended June 30:

	Class A	Class B	Class C	Class D	Class E	Class F	Class G
2011	$ 3,366,860	$1,892,983	$3,224,363	$	$	$1,107,522	$11,448,754
2010	$ 6,781,370	$1,897,169	$2,845,753	$	$3,698,630	$2,196,837	$

Weighted-average Units outstanding are summarized as follows for the three months ended June 30:

	Class A	Class B	Class C	Class D	Class E	Class F	Class G
2011	13,467,223	4,523,145	2	8,050		2,684,900	236,022
2010	13,467,223	4,523,145	2	7,250	7,500,050	5,369,800	

Weighted-average Units outstanding are summarized as follows for the six months ended June 30:

	Class A	Class B	Class C	Class D	Class E	Class F	Class G
2011	13,467,223	4,523,145	2	8,050		2,684,900	234,793
2010	13,467,223	4,523,145	2	7,481	7,500,025	5,369,800	

The Partnership had established an officer incentive program linked to its future value. Awards vest annually over a five-year period assuming continuing employment by the recipient. The awards can be settled in Class C Units or cash at the Company s discretion at the settlement date of December 31, 2012. For accounting purposes, expense recognition under the program commenced in 2008, and the related expense for the three and six months ended June 30, 2011 and 2010 was approximately $101,500, $203,000, $101,500 and $203,000, respectively.

AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

As a result of the Merger on September 17, 2010, such incentive program was modified such that 40% of the previously granted award settled immediately on the Merger date with another 20% vesting and settling on December 31, 2010. The remaining 40% will vest equally on December 31, 2011 and December 31, 2012, and will settle in 2018, subject to the terms and conditions of the amended incentive program agreement. In accordance with ASC 718, *Compensation Stock Compensation* (ASC 718), such incentive program will continue to be expensed through general and administrative expenses as non-cash compensation on the statements of operations through the ultimate vesting date of December 31, 2012.

9. Option Awards

On September 17, 2010, the Company adopted a 2010 Management Incentive Plan (the Plan) as part of the Merger transaction.

The following table represents the time based option awards activity for the three and six months ended June 30, 2011.

	Six months ended June 30, 2011
Outstanding at January 1, 2011	21,866
Granted	456
Exercised	
Cancelled/Forfeited	
Outstanding at March 31, 2011	22,322
Granted	
Exercised	
Cancelled/Forfeited	
Outstanding at June 30, 2011	22,322
Options exercisable at end of period	
Weighted average fair value of options granted	$ 149.09
Weighted average remaining contractual life	9.23

The following table represents the time based option awards outstanding at June 30, 2011 as well as other Plan data:

Range of exercise prices	Outstanding	Remaining Contractual Life (Years)	Weighted Average Exercise Price
$1,000 $1,124	22,322	9.23	$1,004

The Company has used the Black-Scholes option pricing model to estimate the grant date fair value of the options. The following table includes the assumptions that were made in estimating the grant date fair value for options awarded in 2011.

	2011 Grants
Dividend yield	9.16%
Risk-free interest rate	2.72%

Expected life	7.0 years
Estimated volatility	38.00%
Weighted average exercise price	$1,124.22
Weighted average fair value of options granted (per option)	149.09%

The Company recorded non-cash compensation expenses of $306,899 and $606,367 for the three and six months ended June 30, 2011, related to the time based stock options accounted for as equity awards, as a component of general and administrative expenses in the consolidated statements of operations, respectively.

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AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

At June 30, 2011, the total compensation cost related to outstanding, non-vested time based equity option awards that are expected to be recognized as compensation cost in the future aggregates to approximately $1,497,000.

For the period ended December 31,	Options
2011	$ 484,194
2012	591,886
2013	309,028
2014	112,338
2015	48
Total	$ 1,497,494

Dividend equivalent rights associated with the Plan amounted to $546,886 and $1,082,614 for the three and six months ended June 30, 2011, and are included in general and administrative expense in the consolidated statements of operations, respectively. These dividend rights will be paid in four installments as the option vests.

10. Related Parties

Related party receivables and payables represent amounts due from/to various affiliates of the Company, including advances to members of the Company, amounts due to certain acquired companies and limited liability companies for transactions occurring prior to the formation of the Company, and various advances to entities controlled by affiliates of the Company s management. An officer of the Company received a loan of $311,748, which has been paid off in full as of June 30, 2011.

The Partnership had entered into a management agreement, as amended, effective April 1, 2005, with AAM, an entity affiliated by common ownership. Under the management agreement, AAM had been granted the exclusive right to oversee the portfolio of the Partnership, providing, among other administrative services, accounting and all required financial services; legal administration and regulatory compliance; investor, tenant, and lender relationship services; and transactional support to the Partnership. Except as otherwise provided in the Partnership Agreement, all management powers of the business and affairs of the Partnership were exclusively vested in the General Partner. The annual fee for such services equaled six-tenths of one percent (0.6%) of the aggregate fair market value of the properties as determined by the Partnership and AAM annually. This fee arrangement was amended as discussed below. In addition, the Partnership reimbursed AAM for all reasonable and necessary out-of-pocket expenses incurred in AAM s conduct of its business, including, but not limited to, travel, legal, appraisal, and brokerage fees, fees and expenses incurred in connection with the acquisition, disposition, or refinancing of any property, and reimbursement of compensation and benefits of the officers and employees of AAM. This agreement was terminated on September 17, 2010 when the Merger occurred, effectively consolidating AAM into the Company, and eliminating the necessity for reimbursement.

On October 16, 2007, the Company legally acquired AAM through a Manager Contribution and Exchange Agreement dated October 16, 2007 (the Contribution Agreement). As stipulated in the Contribution Agreement and the Second Amended and Restated Agreement of Limited Partnership on October 16, 2007 (Partnership Agreement), the Company issued a new class of Company Unit, Class F Units, as consideration to the contributing members of AAM. The contributing members of AAM served as the general partner of the Partnership. The Class F Units have subordinated payment and liquidity preference to the Class E Units but are senior in payment and liquidity preference, where applicable, to the Class A, B, C, and D Units of the Partnership. The Class F Units paid in quarterly installments an annual dividend of 8.25% of the preliminary face amount of $53,698,000. The preliminary pricing was based upon trading multiples of comparably sized publicly traded healthcare REITs. The ultimate Class F Unit valuation was subject to a true-up formula at the time of a Liquidity Event, as defined in the Partnership Agreement.

For accounting purposes, prior to the Merger, AAM had not been consolidated by the Company, nor had any value been ascribed to the Class F Units issued due to the ability of the Class E Unitholders to unwind the acquisition as described above. Such action was outside the control of the Company, and accordingly, the acquisition is not viewed as having been consummated. The dividends earned by the Class F Unitholders were reflected as a component of management fees as described above. Prior to the Merger, the fee for management services to the Company are equal to the dividend earned on the Class F Unit.

Under certain circumstances, the Partnership Agreement did permit the Class E Unitholders to unwind this transaction and required the Company to redeem the Class F Units by returning to the affiliates all membership interests in AAM. On September 17, 2010, the Company settled the investment with JER Aviv Acquisition, LLC (JER). For accounting purposes, this treatment triggered

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AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

the retroactive consolidation of AAM by the Company. The original and follow-on investments of Class E unitholders were made subject to the Unit Purchase Agreement and related documents (UPA) between the Company and JER dated May 26, 2006.

The UPA did not give either party the right to settle the investment prior to May 26, 2011. However, the UPA did have an economic arrangement as to how either party could settle the arrangement on or after that date. This economic construct guided the discussions and negotiations of settlement. The UPA allowed the Company to call the E Units and warrants anytime after May 26, 2011 as long as it provided JER with a 15% IRR from date of inception. The IRR would be calculated factoring interim distributions as well as exit payments. The units were settled for $92,001,451 contemporaneous with the Merger. A portion of the settlement related to outstanding warrants held by JER and originally issued in connection with the E units issuance.

Coincident with the Merger, 50% of the Class F Unit was purchased and settled by the Company for $23,602,649 and is reported as a component of distributions to partners and accretion on Class E Preferred Units in the consolidated statements of changes in equity. The remaining Class F Units will pay in quarterly installments an annual dividend of 9.38% of the face amount of $23,602,649.

11. Derivatives

During the periods presented, the Company was party to various interest rate swaps, which were purchased to fix the variable interest rate on the denoted notional amount under the original debt agreements.

At June 30, 2011, the Company is party to two interest rate swaps, with identical terms for $100 million each. They were purchased to fix the variable interest rate on the denoted notional amount under the Mortgage which was obtained in September, 2010, and qualify for hedge accounting. For presentational purposes they are shown as one derivative due to the identical nature of their economic terms.

Total notional amount	$200,000,000
Fixed rates	6.49% (1.99% effective swap base rate plus 4.5% spread per credit agreement)
Floor rate	1.25%
Effective date	November 9, 2010
Termination date	September 17, 2015
Asset balance at June 30, 2011 (included in other assets)	$1,016,436
Asset balance at December 31, 2010 (included in other assets)	$4,094,432
Liability balance at June 30, 2011 (included in other liabilities)	$
Liability balance at December 31, 2010 (included in other liabilities)	$

The fair value of each interest rate swap agreement may increase or decrease due to changes in market conditions but will ultimately decrease to zero over the term of each respective agreement.

For the three and six months ended June 30, 2011 and 2010, the Company recognized $0, $0, $1,121,276 and $2,441,997 of net income, respectively, in the consolidated statements of operations related to the change in the fair value of these interest rate swap agreements, where the Company did not elect to apply hedge accounting. Such instruments that did not elect to apply hedge accounting were settled at the Merger date.

The following table provides the Company s derivative assets and liabilities carried at fair value as measured on a recurring basis as of June 30, 2011 (dollars in thousands):

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AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

	Total Carrying Value at June 30, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative assets	$1,016	$	$ 1,016	$
Derivative liabilities				
	$1,016	$	$ 1,016	$

The Company s derivative assets and liabilities include interest rate swaps that effectively convert a portion of the Company s variable rate debt to fixed rate debt. The derivative positions are valued using models developed by the respective counterparty that use as their basis readily observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy. The Company considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives.

12. Commitments and Contingencies

The Company has a contractual arrangement with a tenant to reimburse quality assurance fees levied by the California Department of Health Care Services from August 1, 2005 through July 31, 2008. The Company is obligated to reimburse the fees to the tenant if and when the state withholds these fees from the tenant s Medi-Cal reimbursements associated with 5 facilities that were formerly leased to Trinity Health Systems. The total possible obligation for these fees is $1,655,286, of which approximately $1.1 million has been paid to date. For the three and six months ended June 30, 2011, and 2010, the Company s indemnity expense for these fees was $144,000, $144,000, $183,000 and $676,000 respectively, which equaled the actual amount paid during the period.

Judicial proceedings seeking declaratory relief for these fees are in process which if successful would provide for recovery of such amounts from the State of California. The Company has certain rights to seek relief against Trinity Health Systems for monies paid out under the indemnity claim; however, it is uncertain whether the Company will be successful in receiving any amounts from Trinity.

In the normal course of business, the Company is involved in legal actions arising from the ownership of its property. In management s opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the financial position, operations, or liquidity of the Company.

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AVIV REIT, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

13. Concentration of Credit Risk

As of June 30, 2011, the Company s portfolio of investments consisted of 197 healthcare facilities, located in 25 states and operated by 31 third party operators. At June 30, 2011, approximately 53.3% (measured as a percentage of total assets) were leased by five private operators: Evergreen Healthcare (13.8%), Daybreak Healthcare (12.8%), Saber Healthcare (9.5%), Benchmark Healthcare (8.9%), and Sun Mar Healthcare (8.3%). No other operator represents more than 7.9% of the Company s total assets. The five states in which the Company had its highest concentration of total assets were California (19.1%), Texas (16.7%), Missouri (9.7%), Arkansas (8.3%), and New Mexico (5.9%) at June 30, 2011.

For the six months ended June 30, 2011, the Company s rental income from operations totaled approximately $43.8 million, of which approximately $5.9 million was from Evergreen Healthcare (13.4%), $4.9 million was from Daybreak Venture (11.1%), $4.8 million was from Sun Mar Healthcare (11.1%), $4.1 million was from Saber Healthcare (9.4%), and $3.5 million was from Cathedral Rock (8.0%). No other operator generated more than 7.5% of the Company s rental income from operations for the six months ended June 30, 2011.

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Balance Sheets
(unaudited)

	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$ 23,615,468	$ 13,028,474
Deferred rent receivable	30,822,931	30,660,773
Tenant receivables, net	4,170,480	1,168,842
Rental properties and financing leases, at cost:		
Land	88,333,715	76,466,020
Buildings and improvements	684,230,073	615,806,273
Assets under direct financing leases	10,847,395	10,777,184
	783,411,183	703,049,477
Less accumulated depreciation	(85,929,763)	(75,948,944)
Net rental properties	697,481,420	627,100,533
Deferred finance costs, net	13,994,132	9,957,636
Loan receivables, net	32,104,535	36,610,638
Other assets	6,909,824	12,872,323
Total assets	$809,098,790	$731,399,219
Liabilities and equity		
Accounts payable and accrued expenses	$ 14,700,368	$ 6,012,809
Tenant security and escrow deposits	15,226,792	13,658,384
Other liabilities	27,961,553	25,996,492
Mortgage and other notes payable	511,456,067	440,575,916
Total liabilities	569,344,780	486,243,601
Equity:		
Partners equity	238,737,574	241,061,186
Accumulated other comprehensive income	1,016,436	4,094,432
Total equity	239,754,010	245,155,618
Total liabilities and equity	$809,098,790	$731,399,219

See accompanying notes to consolidated financial statements.

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(unaudited)			
Revenues				
Rental income	$24,112,746	$21,271,652	$ 43,802,837	$ 42,421,987
Tenant recoveries	1,836,064	1,682,182	3,525,060	3,211,236
Interest on loans to lessees capital expenditures	520,905	511,405	927,602	962,073
Interest on loans to lessees working capital and capital lease	828,110	876,367	1,753,522	1,556,897
Total revenues	27,297,825	24,341,606	50,009,021	48,152,193
Expenses				
Rent and other operating expenses	191,141	115,646	392,805	284,976
General and administrative	3,542,963	2,685,208	7,011,539	4,109,456
Real estate taxes	2,013,361	1,707,069	3,702,455	3,312,499
Depreciation	5,182,251	4,435,289	9,980,819	8,797,190
Total expenses	10,929,716	8,943,212	21,087,618	16,504,121
Operating income	16,368,109	15,398,394	28,921,403	31,648,072
Other income and expenses:				
Interest and other income	827,253	(7,366)	832,868	55,932
Interest expense	(9,359,466)	(5,047,080)	(16,915,651)	(10,912,396)
Change in fair value of derivatives		1,121,276		2,441,997
Amortization of deferred financing costs	(650,444)	(139,295)	(1,329,439)	(278,590)
Earnout accretion	(66,726)		(66,726)	
Loss on extinguishment of debt	(663,505)		(3,806,513)	
Total other income and expenses	(9,912,888)	(4,072,465)	(21,285,461)	(8,693,057)
Net income	6,455,221	11,325,929	7,635,942	22,955,015
Distributions and accretion on Class E Preferred Units		(4,019,317)		(8,018,087)
Net income allocable to noncontrolling interests		(77,233)		(156,849)
Net income allocable to common units	$ 6,455,221	$ 7,229,379	$ 7,635,942	$ 14,780,079
Net income allocable to common units	$ 6,455,221		$ 7,635,942	

Unrealized loss on derivative instruments	(3,586,630)	(3,077,996)
Total comprehensive income allocable to common units	$ 2,868,591	$ 4,557,946

See accompanying notes to consolidated financial statements.

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
Six Months Ended June 30, 2011 (unaudited)

	Partners Equity	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2011	$241,061,186	$ 4,094,432	$245,155,618
Non-cash stock-based compensation	1,081,085		1,081,085
Distributions to partners	(21,040,639)		(21,040,639)
Capital contributions	10,000,000		10,000,000
Unrealized loss on derivative instruments		(3,077,996)	(3,077,996)
Net income	7,635,942		7,635,942
Balance at June 30, 2011	$238,737,574	$ 1,016,436	$239,754,010

See accompanying notes to consolidated financial statements.

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2011	2010
	(unaudited)	
Operating activities		
Net income	$ 7,635,942	$ 22,955,015
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,980,819	8,797,190
Amortization	1,329,439	278,590
Change in fair value of derivatives		(2,441,997)
Deferred rental income, net	(296,146)	(1,237,278)
Rental income from intangible amortization, net	(724,393)	(2,263,298)
Non-cash stock (unit)-based compensation	1,081,085	203,000
Non-cash loss on extinguishment of debt	3,806,513	
Reserve for uncollectible loan receivables	323,639	
Accretion of earn-out provision for previously acquired rental properties	66,726	
Changes in assets and liabilities:		
Tenant receivables	(4,266,191)	17,116
Other assets	2,562,218	(772,511)
Accounts payable and accrued expenses	8,632,062	678,563
Tenant security deposits and other liabilities	2,031,141	2,453,520
Net cash provided by operating activities	32,162,854	28,667,910
Investing activities		
Purchase of rental properties	(65,919,101)	(3,380,000)
Capital improvements and other developments	(11,109,860)	(4,740,957)
Payment of earn-out provision for previously acquired rental properties		(2,000,000)
Loan receivables received from (funded to) others, net	5,447,017	(8,463,408)
Net cash used in investing activities	(71,581,944)	(18,584,365)
Financing activities		
Borrowings of debt	313,868,117	
Repayment of debt	(242,987,966)	(5,169,934)
Payment of financing costs	(9,116,952)	
Capital contributions	10,000,000	
Cash distributions to partners	(21,757,115)	(17,440,308)
Net cash provided by (used in) financing activities	50,006,084	(22,610,242)
Net increase (decrease) in cash and cash equivalents	10,586,994	(12,526,697)
Cash and cash equivalents:		
Beginning of period	13,028,474	15,542,507

End of period	$ 23,615,468	$ 3,015,810

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Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2011	2010
	(unaudited)	
Supplemental cash flow information		
Cash paid for interest	$10,084,582	$11,039,343
Supplemental disclosure of noncash activity		
Accrued distributions payable to partners	$10,623,250	$ 3,390,685
Earn-out accrual and addition to rental properties	$ 3,332,745	$ 8,120,656
Write-off of deferred rent receivable	$ 3,281,374	$ 2,233,768
Write-off of in-place lease intangibles, net	$	$ 1,224,594
Write-off of deferred financing costs, net	$ 3,806,513	$

See accompanying notes to consolidated financial statements.

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited)

1. Description of Operations and Formation

Aviv Healthcare Properties Limited Partnership, a Delaware limited partnership, and Subsidiaries (the Partnership) was formed in 2005 and directly or indirectly owned or leased 197 properties, principally skilled nursing facilities, across the United States at June 30, 2011. The Partnership generates the majority of its revenues by entering into long-term triple-net leases with qualified local, regional, and national operators. In addition to the base rent, leases provide for tenants to pay the Partnership an ongoing escrow for real estate taxes. Furthermore, all operating and maintenance costs of the buildings are the responsibility of the tenants. Substantially all depreciation expense reflected in the consolidated statements of operations relates to the ownership of senior living properties. The Partnership manages its business as a single business segment as defined in Accounting Standards Codification (ASC) 280, *Segment Reporting*.

The Partnership is the general partner of Aviv Healthcare Properties Operating Partnership I, L.P. (the Operating Partnership), a Delaware limited partnership, and Aviv Healthcare Capital Corporation, a Delaware company. The Operating Partnership has five wholly owned subsidiaries: Aviv Financing I, LLC (Aviv Financing I), a Delaware limited liability company; Aviv Financing II, LLC (Aviv Financing II), a Delaware limited liability company; Aviv Financing III, LLC (Aviv Financing III), a Delaware limited liability company; Aviv Financing IV, LLC (Aviv Financing IV), a Delaware limited liability company; and Aviv Financing V, LLC (Aviv Financing V), a Delaware limited liability company.

On September 17, 2010, the predecessor to the Partnership entered into an agreement (the Merger Agreement), by and among the Aviv REIT Inc. (the Company), a Maryland corporation, Aviv Healthcare Merger Sub LP (Merger Sub), a Delaware limited partnership of which the Company is the general partner, Aviv Healthcare Merger Sub Partner LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company, and the Partnership. Effective on such date, the Company is the sole general partner of the Partnership. Pursuant to the Merger Agreement, the predecessor to the Partnership merged with and into the Merger Sub (the Merger), with Merger Sub continuing as the surviving entity with the identical name (the Surviving Partnership). Following the Merger, the Company remains as the sole general partner of the Surviving Partnership and the Surviving Partnership, as the successor to the predecessor to the Partnership, became the general partner of the Operating Partnership.

All of the business, assets and operations will continue to be held by the Operating Partnership and its subsidiaries. The Company s equity interest in the Surviving Partnership will be linked to future investments in the Company, such that future equity issuances by the Company (pursuant to the Stockholders Agreement, the Company s management incentive plan or otherwise as agreed between the parties) will result in a corresponding increase in the Company s equity interest in the Surviving Partnership. The Company is authorized to issue 2 million shares of common stock (par value ($0.01) and 1,000 shares of preferred stock (par value $1,000)). At June 30, 2011, there are 235,898 shares of common stock and 125 shares of preferred stock outstanding.

As a result of the common control of the Company (which was newly formed) and the predecessor to the Partnership, the Merger, for accounting purposes, did not result in any adjustment to the historical carrying value of the assets or liabilities of the Partnership. The Company was funded in September 2010 with approximately $235 million from its stockholders, and such amounts, net of costs, was contributed to the Partnership in September 2010 in exchange for Class G Units in the Partnership. An additional $10 million was contributed by the Company s stockholders on January 25, 2011. For the three and six months ended June 30, 2011, the Company owned 54.4% of the Partnership.

2. Summary of Significant Accounting Policies

Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Partnership, the Partnership, the Operating Partnership, and all controlled subsidiaries. The Partnership considers itself to

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

control an entity if it is the majority owner of and has voting control over such entity or the power to control a variable interest entity. The portion of the net income or loss attributed to third parties is reported as net income allocable to noncontrolling interests on the consolidated statements of operations, and such parties portion of the net equity in such subsidiaries is reported on the consolidated balance sheets as noncontrolling interests. All significant intercompany balances and transactions have been eliminated in consolidation.

Quarterly Reporting

The accompanying unaudited financial statements and notes of the Partnership as of June 30, 2011 and for the three and six months ended June 30, 2011 and 2010 have been prepared in accordance with GAAP for interim financial information. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under GAAP have been condensed or omitted pursuant to such rules. In the opinion of management, all adjustments considered necessary for a fair presentation of the Partnership s balance sheets, statements of operations, statement of changes in equity, and statements of cash flows have been included and are of a normal and recurring nature. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the Partnership for the years ended December 31, 2010, 2009, and 2008. The consolidated statements of operations and cash flows for the three and six months ended June 30, 2011 and 2010 are not necessarily indicative of full year results.

The balance sheet at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, including definitions of capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in each of the Company s and the Partnership s annual reports for the year ended December 31, 2010 filed as part of the Partnership s Registration Statement on Form S-4 declared effective by the Securities and Exchange Commission on July 21, 2011

Rental Properties

The Partnership periodically assesses the carrying value of rental properties and related intangible assets in accordance with ASC 360, *Property, Plant, and Equipment* (ASC 360), to determine if facts and circumstances exist that would suggest that assets might be impaired or that the useful lives should be modified. In the event impairment in value occurs and a portion of the carrying amount of the rental properties will not be recovered in part or in whole, a provision will be recorded to reduce the carrying basis of the rental properties and related intangibles to their estimated fair value. The estimated fair value of the Partnership s rental properties is determined by using customary industry standard methods that include discounted cash flow and/or direct capitalization analysis.

Revenue Recognition

Rental income is recognized on a straight-line basis over the term of the lease when collectability is reasonably assumed. Differences between rental income earned and amounts due under the lease are charged or credited, as applicable, to deferred rent receivable. Income recognized from this policy is titled deferred rental income. Additional rents from expense reimbursements for insurance, real estate taxes, and certain other expenses are recognized in the period in which the related expenses are incurred and are reflected as tenant recoveries on the consolidated statements of operations.

Below is a summary of the components of rental income for the respective periods:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2011	**2010**	**2011**	**2010**
Cash rental income	$ 22,288,482	$ 19,637,134	$ 42,782,298	$ 38,921,411
Deferred rental income	1,462,068	1,141,885	296,146	1,237,278
Rental income from intangible amortization	362,196	492,633	724,393	2,263,298
Total rental income	$ 24,112,746	$ 21,271,652	$ 43,802,837	$ 42,421,987

During the three and six months ended June 30, 2011 and 2010, deferred rental revenue includes a write-off (expense) of deferred rent receivable of $254,406, $3,281,374, $0 and $2,233,768, respectively, due to the early termination of leases and replacement of operators.

Lease Accounting

The Partnership, as lessor, makes a determination with respect to each of its leases whether they should be accounted for as operating leases or direct financing leases. The classification criteria is based on estimates regarding the fair value of the

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

leased facilities, minimum lease payments, effective cost of funds, the economic life of the facilities, the existence of a bargain purchase option, and certain other terms in the lease agreements. Payments received under operating leases are accounted for in the statement of operations as rental income for actual rent collected plus or minus a straight-line adjustment for estimated minimum lease escalators. Assets subject to operating leases are reported as rental properties in the consolidated balance sheets. For facilities leased as direct financing arrangements, an asset equal to the Partnership s net initial investment is established on the balance sheet titled assets under direct financing leases. Payments received under the financing lease are bifurcated between interest income and principal amortization to achieve a consistent yield over the stated lease term using the interest method. Principal amortization (accretion) is reflected as an adjustment to the asset subject to a financing lease. Such accretion was $32,747, $70,212, $33,975, $72,514 and for the three and six months ended June 30, 2011 and 2010, respectively.

All of the Partnership s leases contain fixed or formula-based rent escalators. To the extent that the escalator increases are tied to a fixed index or rate, lease payments are accounted for on a straight-line basis over the life of the lease.

Loan Receivables

Loan receivables consist of capital improvement loans to tenants and working capital loans to operators. Loan receivables are carried at their principal amount outstanding. Management periodically evaluates outstanding loans and notes receivable for collectability. When management identifies potential loan impairment indicators, such as nonpayment under the loan documents, impairment of the underlying collateral, financial difficulty of the operator, or other circumstances that may impair full execution of the loan documents, and management believes it is probable that all amounts will not be collected under the contractual terms of the loan, the loan is written down to the present value of the expected future cash flows. As of June 30, 2011 and December 31, 2010, loan receivable reserves amounted to $1,073,639 and $750,000, respectively. No other circumstances exist that would suggest that additional reserves are necessary at the balance sheet dates.

Stock-Based Compensation

The Partnership follows ASC 718, *Compensation Stock Compensation* (ASC 718), which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated statements of operations based on their grant date fair values. On September 17, 2010, the Company adopted a 2010 Management Incentive Plan (the Plan) as part of the Merger transaction. A pro-rata allocation of non-cash stock-based compensation expense is made to the Partnership for awards granted under the Plan. The Plan s non-cash stock-based compensation expense by the Partnership through June 30, 2011 is summarized in Footnote 9.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or;

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Partnership s interest rate swaps are valued using models developed internally by the respective counterparty that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy.

Cash and cash equivalents and derivative financial instruments are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Partnership s current borrowing rate for debt with similar maturities and

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

collateral securing the indebtedness. The Partnership had outstanding mortgage and other notes payable obligations with a carrying value of approximately $511.5 million and $440.6 million as of June 30, 2011 and December 31, 2010, respectively. The fair values of debt as of June 30, 2011 was $520.7 million and as of December 31, 2010 approximates its carrying value based upon interest rates available to the Partnership on similar borrowings. Management estimates the fair value of its loan receivables using a discounted cash flow analysis based upon the Partnership s current interest rates for loan receivables with similar maturities and collateral securing the indebtedness. The Partnership had outstanding loan receivables with a carrying value of $32.1 million and $36.6 million as of June 30, 2011 and December 31, 2010, respectively. The fair values of loan receivables as of June 30, 2011 and as of December 31, 2010 approximate its carrying value based upon interest rates available to the Partnership on similar borrowings.

Derivative Instruments

The Partnership has implemented ASC 815, *Derivatives and Hedging* (ASC 815), which establishes accounting and reporting standards requiring that all derivatives, including certain derivative instruments embedded in other contracts, be recorded as either an asset or liability measured at their fair value unless they qualify for a normal purchase or normal sales exception. When specific hedge accounting criteria are not met, ASC 815 requires that changes in a derivative s fair value be recognized currently in earnings. Changes in the fair market values of the Partnership s derivative instruments are recorded in the consolidated statements of operations if the derivative does not qualify for or the Partnership does not elect to apply hedge accounting. If the derivative is deemed to be eligible for hedge accounting, such changes are reported in accumulated other comprehensive income within the consolidated statement of changes in equity, exclusive of ineffectiveness amounts, which are recognized as adjustments to net income. All of the changes in the fair market values of our derivative instruments are recorded in the consolidated statements of operations for our interest rate swaps that were terminated in September 2010. In November 2010, we entered into two interest rate swaps and account for changes in fair value of such hedges through changes in equity in our financial statements via hedge accounting.

Income Taxes

As a limited partnership, the consolidated operating results are included in the income tax returns of the individual partners. Accordingly, the Partnership does not provide for federal income taxes. State income taxes were not significant in any of the periods presented. No uncertain income tax positions exist as of June 30, 2011 or December 31, 2010.

Business Combinations

The Partnership applies ASC 805, *Business Combinations* (ASC 805), in determining how to account for and identify business combinations while allocating fair value to tangible and identified intangible assets acquired and liabilities assumed. Acquisition related costs are expensed as incurred. Prior to the Merger on September 17, 2010, Aviv Asset Management, L.L.C. (AAM) was a non-consolidated management company to the Partnership based on the application of appropriate accounting guidance (as discussed in Footnote 10). Upon the Merger, AAM became a consolidated entity of the Partnership and is presented as such for all periods included herein with all periods shown at historical cost (carryover basis with no adjustments to fair value). This treatment is in accordance with ASC 805 due to the fact that AAM was under common control prior and subsequent to the Merger.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current financial statement presentation, with no effect on the Partnership s consolidated financial position or results of operations.

3. Rental Property Activity

The Partnership had the following rental property activity during the three and six months ended June 30, 2011 as described below:

In January 2011, Aviv Financing I acquired a property in Kansas from an unrelated third party for a purchase price of $3,045,000. The Partnership financed this purchase through cash and borrowings of $2,131,000 under the Mortgage (see Footnote 7).

In March 2011, Aviv Financing II acquired a property in Pennsylvania from an unrelated third party for a purchase price of approximately $2,200,000. The Partnership financed this purchase through cash.

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

In March 2011, Aviv Financing II acquired a property in Ohio from an unrelated third party for a purchase price of approximately $9,581,000. The Partnership financed this purchase through cash.

In March 2011, Aviv Financing II acquired a property in Florida from an unrelated third party for a purchase price of approximately $10,000,000. The Partnership financed this purchase through borrowings of $10,200,000 under the Revolver (see Footnote 7).

In April 2011, Aviv Financing II acquired three properties in Ohio from an unrelated third party for a purchase price of $9,250,000. The Partnership financed this purchase through cash.

In April 2011, Aviv Financing II acquired a property in Kansas from an unrelated third party for a purchase price of $1,300,000. The Partnership financed this purchase through cash.

In April 2011, Aviv Financing II acquired a property in Texas from an unrelated third party for a purchase price of $2,093,000. The Partnership financed this purchase through cash.

In April 2011, Aviv Financing II acquired three properties in Texas from an unrelated third party for a purchase price of $8,707,000. The Partnership financed this purchase through cash.

In May 2011, Aviv Financing II acquired three properties in Kansas from an unrelated third party for a purchase price of $2,273,000. The Partnership financed this purchase through cash.

In May 2011, Aviv Financing II acquired a property in Missouri from an unrelated third party for a purchase price of $5,470,000. The Partnership financed this purchase through cash.

In May 2011, Aviv Financing II acquired a property in Connecticut from an unrelated third party for a purchase price of $12,000,000. As part of this acquisition, the Partnership recognized an approximate $3,333,000 addition to the purchase price as per the guidance within ASC 805 as it relates to an earn-out provision defined at closing (Level 3). The Partnership financed this purchase through cash.

Related to the above business combinations, the Partnership incurred $568,000 of acquisition costs that are expensed in general and administrative expenses in the consolidated statements of operations. In accordance with ASC 805, the Partnership allocated the approximate net purchase price of these properties acquired in 2011 as follows:

Land	$ 10,495,000
Buildings and improvements	55,424,000
Borrowings and available cash	$ 65,919,000

The Partnership considers renewals on below-market leases when ascribing value to the in-place lease intangible liabilities at the date of a property acquisition. In those instances where the renewal lease rate pursuant to the terms of the lease does not adjust to a current market rent, the Partnership evaluates whether the stated renewal rate is below current market rates and considers the past and current operations of the property, the current rent coverage ratio of the tenant, and the number of years until potential renewal option exercise. If renewal is considered probable based on these factors, an additional lease intangible liability is recorded at acquisition and amortized over the renewal period.

4. Loan Receivables

The following summarizes the Partnership s loan receivables at:

	June 30, 2011	December 31, 2010
Beginning balance, January 1, 2011 and 2010, respectively	$36,610,638	$28,970,129
New capital improvement loans issued	523,943	1,415,579
Working capital and other loans issued	3,350,244	14,705,259
Reserve for uncollectible loans	(323,639)	(750,000)
Loan write offs	(86,156)	
Loan amortization and repayments	(7,970,495)	(7,730,329)
	$32,104,535	$36,610,638

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

The Partnership s reserve for uncollectible loan receivables balances at June 30, 2011 and December 31, 2010 was $1,073,639 and $750,000, respectively. The activity for the three and six months ended June 30, 2011 consisted of additional reserves of $166,322 and $323,639, respectively.

During 2011 and 2010, the Partnership funded loans for both working capital and capital improvement purposes to various operators and tenants. All loans held by the Partnership accrue interest. The payments received from the operator or tenant cover both interest accrued as well as amortization of the principal balance due. Any payments received from the tenant or operator made outside of the normal loan amortization schedule are considered principal prepayments and reduce the outstanding loan receivables balance.

Interest income earned on loan receivables for the three and six months ended June 30, 2011 and 2010 was $994,243, $1,972,757, $1,037,667, and $1,819,973, respectively.

5. Deferred Finance Costs

The following summarizes the Partnership s deferred finance costs at:

	June 30, 2011	December 31, 2010
Gross amount	$15,469,067	$10,567,931
Accumulated amortization	(1,474,935)	(610,295)
Net	$13,994,132	$ 9,957,636

Amortization of deferred financing costs is reported in the amortization expense line item in the consolidated statements of operations.

During the three and six months ended June 30, 2011, the Partnership wrote-off deferred financing costs of $746,443 and $4,271,312 respectively with $82,938 and $464,799 of accumulated amortization associated with the Mortgage (see Footnote 7) pay down for a net recognition as loss on extinguishment of debt of $663,505 and $3,806,513, respectively.

6. In-Place Lease Intangibles

The following summarizes the Partnership s in-place lease intangibles classified as part of other assets or other liabilities at:

	June 30, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Gross amount	$ 8,393,488	$ 25,798,147	$ 8,393,488	$ 25,798,147
Accumulated amortization	(3,371,378)	(15,096,368)	(3,049,093)	(14,049,691)
Net	$ 5,022,110	$ 10,701,779	$ 5,344,395	$ 11,748,456

Amortization expense for the in-place lease intangible assets for the three and six months ended June 30, 2011 and 2010 was $161,142, $322,285, $177,884 and $421,605 respectively. Accretion for the in-place lease intangible liabilities for the three and six months ended June 30, 2011 and 2010 was $523,339, $1,046,678, $670,517 and $1,460,309 respectively.

For both the three and six months ended June 30, 2010, the Partnership wrote-off in-place lease intangible assets of $2,678,000 with accumulated amortization of $1,316,232, and in-place lease intangible liabilities of $4,660,000 with accumulated accretion of $2,073,638, for a net recognition of $1,224,594 in rental income from intangible amortization. These write-offs were in connection with properties that had been transitioned to new operators.

7. Mortgage and Other Notes Payable

The Partnership s mortgage and other notes payable consisted of the following:

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

	June 30, 2011	December 31, 2010
Mortgage (interest rates of 5.75% on June 30, 2011 and December 31, 2010, respectively)	$198,730,787	$402,794,111
Acquisition Credit Line (interest rates of 5.75% on June 30, 2011 and December 31, 2010, respectively)		28,677,230
Construction loan (interest rates of 5.95% on June 30, 2011 and December 31, 2010, respectively)	2,293,087	1,312,339
Acquisition loans (interest rates of 6.00% on June 30, 2011 and December 31, 2010, respectively)	7,744,823	7,792,236
Senior Notes (interest rate of 7.75% on June 30, 2011), inclusive of $2.7 million net premium balance	302,687,370	
Total	$511,456,067	$440,575,916

Senior Notes

On February 4, 2011 and April 5, 2011, Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation (the Issuers) issued $200 million and $100 million of Senior Notes (the Senior Notes), respectively. The REIT is a guarantor of the Issuers Senior Notes. The Senior Notes are unsecured senior obligations of the Issuers and will mature on February 15, 2019. The Senior Notes bear interest at a rate of 7.750% per annum, payable semiannually to holders of record at the close of business on the February 1 or the August 1 immediately preceding the interest payment date on February 15 and August 15 of each year, commencing August 15, 2011. A premium of $2.75 million was received with the offering of the $100 million of Senior Notes on April 5, 2011. The premium will be amortized as an adjustment to the yield on the Senior Notes over their term. The Partnership used the proceeds, amongst other things, to pay down approximately $201.6 million on the Mortgage and the balance of $28.7 million on the Acquisition Credit Line.

Revolver

In conjunction with the Senior Notes issuance on February 4, 2011, the Partnership, under Aviv Financing IV, LLC, acquired a $25 million revolver with Bank of America (the Revolver). On each payment date, the Partnership shall pay interest only in arrears on any outstanding principal balance of the Revolver. The interest rate under the Partnership s Revolver is generally based on LIBOR (subject to a floor of 1.0% and subject to the Partnership s option to elect to use a prime base rate) plus a margin that is determined by the Partnership s leverage ratio from time to time. As of June 30, 2011 the interest rates are based upon the base rate (3.25% at June 30, 2011) plus the applicable percentage based on the consolidated leverage ratio (3.00% at June 30, 2011). The base rate is the rate announced by Bank of America as the prime rate . Additionally, an unused fee equal to 0.5% per annum of the daily unused balance on the Revolver is due monthly. The Revolver commitment terminates in February 2014. The Revolver has an outstanding balance of $0 at both June 30, 2011 and December 31, 2010.

8. Partnership Equity and Incentive Program

Distributions to the Partnership s partners are summarized as follows for the three months ended June 30:

	Class A	Class B	Class C	Class D	Class E	Class F	Class G
2011	$1,683,430	$1,042,643	$1,563,964	$	$	$ 553,761	$5,783,373
2010	$3,390,685	$	$	$	$1,849,315	$1,104,487	$

Distributions to the Partnership s partners are summarized as follows for the six months ended June 30:

	Class A	**Class B**	**Class C**	**Class D**	**Class E**	**Class F**	**Class G**
2011	$3,366,860	$1,892,983	$3,224,363	$	$	$1,107,522	$11,448,754
2010	$6,781,370	$1,897,169	$2,845,753	$	$3,698,630	$2,196,837	$

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

Weighted-average Units outstanding are summarized as follows for the three months ended June 30:

	Class A	Class B	Class C	Class D	Class E	Class F	Class G
2011	13,467,223	4,523,145	2	8,050		2,684,900	236,022
2010	13,467,223	4,523,145	2	7,250	7,500,050	5,369,800	

Weighted-average Units outstanding are summarized as follows for the six months ended June 30:

	Class A	Class B	Class C	Class D	Class E	Class F	Class G
2011	13,467,223	4,523,145	2	8,050		2,684,900	234,793
2010	13,467,223	4,523,145	2	7,481	7,500,025	5,369,800	

The Partnership had established an officer incentive program linked to its future value. Awards vest annually over a five-year period assuming continuing employment by the recipient. The awards can be settled in Class C Units or cash at the Partnership s discretion at the settlement date of December 31, 2012. For accounting purposes, expense recognition under the program commenced in 2008, and the related expense for the three and six months ended June 30, 2011 and 2010 was approximately $101,500, $203,000, $101,500 and $203,000, respectively.

As a result of the Merger on September 17, 2010, such incentive program was modified such that 40% of the previously granted award settled immediately on the Merger date with another 20% vesting and settling on December 31, 2010. The remaining 40% will vest equally on December 31, 2011 and December 31, 2012, and will settle in 2018, subject to the terms and conditions of the amended incentive program agreement. In accordance with ASC 718, *Compensation Stock Compensation* (ASC 718), such incentive program will continue to be expensed through general and administrative expenses as non-cash compensation on the statements of operations through the ultimate vesting date of December 31, 2012.

The Partnership s equity balance that is presented on the consolidated balance sheets is split between the general partner and limited partners in the amounts of $224,889,623 and $13,847,951 at June 30, 2011, respectively. The Partnership s equity balance that is presented on the consolidated balance sheets is split between the general partner and limited partners in the amounts of $221,578,430 and $19,482,756 at December 31, 2010, respectively.

9. Option Awards

On September 17, 2010, the Company adopted a 2010 Management Incentive Plan (the Plan) as part of the Merger transaction.

The following table represents the time based option awards activity for the three and six months ended June 30, 2011.

	Six months ended June 30, 2011
Outstanding at January 1, 2011	21,866
Granted	456
Exercised	
Cancelled/Forfeited	
Outstanding at March 31, 2011	22,322
Granted	
Exercised	
Cancelled/Forfeited	

Outstanding at June 30, 2011		22,322
Options exercisable at end of period		
Weighted average fair value of options granted	$	149.09
Weighted average remaining contractual life		9.23

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

The following table represents the time based option awards outstanding at June 30, 2011 as well as other Plan data:

Range of exercise prices	Outstanding	Remaining Contractual Life (Years)	Weighted Average Exercise Price
$1,000 $1,124	22,322	9.23	$1,004

The Partnership has used the Black-Scholes option pricing model to estimate the grant date fair value of the options. The following table includes the assumptions that were made in estimating the grant date fair value for options awarded in 2011.

	2011 Grants
Dividend yield	9.16%
Risk-free interest rate	2.72%
Expected life	7.0 years
Estimated volatility	38.00%
Weighted average exercise price	$1,124.22
Weighted average fair value of options granted (per option)	$149.09

The Partnership recorded non-cash compensation expenses of $306,899 and $606,367 for the three and six months ended June 30, 2011, related to the time based stock options accounted for as equity awards, as a component of general and administrative expenses in the consolidated statements of operations, respectively.

At June 30, 2011, the total compensation cost related to outstanding, non-vested time based equity option awards that are expected to be recognized as compensation cost in the future aggregates to approximately $1,497,000.

For the period ended December 31,	Options
2011	$ 484,194
2012	591,886
2013	309,028
2014	112,338
2015	48
Total	$1,497,494

Dividend equivalent rights associated with the Plan amounted to $546,886 and $1,082,614 for the three and six months ended June 30, 2011, and are included in general and administrative expense in the consolidated statements of operations, respectively. These dividend rights will be paid in four installments as the option vests.

10. Related Parties

Related party receivables and payables represent amounts due from/to various affiliates of the Partnership, including advances to members of the Partnership, amounts due to certain acquired companies and limited liability companies for transactions occurring prior to the formation of the Partnership, and various advances to entities controlled by affiliates of the Partnership s management. An officer of the Company received a loan of $311,748, which has been paid off in full as of June 30, 2011.

The Partnership had entered into a management agreement, as amended, effective April 1, 2005, with AAM, an entity affiliated by common ownership. Under the management agreement, AAM had been granted the exclusive right to oversee the portfolio of the Partnership, providing, among other administrative services, accounting and all required financial services; legal administration and regulatory compliance; investor, tenant, and lender relationship services;

and transactional support to the Partnership. Except as otherwise provided in the Partnership Agreement, all management powers of the business and affairs of the Partnership were exclusively vested in the General Partner. The annual fee for such services equaled six-tenths of one percent (0.6%) of the aggregate fair market value of the properties as determined by the Partnership and AAM annually. This fee arrangement was amended as discussed below. In addition, the Partnership reimbursed AAM for all reasonable and necessary out-of-pocket expenses incurred in AAM s conduct of its business, including, but not limited to, travel, legal, appraisal, and brokerage fees, fees and expenses incurred in connection with the acquisition, disposition, or refinancing of any property, and reimbursement of compensation and benefits of the officers and employees of AAM. This agreement was terminated on September 17, 2010 when the Merger occurred, effectively consolidating AAM into the Partnership, and eliminating the necessity for reimbursement.

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

On October 16, 2007, the Partnership legally acquired AAM through a Manager Contribution and Exchange Agreement dated October 16, 2007 (the Contribution Agreement). As stipulated in the Contribution Agreement and the Second Amended and Restated Agreement of Limited Partnership on October 16, 2007 (Partnership Agreement), the Partnership issued a new class of Partnership Unit, Class F Units, as consideration to the contributing members of AAM. The contributing members of AAM served as the general partner of the Partnership. The Class F Units have subordinated payment and liquidity preference to the Class E Units but are senior in payment and liquidity preference, where applicable, to the Class A, B, C, and D Units of the Partnership. The Class F Units paid in quarterly installments an annual dividend of 8.25% of the preliminary face amount of $53,698,000. The preliminary pricing was based upon trading multiples of comparably sized publicly traded healthcare REITs. The ultimate Class F Unit valuation was subject to a true-up formula at the time of a Liquidity Event, as defined in the Partnership Agreement.

For accounting purposes, prior to the Merger, AAM had not been consolidated by the Partnership, nor had any value been ascribed to the Class F Units issued due to the ability of the Class E Unitholders to unwind the acquisition as described above. Such action was outside the control of the Partnership, and accordingly, the acquisition is not viewed as having been consummated. The dividends earned by the Class F Unitholders were reflected as a component of management fees as described above. Prior to the Merger, the fee for management services to the Partnership are equal to the dividend earned on the Class F Unit.

Under certain circumstances, the Partnership Agreement did permit the Class E Unitholders to unwind this transaction and required the Partnership to redeem the Class F Units by returning to the affiliates all membership interests in AAM. On September 17, 2010, the Partnership settled the investment with JER Aviv Acquisition, LLC (JER). For accounting purposes, this treatment triggered the retroactive consolidation of AAM by the Partnership. The original and follow-on investments of Class E Unitholders were made subject to the Unit Purchase Agreement and related documents (UPA) between the Partnership and JER dated May 26, 2006.

The UPA did not give either party the right to settle the investment prior to May 26, 2011. However, the UPA did have an economic arrangement as to how either party could settle the arrangement on or after that date. This economic construct guided the discussions and negotiations of settlement. The UPA allowed the Partnership to call the E Units and warrants anytime after May 26, 2011 as long as it provided JER with a 15% IRR from date of inception. The IRR would be calculated factoring interim distributions as well as exit payments. The units were settled for $92,001,451 contemporaneous with the Merger. A portion of the settlement related to outstanding warrants held by JER and originally issued in connection with the E Units issuance.

Coincident with the Merger, 50% of the Class F Unit was purchased and settled by the Partnership for $23,602,649 and is reported as a component of distributions to partners and accretion on Class E Preferred Units in the consolidated statements of changes in equity. The remaining Class F Units will pay in quarterly installments an annual dividend of 9.38% of the face amount of $23,602,649.

11. Derivatives

During the periods presented, the Partnership was party to various interest rate swaps, which were purchased to fix the variable interest rate on the denoted notional amount under the original debt agreements.

At June 30, 2011, the Partnership is party to two interest rate swaps, with identical terms for $100 million each. They were purchased to fix the variable interest rate on the denoted notional amount under the Mortgage which was obtained in September, 2010, and qualify for hedge accounting. For presentational purposes they are shown as one derivative due to the identical nature of their economic terms.

As of June 30, 2011 and December 31, 2010, the Partnership has a due to related party payable to the Company for distributions to be made by the Company to the stockholders of $5,779,477 and $6,092,936, respectively.

Total notional amount	$200,000,000
Fixed rates	6.49% (1.99% effective swap base rate plus 4.5% spread per credit agreement)
Floor rate	1.25%

Effective date	November 9, 2010
Termination date	September 17, 2015
Asset balance at June 30, 2011 (included in other assets)	$1,016,436
Asset balance at December 31, 2010 (included in other assets)	$4,094,432
Liability balance at June 30, 2011 (included in other liabilities)	$
Liability balance at December 31, 2010 (included in other liabilities)	$

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

The fair value of each interest rate swap agreement may increase or decrease due to changes in market conditions but will ultimately decrease to zero over the term of each respective agreement.

For the three and six months ended June 30, 2011 and 2010, the Partnership recognized $0, $0, $1,121,276 and $2,441,997 of net income, respectively, in the consolidated statements of operations related to the change in the fair value of these interest rate swap agreements, where the Partnership did not elect to apply hedge accounting. Such instruments that did not elect to apply hedge accounting were settled at the Merger date.

The following table provides the Partnership s derivative assets and liabilities carried at fair value as measured on a recurring basis as of June 30, 2011 (dollars in thousands):

	Total Carrying Value at June 30, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative assets	$ 1,016	$	$ 1,016	$
Derivative liabilities				
	$ 1,016	$	$ 1,016	$

The Partnership s derivative assets and liabilities include interest rate swaps that effectively convert a portion of the Partnership s variable rate debt to fixed rate debt. The derivative positions are valued using models developed by the respective counterparty that use as their basis readily observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy. The Partnership considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives.

12. Commitments and Contingencies

The Partnership has a contractual arrangement with a tenant to reimburse quality assurance fees levied by the California Department of Health Care Services from August 1, 2005 through July 31, 2008. The Partnership is obligated to reimburse the fees to the tenant if and when the state withholds these fees from the tenant s Medi-Cal reimbursements associated with 5 facilities that were formerly leased to Trinity Health Systems. The total possible obligation for these fees is $1,655,286, of which approximately $1.1 million has been paid to date. For the three and six months ended June 30, 2011, and 2010, the Partnership s indemnity expense for these fees was $144,000, $144,000, $183,000 and $676,000 respectively, which equaled the actual amount paid during the period.

Judicial proceedings seeking declaratory relief for these fees are in process which if successful would provide for recovery of such amounts from the State of California. The Partnership has certain rights to seek relief against Trinity Health Systems for monies paid out under the indemnity claim; however, it is uncertain whether the Partnership will be successful in receiving any amounts from Trinity.

In the normal course of business, the Partnership is involved in legal actions arising from the ownership of its property. In management s opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on the financial position, operations, or liquidity of the Partnership.

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)

13. Concentration of Credit Risk

As of June 30, 2011, the Partnership s portfolio of investments consisted of 197 healthcare facilities, located in 25 states and operated by 31 third party operators. At June 30, 2011, approximately 53.3% (measured as a percentage of total assets) were leased by five private operators: Evergreen Healthcare (13.8%), Daybreak Healthcare (12.8%), Saber Healthcare (9.5%), Benchmark Healthcare (8.9%), and Sun Mar Healthcare (8.3%). No other operator represents more than 7.9% of the Partnership s total assets. The five states in which the Partnership had its highest concentration of total assets were California (19.1%), Texas (16.7%), Missouri (9.7%), Arkansas (8.3%), and New Mexico (5.9%) at June 30, 2011.

For the six months ended June 30, 2011, the Partnership s rental income from operations totaled approximately $43.8 million, of which approximately $5.9 million was from Evergreen Healthcare (13.4%), $4.9 million was from Daybreak Venture (11.1%), $4.8 million was from Sun Mar Healthcare (11.1%), $4.1 million was from Saber Healthcare (9.4%), and $3.5 million was from Cathedral Rock (8.0%). No other operator generated more than 7.5% of the Partnership s rental income from operations for the six months ended June 30, 2011.

14. Condensed Consolidating Information

The REIT and certain of the Partnership s direct and indirect wholly owned subsidiaries (the Wholly Owned Subsidiary Guarantors) fully and unconditionally guaranteed, on a joint and several basis, the obligation to pay principal and interest with respect to the Senior Notes issued in February 2011 and April 2011. Separate financial statements of the non-REIT guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by and the operations of the respective guarantor and non-guarantor subsidiaries. Other wholly owned subsidiaries (Non-Guarantor Subsidiaries) that were not included among the Guarantors were not obligated with respect to the Senior Notes. The Non-Guarantor Subsidiaries are subject to mortgages. The following summarizes the Partnership s condensed consolidating information as of June 30, 2011 and December 31, 2010 and for the three and six months ended June 30, 2011 and 2010:

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)
CONDENSED CONSOLIDATING BALANCE SHEET
As of June 30, 2011

	Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 23,541,863	$ 97,350	$ (23,745)		$ 23,615,468
Net rental properties		678,291,712	19,189,708		697,481,420
Deferred financing costs, net	8,003,424	5,971,391	19,317		13,994,132
Other	10,399,796	63,512,049	95,925		74,007,770
Investment in and due from related parties, net	521,739,445	(314,665,647)	(7,868,059)	(199,205,739)	
Total assets	$563,684,528	$ 433,206,855	$11,413,146	$(199,205,739)	$809,098,790
Liabilities and equity					
Mortgage and other notes payable	$302,687,371	$ 198,730,787	$10,037,909		$511,456,067
Due to related parties	5,779,477				5,779,477
Tenant security and escrow deposits	25,000	14,965,013	236,779		15,226,792
Accounts payable and accrued expenses	10,028,859	4,150,123	521,386		14,700,368
Other liabilities	5,409,811	16,772,265			22,182,076
Total liabilities	323,930,518	234,618,188	10,796,074		569,344,780
Total equity	239,754,010	198,588,667	617,072	(199,205,739)	239,754,010
Total liabilities and equity	$563,684,528	$ 433,206,855	$11,413,146	$(199,205,739)	$809,098,790

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)
CONDENSED CONSOLIDATING BALANCE SHEET
As of December 31, 2010

	Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 12,126,776	$ 908,612	$ (6,914)	$	$ 13,028,474
Net rental properties		609,972,113	17,128,420		627,100,533
Deferred financing costs, net	100,000	9,834,291	23,345		9,957,636
Other	13,380,055	67,896,040	36,481		81,312,576
Investment in and due from related parties, net	232,906,755	(42,847,014)	(6,964,810)	(183,094,931)	
Total assets	$258,513,586	$645,764,042	$10,216,522	$(183,094,931)	$731,399,219
Liabilities and equity					
Mortgage and other notes payable	$	$431,471,341	$ 9,104,575	$	$440,575,916
Due to related parties	6,092,936				6,092,936
Tenant security and escrow deposits		13,422,705	235,679		13,658,384
Accounts payable and accrued expenses	1,431,564	4,102,506	478,739		6,012,809
Other liabilities	5,833,468	14,070,088			19,903,556
Total liabilities	13,357,968	463,066,640	9,818,993		486,243,601
Total equity	245,155,618	182,697,402	397,529	(183,094,931)	245,155,618
Total liabilities and equity	$258,513,586	$645,764,042	$10,216,522	$(183,094,931)	$731,399,219

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Three Months Ended June 30, 2011

	Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues					
Rental income	$	$23,766,461	$ 346,285		$24,112,746
Tenant recoveries		1,805,993	30,071		1,836,064
Interest on loans to lessees	260,980	1,088,035			1,349,015
Total revenues	260,980	26,660,489	376,356		27,297,825
Expenses					
Rent and other operating expenses	41,431	149,710			191,141
General and administrative	1,563,847	1,977,560	1,556		3,542,963
Real estate taxes		1,983,290	30,071		2,013,361
Depreciation		5,065,075	117,176		5,182,251
Total expenses	1,605,278	9,175,635	148,803		10,929,716
Operating income	(1,344,298)	17,484,854	227,553		16,368,109
Total other income and expenses	(5,953,206)	(3,841,366)	(118,316)		(9,912,888)
Net income	(7,297,504)	13,643,488	109,237		6,455,221
Equity in income (loss) of subsidiaries	13,752,725			(13,752,725)	
Net income (loss) allocable to common units	$ 6,455,221	$13,643,488	$ 109,237	$(13,752,725)	$ 6,455,221

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 2011

	Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues					
Rental income	$	$ 43,110,267	$ 692,570		$ 43,802,837
Tenant recoveries		3,464,918	60,142		3,525,060
Interest on loans to lessees	622,124	2,059,000			2,681,124
Total revenues	622,124	48,634,185	752,712		50,009,021
Expenses					
Rent and other operating expenses	80,568	312,237			392,805
General and administrative	3,275,444	3,734,388	1,707		7,011,539
Real estate taxes		3,642,313	60,142		3,702,455
Depreciation		9,746,467	234,352		9,980,819
Total expenses	3,356,012	17,435,405	296,201		21,087,618
Operating income	(2,733,888)	31,198,780	456,511		28,921,403
Total other income and expenses	(8,469,614)	(12,578,878)	(236,969)		(21,285,461)
Net income	(11,203,502)	18,619,902	219,542		7,635,942
Equity in income (loss) of subsidiaries	18,839,444			(18,839,444)	
Net income (loss) allocable to common units	$ 7,635,942	$ 18,619,902	$ 219,542	$(18,839,444)	$ 7,635,942

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Three Months Ended June 30, 2010

	Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues					
Rental income	$	$21,114,843	$156,809	$	$21,271,652
Tenant recoveries		1,662,741	19,441		1,682,182
Interest on loans to lessees	426,169	961,603			1,387,772
Total revenues	426,169	23,739,187	176,250		24,341,606
Expenses					
Rent and other operating expenses		115,646			115,646
General and administrative	667,439	2,017,470	299		2,685,208
Real estate taxes		1,687,628	19,441		1,707,069
Depreciation		4,400,135	35,154		4,435,289
Total expenses	667,439	8,220,879	54,894		8,943,212
Operating income	(241,270)	15,518,308	121,356		15,398,394
Total other income and expenses	(106,562)	(3,965,903)			(4,072,465)
Net income	(347,832)	11,552,405	121,356		11,325,929
Distributions and accretion on Class E Preferred units	(4,019,317)				(4,019,317)
Net income attributable to noncontrolling interests	(77,233)				(77,233)
Equity in income (loss) of subsidiaries	11,673,761			(11,673,761)	
Net income (loss) allocable to common units	$ 7,229,379	$11,552,405	$121,356	$(11,673,761)	$ 7,229,379

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 2010

	Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues					
Rental income	$	$42,105,443	$316,544		$42,421,987
Tenant recoveries		3,172,354	38,882		3,211,236
Interest on loans to lessees	698,222	1,820,748			2,518,970
Total revenues	698,222	47,098,545	355,426		48,152,193
Expenses					
Rent and other operating expenses		284,976			284,976
General and administrative	1,103,449	3,005,308	699		4,109,456
Real estate taxes		3,273,617	38,882		3,312,499
Depreciation		8,727,242	69,948		8,797,190
Total expenses	1,103,449	15,291,143	109,529		16,504,121
Operating income	(405,227)	31,807,402	245,897		31,648,072
Total other income and expenses	(203,273)	(8,489,784)			(8,693,057)
Net income	(608,500)	23,317,618	245,897		22,955,015
Distributions and accretion on Class E Preferred units	(8,018,087)				(8,018,087)
Net income attributable to noncontrolling interests	(156,849)				(156,849)
Equity in income (loss) of subsidiaries	23,563,515			(23,563,515)	
Net income (loss) allocable to common units	$14,780,079	$23,317,618	$245,897	$(23,563,515)	$14,780,079

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Six Months Ended June 30, 2011

	Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	$(275,783,645)	$ 306,601,025	$ 1,345,474		$ 32,162,854
Net cash provide by (used in) investing activities	3,883,936	(73,036,788)	(2,295,640)		(71,581,944)
Financing activities					
Borrowings of debt	302,687,370	10,200,000	980,747		313,868,117
Repayment of debt		(242,940,554)	(47,412)		(242,987,966)
Payment of financing costs	(8,221,826)	(895,126)			(9,116,952)
Capital contributions	10,000,000				10,000,000
Cost of raising capital	606,367	(606,367)			
Cash distributions to partners	(21,757,115)				(21,757,115)
Net cash provided by (used in) financing activities	283,314,796	(234,242,047)	933,335		50,006,084
Net increase (decrease) in cash and cash equivalents	11,415,087	(811,262)	(16,831)		10,586,994
Cash and cash equivalents:					
Beginning of period	12,126,776	908,612	(6,914)		13,028,474
End of period	$ 23,541,863	$ 97,350	$ (23,745)	$	$ 23,615,468

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (unaudited) (continued)
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the Six Months Ended June 30, 2010

	Issuers	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	$ 21,627,013	$ 7,040,897	$		$ 28,667,910
Net cash used in investing activities	(4,899,342)	(13,685,023)			(18,584,365)
Financing activities					
Repayment of debt	(1,500,000)	(3,669,934)			(5,169,934)
Cash distributions to partners	(15,243,471)	(2,196,837)			(17,440,308)
Net cash used in financing activities	(16,743,471)	(5,866,771)			(22,610,242)
Net decrease in cash and cash equivalents	(15,800)	(12,510,897)			(12,526,697)
Cash and cash equivalents:					
Beginning of period	256,598	15,285,909			15,542,507
End of period	$ 240,798	$ 2,775,012	$	$	$ 3,015,810

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing in Part I, Item 1, Financial Statements.

Forward-Looking Statements

The information presented herein includes forward-looking statements. Forward-looking statements provide our current expectations or forecasts of future events. Forward-looking statements include statements about our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, performance and underlying assumptions and other statements that are not historical facts. Examples of forward-looking statements include all statements regarding our expected future financial position, results of operations, cash flows, liquidity, financing plans, business strategy, projected growth opportunities and potential acquisitions, plans and objectives of management for future operations, and compliance with and changes in governmental regulations. You can identify forward-looking statements by their use of forward-looking words, such as may, will, anticipates, expect, believe, estimate, intend, plan, should, seek or comparable terms, or the negative use of those words, but the absence of t words does not necessarily mean that a statement is not forward-looking.

These forward-looking statements are made based on our current expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include those disclosed under Part II, Item 1A, Risk Factors and elsewhere in filings made by us with the Securities and Exchange Commission (the SEC). There may be additional risks of which we are presently unaware or that we currently deem immaterial. Forward-looking statements are not guarantees of future performance. We do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date as of which such statements are made or to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained herein.

Overview

We operate a self-administered real estate investment trust, or REIT, that focuses on the ownership of healthcare properties, principally skilled nursing facilities (SNFs). We generate our revenues through long-term triple-net leases with a diversified group of high quality operators throughout the United States. Through our predecessor entities, we have been in the business of financing operators of SNFs for over 30 years. We believe that we have one of the largest SNF portfolios in the United States which as of June 30, 2011 consisted of 200 properties, of which 187 were SNFs, with 19,389 licensed beds in 25 states leased to 31 operators.

We believe we are well positioned to benefit from our diversified portfolio of properties and extensive network of operator relationships. We focus on cultivating close relationships with our tenants by working closely with them to help them achieve their business objectives. As a result of these efforts, we are in a position to effectively manage our portfolio, make additional investments and continue to expand our business.

We lease our properties to a diversified group of 31 operators with no single operator representing more than 13.0% of our revenues for the six months ended June 30, 2011. We have a geographically diversified portfolio of properties located in 25 states, with no state representing more than 17.8% of our revenues for the six months ended June 30, 2011. Our properties are leased to third party tenants under long-term triple-net leases. The operators are responsible for all operating costs and expenses related to the property, including facility maintenance and insurance required in connection with the properties and the business conducted on the properties, taxes levied on or with respect to the properties (other than taxes on our income) and all utilities and other services necessary or appropriate for the properties and the business conducted on the properties. Our leases are typically master leases with initial terms of 10 years or more, annual rent escalation provisions of 2% to 3%, guarantees, cross-default provisions and security deposits and typically do not have operator purchase options. As of June 30, 2011, the leases for 198 of our 200 properties were supported by personal and/or corporate guarantees. As of June 30, 2011, our leases had an average remaining term of 8.7 years.

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We have historically financed investments through borrowings under our credit facilities, private placements of equity securities, housing and urban development indebtedness, or a combination of these methods. We have utilized a mortgage credit facility and senior notes to provide the majority of our working capital needs as well as project specific first mortgages in certain situations. We compete with other public and private companies who provide lease and/or mortgage financing to operators of a variety of different types of healthcare properties. While the overall landscape for healthcare finance is competitive, we are disciplined and selective about the investments we make and have a strong track record of identifying qualified operators and attractive markets in which to invest. As a key part of our growth strategy, we evaluate acquisition opportunities on an ongoing basis and are in various stages of due diligence, preliminary discussions or competitive bidding with respect to a number of potential transactions, some of which would be significant. None of these potential significant transactions is subject to a letter of intent or otherwise so far advanced as to make the transaction reasonably certain.

Factors Affecting Our Business and the Business of Our Tenants

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

Industry Trends

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

The growth in demand for services provided to the elderly has resulted in an increase in healthcare spending. The Centers for Medicare and Medicaid Services, or CMS, and the Office of the Actuary forecast that U.S. healthcare expenditures will increase from approximately $2.3 trillion in 2008 to approximately $4.5 trillion in 2019. Furthermore, according to CMS, national expenditures for SNFs are expected to grow from approximately $144 billion in 2009 to approximately $246 billion in 2019, representing a compound annual growth rate, or CAGR, of 5.5%.

Liquidity and Access to Capital

Our single largest cost is the interest expense we incur on our debt obligations. In order to continue to expand and optimize our capital to expand our portfolio, we rely on access to the capital markets on an ongoing basis. We seek to balance this reliance by maintaining ready access to funds to make investments at the time opportunities arise. We have extensive experience in and a successful track record of raising debt and equity capital over the past 30 years.

Our indebtedness outstanding is comprised principally of term loans secured by first mortgages, unsecured obligations under the Senior Notes and borrowings under our mortgage term loan, acquisition credit line and revolving credit facility.

Substantially all of such indebtedness is scheduled to mature in late 2015 or thereafter.

Factors Affecting Our Tenants Profitability

Our revenues are derived from rents we receive from triple-net leases with our tenants. Certain economic factors present both opportunities and risks to our tenants and, therefore, influence their ability to meet their obligations to us. These factors directly affect our tenants operations and, given our reliance on their performance under our leases, present risks to us that may affect our results of operations or ability to meet our financial obligations. The recent U.S. economic slowdown and other factors could result in cost-cutting at both the federal and state levels, which could result in a reduction of reimbursement rates and levels to our tenants under both the Medicare and Medicaid programs.

Our tenants revenues are largely derived from third-party sources. Therefore, we indirectly rely on these same third-party sources to obtain our rents. The majority of these third-party payments come from the federal Medicare program and state Medicaid programs. Our tenants also receive payments from other third-party sources, such as private insurance companies or private-pay residents, but these payments typically represent a small portion of our tenants revenues. The sources and amounts of our tenants revenues are determined by a number of factors, including licensed bed capacity, occupancy rates, the acuity profile of residents and the rate of reimbursement. Changes in the acuity profile of the residents as well as the mix among payor types, including private pay,

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Medicare and Medicaid, may significantly affect our tenants profitability and, in turn, their ability to meet their obligations to us. Managing, billing and successfully collecting third-party payments is a relatively complex activity that requires significant experience and is critical to the successful operation of a SNF.

Labor and related expenses typically represent our tenants largest cost component. Therefore, the labor markets in which our tenants operate affect their ability to operate cost effectively and profitably. In order for our tenants to be successful, they must possess the management capability to attract and maintain skilled and motivated workforces. Much of the required labor needed to operate a SNF requires specific technical experience and education. As a result, our tenants may be required to increase their payroll costs to attrac