

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

**CNL Healthcare Properties II, Inc.**

CIK: **1648383** | IRS No.: **474524619** | State of Incorpor.: **MD** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-55777** | Film No.: **19809525**  
SIC: **6798** Real estate investment trusts

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2019

OR

**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: 000-55777

**CNL Healthcare Properties II, Inc.**

(Exact name of registrant as specified in its charter)

<b>Maryland</b> (State or other jurisdiction of incorporation or organization)	<b>47-4524619</b> (I.R.S. Employer Identification No.)
<b>CNL Center at City Commons</b> <b>450 South Orange Avenue</b> <b>Orlando, Florida</b> (Address of principal executive offices)	<b>32801</b> (Zip Code)

**Registrant's telephone number, including area code (407) 650-1000**

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

The number of shares of the registrant's outstanding common stock as of May 7, 2019 was 4,899,139 Class A shares.

# CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES

## INDEX

<u>PART I. FINANCIAL INFORMATION</u>		<u>PAGE</u>
Item 1.	<a href="#">Condensed Consolidated Financial Information (unaudited):</a>	2
	<a href="#">Condensed Consolidated Balance Sheets</a>	2
	<a href="#">Condensed Consolidated Statements of Operations</a>	3
	<a href="#">Condensed Consolidated Statements of Stockholders' Equity</a>	4
	<a href="#">Condensed Consolidated Statements of Cash Flows</a>	5
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	6
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	16
Item 3.	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	26
Item 4.	<a href="#">Controls and Procedures</a>	26
 <u>PART II. OTHER INFORMATION</u>		
Item 1.	<a href="#">Legal Proceedings</a>	27
Item 1A.	<a href="#">Risk Factors</a>	27
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	27
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	28
Item 4.	<a href="#">Mine Safety Disclosures</a>	28
Item 5.	<a href="#">Other Information</a>	28
Item 6.	<a href="#">Exhibits</a>	28
	<a href="#">Exhibit Index</a>	29
	<a href="#">Signatures</a>	30

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**Item 1. Condensed Consolidated Financial Information**

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

ASSETS	March 31, 2019	December 31, 2018
Real estate investment properties, net	\$ 42,606,568	\$ 42,969,180
Assets held for sale, net	14,172,336	14,202,202
Cash	7,617,179	8,003,576
Intangibles, net	1,240,867	1,497,809
Other assets	289,453	382,637
Restricted cash	290,368	233,971
Total assets	\$ 66,216,771	\$ 67,289,375
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Mortgage loans, net	\$ 18,679,824	\$ 18,665,013
Liabilities associated with assets held for sale	6,210,165	6,247,187
Accounts payable and accrued liabilities	647,106	497,081
Other liabilities	146,759	128,957
Due to related parties	129,278	85,902
Total liabilities	25,813,132	25,624,140
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.01 par value per share, 10,000,000 shares authorized; none issued or outstanding	—	—
Class A Common stock, \$0.01 par value per share, 1,200,000,000 shares authorized; 4,899,139 and 4,899,139 shares both issued and outstanding, respectively	48,995	48,995
Class T Common stock, \$0.01 par value per share, 700,000,000 shares authorized; none issued or outstanding	—	—
Class I Common stock, \$0.01 par value per share, 100,000,000 shares authorized; none issued or outstanding	—	—
Capital in excess of par value	48,039,220	48,039,220
Accumulated loss	(4,020,283)	(3,464,160)
Accumulated distributions	(3,664,293)	(2,958,820)
Total stockholders' equity	40,403,639	41,665,235
Total liabilities and stockholders' equity	\$ 66,216,771	\$ 67,289,375

See accompanying notes to condensed consolidated financial statements.

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
	2019	2018
<b>Revenues:</b>		
Resident fees and services	\$ 2,198,350	\$ 1,124,525
Total revenues	2,198,350	1,124,525
<b>Operating expenses:</b>		
Property operating expenses	1,392,468	617,148
General and administrative expenses	403,247	319,233
Acquisition fees and expenses	—	818
Property management fees	109,747	73,962
Depreciation and amortization	670,181	323,724
Total operating expenses	2,575,643	1,334,885
Operating loss	(377,293)	(210,360)
<b>Other income (expense):</b>		
Interest and other income	6,225	22
Interest expense and loan cost amortization	(257,569)	(181,084)
Total other expense	(251,344)	(181,062)
Loss before income taxes	(628,637)	(391,422)
Income tax expense	(30,533)	(31,356)
Loss from continuing operations	(659,170)	(422,778)
Income from discontinued operations	103,047	32,540
Net loss	\$ (556,123)	\$ (390,238)
<b>Class A common stock (basic and diluted):</b>		
Net loss attributable to Class A stockholders	\$ (556,123)	\$ (95,926)
Net loss per share of Class A common stock outstanding	\$ (0.11)	\$ (0.12)
Weighted average number of Class A common shares outstanding	4,899,139	825,185
Distributions declared per Class A common share	\$ 0.1440	\$ 0.1440
<b>Class T common stock (basic and diluted):</b>		
Net loss attributable to Class T stockholders	\$ —	\$ (269,815)
Net loss per share of Class T common stock outstanding	\$ —	\$ (0.12)
Weighted average number of Class T common shares outstanding	—	2,321,014
Distributions declared per Class T common share	\$ —	\$ 0.1178
<b>Class I common stock (basic and diluted):</b>		
Net loss attributable to Class I stockholders	\$ —	\$ (24,497)
Net loss per share of Class I common stock outstanding	\$ —	\$ (0.12)
Weighted average number of Class I common shares outstanding	—	210,726
Distributions declared per Class I common share	\$ —	\$ 0.1312

See accompanying notes to condensed consolidated financial statements.

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)  
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

	Common Stock						Capital in Excess of Par Value	Accumulated Loss	Accumulated Distributions	Total Stockholders' Equity
	Class A		Class T		Class I					
	Number of Shares	Par Value	Number of Shares	Par Value	Number of Shares	Par Value				
Balance at December 31, 2018	\$ 4,899,139	\$ 48,995	—	\$ —	—	\$ —	\$ 48,039,220	\$ (3,464,160)	\$ (2,958,820)	\$ 41,665,235
Net loss	—	—	—	—	—	—	—	(556,123)	—	(556,123)
Cash distributions declared	—	—	—	—	—	—	—	—	(705,473)	(705,473)
Balance at March 31, 2019	<u>\$ 4,899,139</u>	<u>\$ 48,995</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 48,039,220</u>	<u>\$ (4,020,283)</u>	<u>\$ (3,664,293)</u>	<u>\$ 40,403,639</u>
Balance at December 31, 2017	\$ 808,011	\$ 8,080	2,049,223	\$ 20,492	160,490	\$ 1,605	\$ 28,984,932	\$ (1,658,977)	\$ (846,200)	\$ 26,509,932
Subscriptions received for common stock, including distribution reinvestments	28,955	290	567,249	5,672	92,413	924	7,180,587	—	—	7,187,473
Stock dividends issued	2,444	24	6,662	67	586	6	(97)	—	—	—
Redemptions of common stock	—	—	(2,358)	(25)	—	—	(25,357)	—	—	(25,382)
Stock issuance and offering costs	—	—	—	—	—	—	(590,975)	—	—	(590,975)
Net loss	—	—	—	—	—	—	—	(390,238)	—	(390,238)
Cash distributions declared	—	—	—	—	—	—	—	—	(402,305)	(402,305)
Balance at March 31, 2018	<u>\$ 839,410</u>	<u>\$ 8,394</u>	<u>2,620,776</u>	<u>\$ 26,206</u>	<u>253,489</u>	<u>\$ 2,535</u>	<u>\$ 35,549,090</u>	<u>\$ (2,049,215)</u>	<u>\$ (1,248,505)</u>	<u>\$ 32,288,505</u>

See accompanying notes to condensed consolidated financial statements.

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2019	2018
<b>Operating activities:</b>		
Net cash flow provided by (used in) operating activities – continuing operations	\$ 319,688	\$ (23,713)
Net cash flow provided by operating activities – discontinued operations	106,413	180,603
Net cash flows provided by operating activities	426,101	156,890
<b>Investing activities:</b>		
Capital expenditures	(50,628)	(3,719)
Net cash used in investing activities – continuing operations	(50,628)	(3,719)
Net cash used in investing activities – discontinued operations	—	(6,911)
Net cash used in investing activities	(50,628)	(10,630)
<b>Financing activities:</b>		
Subscriptions received for common stock through primary offering	—	6,962,029
Payment of underwriting compensation	—	(383,228)
Payment of cash distributions, net of distribution reinvestments	(705,473)	(176,860)
Redemptions of common stock	—	(25,382)
Payment of loan costs	—	(10,397)
Net cash flows (used in) provided by financing activities	(705,473)	6,366,162
Net (decrease) increase in cash and restricted cash	(330,000)	6,512,422
Cash and restricted cash at beginning of period, including assets held for sale	8,237,547	12,421,919
Cash and restricted cash at end of period, including assets held for sale	<u>\$ 7,907,547</u>	<u>\$ 18,934,341</u>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Amounts incurred but not paid (including amounts due to related parties):		
Selling commissions and Dealer Manager fees	\$ —	\$ 2,809
Annual distribution and stockholder servicing fee	\$ —	\$ 1,031,613

See accompanying notes to condensed consolidated financial statements.

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

1. Organization

CNL Healthcare Properties II, Inc. (“Company”) is a Maryland corporation that incorporated on July 10, 2015 and elected to be taxed as a real estate investment trust (“REIT”) for United States (“U.S.”) federal income tax purposes beginning with the year ended December 31, 2017. The Company is sponsored by CNL Financial Group, LLC (“Sponsor” or “CNL”) and is externally managed and advised by CHP II Advisors, LLC (“Advisor”), an affiliate of CNL. The Advisor provides advisory services to the Company relating to substantially all aspects of its investments and operations, including real estate acquisitions and dispositions, asset management and other operational matters.

On March 2, 2016, pursuant to a registration statement on Form S-11 under the Securities Act of 1933, the Company commenced its initial public offering of up to \$1.75 billion (“Primary Offering”), in any combination, of Class A, Class T and Class I shares of common stock on a “best efforts” basis, which meant that CNL Securities Corp. (“Dealer Manager”), an affiliate of the Sponsor, used its best efforts but was not required to sell any specific amount of shares. The Company also offered up to \$250 million, in any combination, of Class A, Class T and Class I shares pursuant to its distribution reinvestment plan (“Reinvestment Plan” and, together with the Primary Offering, the “Offering”). The Company has contributed the net proceeds from its Offering to CHP II Partners, LP (“Operating Partnership”) in exchange for partnership interests. The Company owns substantially all of its assets either directly or indirectly through the Operating Partnership in which the Company is the sole limited partner and its wholly-owned subsidiary, CHP II GP, LLC, is the sole general partner. The Operating Partnership owns assets through: (1) a wholly-owned taxable REIT subsidiary (“TRS”), CHP II TRS Holding, Inc. (“TRS Holdings”) and (2) property owner subsidiaries, which are single purpose entities.

On August 31, 2018, the Company’s board of directors approved the termination of its Offering and the suspension of its Reinvestment Plan, effective October 1, 2018. The Company also suspended its share redemption plan (“Redemption Plan”) and discontinued its stock dividends concurrently. In October 2018, the Company deregistered the unsold shares of its common stock under its previous registration statement on Form S-11. Through the close of its Offering, the Company had received aggregate proceeds of approximately \$51.2 million (4.9 million shares), including approximately \$1.2 million (0.1 million shares) of proceeds pursuant to the Reinvestment Plan. In 2018, the Company announced it had formed a special committee consisting solely of its independent directors (“Special Committee”) to consider possible strategic alternatives available to the Company, including, without limitation, (i) an orderly disposition of the Company’s assets or one or more of the Company’s asset classes and the distribution of the net sale proceeds thereof to the stockholders of the Company and (ii) a potential business combination or other transaction with an unrelated third-party or affiliated party of the Company’s Sponsor. In January 2019, the Special Committee engaged SunTrust Robinson Humphrey, Inc., an investment banker, to act as a financial advisor to the aforementioned Special Committee and, subsequently, the Company committed to a plan to sell its medical office building (“MOB”), Mid America Surgery Institute (“Mid America Surgery”).

In March 2019, the Company entered into an asset purchase agreement (“Sale Agreement”) with HCP Medical Office Buildings, LLC related to the sale of Mid America Surgery for a gross sales price of \$15.4 million (“MOB Sale”), subject to certain pro-rations and other adjustments as described in the Sale Agreement. The anticipated net sales proceeds of the MOB Sale are expected to exceed the net carrying value of Mid America Surgery. The Company completed the MOB Sale in May 2019; refer to Note 12. “Subsequent Events” for additional information.

In March 2019, in connection with the exploration of strategic alternatives, the Company’s board of directors suspended monthly cash distributions to stockholders effective April 1, 2019. Accordingly, the Company’s board of directors does not currently intend to declare any regular distributions after the effective date of the suspension, though special distributions may be made from time to time from net sales proceeds received from the sale of properties. In addition, in March 2019, the Company’s board of directors and its Advisor agreed to terminate the Expense Support Agreement effective April 1, 2019; refer to Note 8. “Related Party Arrangements” for additional information.

As of March 31, 2019, the Company owned three properties consisting of two seniors housing communities and one MOB, which has been classified as held for sale as further described in Note 6. “Assets and Associated Liabilities Held For Sale and Discontinued Operations.” The Company has leased its two seniors housing properties to single member limited liability companies wholly-owned by TRS Holdings, a subsidiary of the Company. TRS Holdings has engaged independent third-party managers under management agreements to operate the properties as permitted under the REIT Investment Diversification and Empowerment Act of 2007 (“RIDEA”) structures; whereas, its MOB has been leased on a net or modified gross basis to third-party tenants.



CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

2. Summary of Significant Accounting Policies

*Basis of Presentation and Consolidation* — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles in the U.S. (“GAAP”). The unaudited condensed consolidated financial statements reflect all normal recurring adjustments, which, in the opinion of management, are necessary for the fair statement of the Company’s operating results for the interim period presented. Operating results for the three months ended March 31, 2019 may not be indicative of the results that may be expected for the year ending December 31, 2019. Amounts as of December 31, 2018 included in the unaudited condensed consolidated financial statements have been derived from audited consolidated financial statements as of that date but do not include all disclosures required by GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, the Operating Partnership and its other subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

*Assets Held For Sale, net and Discontinued Operations* — The Company determines to classify a property as held for sale once management has the authority to approve and commits to a plan to sell the property, the property is available for immediate sale, there is an active program to locate a buyer, the sale of the property is probable and the transfer of the property is expected to occur within one year. Upon the determination to classify a property as held for sale, the Company ceases recording further depreciation and amortization relating to the associated assets and those assets are measured at the lower of its carrying amount or fair value less disposition costs and are presented separately in the consolidated balance sheets for all periods presented. In addition, the Company classifies assets held for sale as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the Company’s operations and financial results. For any disposal(s) qualifying as discontinued operations, the Company allocates interest expense and loan cost amortization that directly relates to any mortgage loan(s) collateralized by properties classified as discontinued operations.

*Reclassifications* – Certain amounts in the prior year’s condensed consolidated balance sheet, statement of operations and statement of cash flows have been reclassified to conform to the current year’s presentation, primarily related to the classification of the Company’s MOB property as held for sale and discontinued operations, with no effect on the other previously reported consolidated financial statements.

*Use of Estimates* — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the Company’s condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

*Adopted Accounting Pronouncements* — In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-02, “Leases (Topic 842): Accounting for Leases,” which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The ASU requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The ASU further modifies lessors’ classification criteria for leases and the accounting for sales-type and direct financing leases. The ASU also requires qualitative and quantitative disclosures designed to give financial statement users additional information on the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” which includes a practical expedient for lessors that allows them to elect to not separate lease and non-lease components in a contract for the purpose of revenue recognition and disclosure if certain criteria are met. The Company elected the practical expedient and applied the guidance to all of the leases that qualified under the established criteria. In December 2018, the FASB issued ASU 2018-20, “Leases (Topic 842): Narrow-Scope Improvements for Lessors,” which addressed challenges encountered in determining certain lessor costs paid by the lessee directly to third parties by allowing lessors to exclude these costs from its variable lease payments. This amendment did not have a material impact on the Company’s financial statements and related disclosures as it conformed Accounting Standard Codification (“ASC”) 842 to the Company’s historical accounting under ASC 840. In March 2019, the FASB issued ASU 2019-01, “Leases (Topic 842): Codification Improvements,” which clarified the transition guidance related to interim disclosure requirements in the year of adoption. All of the ASC 842 ASUs are effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018.

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

2. Summary of Significant Accounting Policies (continued)

The Company adopted these ASUs on January 1, 2019 using a modified retrospective approach, the adoption of these ASUs did not have a material impact on the Company's consolidated results of operations or cash flows. However, the adoption of these ASUs did impact the Company's consolidated financial position for arrangements such as ground or other leases in which the Company is the lessee. More specifically, the adoption of ASC 842 resulted in the Company recording operating lease assets and liabilities on January 1, 2019. The following table provides additional details by financial statement line item of the adjusted presentation in the Company's consolidated financial position:

	As Presented December 31, 2018	Effect of ASC 842 Adoption	As Adjusted January 1, 2019
Other assets	\$ 382,637	\$ 32,500	\$ 415,137
Total assets	\$ 67,289,375	\$ 32,500	\$ 67,321,875
Other liabilities	\$ (128,957)	\$(32,500)	\$ (161,457)
Total liabilities	\$(25,624,140)	\$(32,500)	\$(25,656,640)

In addition, the Company reclassified approximately \$1.5 million of below-market ground lease intangibles related to the Company's MOB, Mid America Surgery, to operating lease assets as a result of adopting these ASUs on January 1, 2019. However, as further described in Note 6. "Assets and Associated Liabilities Held For Sale and Discontinued Operations," Mid America Surgery was subsequently classified as held for sale and, therefore, there was no impact to assets held for sale, net as of March 31, 2019 since both intangibles and operating lease assets are grouped in a single financial statement line item.

In June 2018, the FASB issued ASU 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which expands the scope to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payments. The amendments also clarify that this ASU does not apply to share-based payments used to provide financing to the issuer or awards granted in conjunction with selling of goods or services to customers as a part of a contract accounted for under Revenue from Contracts with Customers (Topic 606). The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company adopted this ASU prospectively on January 1, 2019; the adoption of which did not have a material impact on the Company's consolidated results of operations or cash flows.

3. Revenue

The following table presents disaggregated revenue related to the Company's resident fees and services during the three months ended March 31, 2019 and 2018:

Type of Investment	Three Months Ended March 31,					
	Number of Units		Revenues		Percentage of Revenues	
	2019	2018	2019	2018	2019	2018
<i>Resident fees and services:</i>						
Assisted living	125	63	\$ 1,520,053	\$ 818,006	69.1%	72.8%
Memory care	50	20	654,492	292,786	29.8%	26.0%
Other revenues	—	—	23,805	13,733	1.1%	1.2%
	<u>175</u>	<u>83</u>	<u>\$ 2,198,350</u>	<u>\$ 1,124,525</u>	<u>100.0%</u>	<u>100.0%</u>

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

4. Real Estate Assets, net

The gross carrying amount and accumulated depreciation of the Company's real estate assets as of March 31, 2019 and December 31, 2018, excluding assets held for sale, are as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Land and land improvements	\$ 4,075,733	\$ 4,075,733
Building and building improvements	38,700,052	38,700,052
Furniture, fixtures and equipment	1,923,587	1,872,959
Less: accumulated depreciation	(2,092,804)	(1,679,564)
Real estate investment properties, net	<u>\$ 42,606,568</u>	<u>\$ 42,969,180</u>

Depreciation expense on the Company's real estate investment properties, net was approximately \$0.4 million and \$0.2 million for the three months ended March 31, 2019 and 2018, respectively.

5. Intangibles, net

The gross carrying amount and accumulated amortization of the Company's intangibles as of March 31, 2019 and December 31, 2018, excluding assets held for sale, are as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
In-place resident agreement intangibles	\$ 2,569,419	\$ 2,569,419
Less: accumulated amortization	(1,328,552)	(1,071,610)
Intangible assets, net	<u>\$ 1,240,867</u>	<u>\$ 1,497,809</u>

For the three months ended March 31, 2019 and 2018, amortization on the Company's intangibles was approximately \$0.3 million and \$0.1 million, respectively, all of which was included in depreciation and amortization.

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

6. Assets and Associated Liabilities Held For Sale and Discontinued Operations

In March 2019, the Company entered into a Sale Agreement with HCP Medical Office Buildings, LLC related to the MOB Sale. As of March 31, 2019, as part of executing on strategic alternatives, the Company had committed to a plan to sell its MOB, Mid America Surgery, and classified the property as held for sale. The Company believes the sale of Mid America Surgery would cause a strategic shift in the Company's operations and, therefore, has classified the corresponding revenues and expenses for its MOB property as discontinued operations.

As of March 31, 2019 and December 31, 2018, the amounts classified as assets held for sale and the liabilities associated with those assets held for sale consisted of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Real estate investment properties, net	\$ 10,579,020	\$ 10,603,833
Intangibles, net	1,962,515	3,485,818
Operating lease asset, net	1,501,024	—
Other assets	129,777	112,551
Assets held for sale, net	<u>\$ 14,172,336</u>	<u>\$ 14,202,202</u>
Mortgage loan, net	\$ 5,541,058	\$ 5,532,346
Accounts payable and accrued liabilities	343,725	391,735
Other liabilities	325,382	323,106
Liabilities associated with assets held for sale	<u>\$ 6,210,165</u>	<u>\$ 6,247,187</u>

The following table is a summary of the Company's income from discontinued operations for the three months ended March 31, 2019 and 2018:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenues:		
Rental income and related revenues	\$ 342,272	\$ 408,816
Operating expenses:		
Property operating expenses	111,685	171,233
General and administrative	559	451
Property management fees	7,928	10,050
Depreciation and amortization	43,793	130,694
Total operating expenses	163,965	312,428
Operating income	178,307	96,388
Other expense:		
Interest expense and loan cost amortization	(75,260)	(63,848)
Total other expense	(75,260)	(63,848)
Income before income taxes	103,047	32,540
Income tax expense	—	—
Income from discontinued operations	<u>\$ 103,047</u>	<u>\$ 32,540</u>

The Company completed the MOB Sale in May 2019; refer to Note 12. "Subsequent Events" for additional information.

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

7. Indebtedness

The Company had mortgage loans, excluding indebtedness associated with assets held for sale, of approximately \$18.7 million as of March 31, 2019 and December 31, 2018. The fair market value of the Company's mortgage loans, excluding assets held for sale, was approximately \$18.9 million as of March 31, 2019 and December 31, 2018, which is based on then-current rates and spreads the Company would expect to obtain for similar borrowings. Since this methodology includes inputs that are less observable by the public and are not necessarily reflected in active markets, the measurement of the estimated fair values is categorized as Level 3 on the three-level valuation hierarchy.

8. Related Party Arrangements

The Company is externally advised and has no direct employees. All of the Company's executive officers are executive officers, or on the board of managers, of the Advisor. In connection with services provided to the Company, affiliates are entitled to the following fees:

**Dealer Manager** — Through the termination of the Offering in October 2018, the Dealer Manager received a combined selling commission and dealer manager fee of up to 8.5% of the sale price for each Class A share and up to 4.75% of the sale price for each Class T share sold in the Primary Offering, all or a portion of which could be reallocated to participating broker dealers. In addition, for Class T shares sold in the Primary Offering, the Dealer Manager could choose the respective amounts of the commission and dealer manager fee, provided that the selling commission did not exceed 3.0% of the gross proceeds from the completed sale of such Class T shares.

The Company paid a distribution and stockholder servicing fee, subject to certain underwriting compensation limits, with respect to the Class T and Class I shares sold in the Primary Offering in an annual amount equal to 1% and 0.50%, respectively, of the then-current gross offering price per Class T or Class I share.

The Company recorded the annual distribution and stockholder servicing fees as a reduction to capital in excess of par value and measured the related liability in an amount equal to the maximum fees owed in relation to the Class T and Class I shares on the shares' issuance date. The liability was relieved over time, as the fees were paid to the Dealer Manager. In connection with the close of the Offering effective October 1, 2018, certain underwriting compensation limits were met and, effective October 31, 2018, each Class T and Class I share automatically converted into a Class A share pursuant to the terms of the Company's charter. The Class T and Class I shares converted into Class A shares on a one-for-one basis because the then-current estimated net asset value ("NAV") per share of \$10.06 was the same for all share classes. Effective October 31, 2018, Class T and Class I shares were no longer subject to class specific expenses upon conversion into Class A shares. The Company's obligation to pay the remaining distribution and stockholder servicing fees liability of approximately \$1.4 million to the Dealer Manager ceased effective October 31, 2018 upon the conversion of the Class T and Class I shares into Class A Shares.

**CNL Capital Markets, LLC** — The Company will pay CNL Capital Markets, LLC, an affiliate of CNL, an annual fee payable monthly based on the average number of total investor accounts that are open during the term of the capital markets service agreement pursuant to which certain administrative services are provided to the Company. These services may include, but are not limited to, the facilitation and coordination of the transfer agent's activities, client services and administrative call center activities, financial advisor administrative correspondence services, material distribution services and various reporting and troubleshooting activities.

**Advisor** — Pursuant to the Company's advisory agreement, dated as of March 2, 2016, the Company paid the Advisor asset management fees in an amount equal to 0.80% per annum of average invested assets ("AUM Fee"). In March 2019, the Company's advisory agreement was amended and restated to eliminate acquisition fees and dispositions fees as well as to reduce the AUM Fee to 0.40% per annum of average invested assets. The reduced AUM Fee is further subject and subordinate to an agreed upon hurdle relating to the total operating expenses (as described in the amended and restated advisory agreement) of the Company, though to the extent any portion of the AUM Fee is not paid as a result of total operating expenses exceeding the prescribed limits, it may be recovered by the Advisor if certain Company performance thresholds are subsequently met. The Company's board of directors approved renewing the amended and restated advisory agreement through March 2020.

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

8. Related Party Arrangements (continued)

The Advisor, its affiliates and related parties also are entitled to reimbursement of certain operating expenses in connection with their provision of services to the Company, including personnel costs, subject to the limitation that the Company will not reimburse the Advisor for any amount by which operating expenses exceed the greater of 2% of its average invested assets or 25% of its net income in any four consecutive fiscal quarters (“Expense Year”) unless approved by the independent directors. For the Expense Year ended March 31, 2019, the Company’s total operating expenses were in excess of this limitation by approximately \$28,000. As of March 31, 2019, the Company had received cumulative approvals from its independent directors for total operating expenses in excess of this limitation of approximately \$0.9 million. The Company’s independent directors determined that the higher relationship of operating expenses to average invested assets was justified based on unattained capital raise expectations, which limited the number of investments, and the cost of operating a public company.

For each of the three months ended March 31, 2019 and 2018, the Company paid cash distributions of approximately \$38,000 to the Advisor related to the Class A common stock held by the Advisor. In addition, for the three months ended March 31, 2018, the Company issued stock dividends of approximately 7,400 shares to the Advisor. There were no stock dividends for the three months ended March 31, 2019 as the Company discontinued its stock dividends in October 2018.

Pursuant to an expense support arrangement, the Advisor agreed to accept payment in restricted stock in lieu of cash for services rendered, in the event that the Company does not achieve established distribution coverage targets (“Expense Support Agreement”). In exchange for services rendered and in consideration of the expense support provided under this arrangement, the Company issued, following each determination date, a number of shares of restricted stock equal to the quotient of the expense support amount provided by the Advisor for the preceding year divided by the board of directors’ most recent determination of NAV per share of the Class A common shares on the terms and conditions and subject to the restrictions set forth in the Expense Support Agreement. The restricted stock is subordinated and forfeited to the extent that shareholders do not receive a Priority Return on their Invested Capital (as such terms are defined in the Company’s prospectus), excluding for the purposes of calculating this threshold any shares of restricted stock owned by the Advisor. In March 2019, the Company’s board of directors and the Advisor agreed to terminate the Expense Support Agreement effective April 1, 2019.

The following fees for services rendered have been or are expected to be settled in the form of restricted stock pursuant to the Expense Support Agreement for the three months ended March 31, 2019 and 2018 and cumulatively as of March 31, 2019:

	<b>Three Months Ended</b>		<b>As of</b>
	<b>March 31,</b>		<b>March 31,</b>
	<b>2019</b>	<b>2018</b>	<b>2019</b>
Fees for services rendered:			
Asset management fees	\$ 99,417	\$ 70,800	\$ 578,171
Advisor personnel expenses (1)	127,950	126,629	1,058,676
Total fees for services rendered	<u>\$ 227,367</u>	<u>\$ 197,429</u>	<u>\$ 1,636,847</u>
Then-current NAV	<u>\$ 9.92</u>	<u>\$ 10.06</u>	<u>\$ 9.92</u>
Restricted stock shares (2)	<u>22,920</u>	<u>19,625</u>	<u>164,210</u>
Cash distributions on restricted stock (3)	<u>\$ 8,113</u>	<u>\$ —</u>	<u>\$ 32,452</u>

**FOOTNOTES:**

- (1) Amounts consist of personnel and related overhead costs of the Advisor or its affiliates (which, in general, are those expenses relating to the Company’s administration on an on-going basis) that are reimbursable by the Company.
- (2) Represents restricted stock shares issued or expected to be issued to the Advisor as of March 31, 2019 pursuant to the Expense Support Agreement. No fair value was assigned to the restricted stock shares as the shares do not vest until a liquidity event is consummated and certain market conditions are achieved. In addition, the restricted stock shares will be treated as unissued for financial reporting purposes until the vesting criteria are met.
- (3) The cash distributions on Restricted Stock shares issued have been recognized as compensation expense as declared and included in general and administrative expenses in the accompanying condensed consolidated statements of operations.





CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

8. Related Party Arrangements (continued)

The fees payable through the termination of the Offering in October 2018 to the Dealer Manager for the three months ended March 31, 2019 and 2018, and related amounts unpaid as of March 31, 2019 and December 31, 2018 are as follows:

	Three Months Ended		Unpaid amounts as of (1)	
	March 31,		March 31,	December 31,
	2019	2018	2019	2018
Selling commissions (2)	\$ —	\$ 131,841	\$ —	\$ —
Dealer manager fees (2)	—	165,756	—	—
Distribution and stockholder servicing fees (2)	—	293,378	—	—
	<u>\$ —</u>	<u>\$ 590,975</u>	<u>\$ —</u>	<u>\$ —</u>

The expenses incurred by and reimbursable to the Company's related parties, including amounts included in income from discontinued operations, for the three months ended March 31, 2019 and 2018, and related amounts unpaid as of March 31, 2019 and December 31, 2018 are as follows:

	Three Months Ended		Unpaid amounts as of (1)	
	March 31,		March 31,	December 31,
	2019	2018	2019	2018
<b>Reimbursable expenses:</b>				
Operating expenses (3)	\$ 230,823	\$ 274,844	\$ 129,278	\$ 85,902
Acquisition fees and expenses	—	901	—	—
	230,823	275,745	129,278	85,902
Asset management fees (4)	99,417	70,800	—	—
	<u>\$ 330,240</u>	<u>\$ 346,545</u>	<u>\$ 129,278</u>	<u>\$ 85,902</u>

**FOOTNOTES:**

- (1) Amounts are recorded as due to related parties in the accompanying condensed consolidated balance sheets.
- (2) Amounts are recorded as stock issuance and offering costs in the accompanying condensed consolidated statements of stockholders' equity.
- (3) Amounts are recorded as general and administrative expenses in the accompanying condensed consolidated statements of operations unless such amounts represent prepaid expenses, which are capitalized in the accompanying condensed consolidated balance sheets. For each of the three months ended March 31, 2019 and 2018, approximately \$0.1 million of personnel expenses of affiliates of the Advisor have been or are expected to be settled in accordance with the terms of the Expense Support Agreement and as such our general and administrative expenses were reduced by approximately \$0.1 million for each of the three months ended March 31, 2019 and 2018.
- (4) For each of the three months ended March 31, 2019 and 2018, the Company incurred asset management fees of approximately \$0.1 million, all of which have been or are expected to be settled in accordance with the terms of the Expense Support Agreement and as such asset management fees were reduced by approximately \$0.1 million.



CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

9. Equity

**Subscription Proceeds** — In October 2018, in light of the Company’s decision to terminate its Offering, the Company suspended the Reinvestment Plan and the Redemption Plan. As such, there were no subscription proceeds received for the three months ended March 31, 2019. For the three months ended March 31, 2018, the Company received subscription proceeds of approximately \$7.0 million (0.7 million shares) and \$0.2 million (0.02 million shares) through its Offering and Reinvestment Plan, respectively.

**Distributions** — In October 2018, in light of the Company’s decision to terminate its Offering, the Company suspended the Reinvestment Plan and discontinued the issuance of stock dividends concurrently. For the three months ended March 31, 2019 and 2018, the Company declared cash distributions of approximately \$0.7 million and \$0.4 million, respectively, of which approximately \$0.7 million and \$0.2 million, respectively, were paid in cash to stockholders. None of the cash distributions were reinvested during three months ended March 31, 2019 due to the suspension of the Reinvestment Plan. For the three months ended March 31, 2018, approximately \$0.2 million was reinvested pursuant to the Reinvestment Plan.

In March 2019, in connection with the Company’s strategic alternatives discussed in Note 1. “Organization,” the Company’s board of directors suspended monthly cash distributions to stockholders effective April 1, 2019.

**Redemptions** — In October 2018, in light of the Company’s decision to terminate its Offering, the Company suspended the Reinvestment Plan and the Redemption Plan. As such, there were no requests for the redemption of common stock during the three months ended March 31, 2019. During the three months ended March 31, 2018, the Company received requests for the redemption of common stock of approximately \$25,000, all of which were approved for redemption at an average price of \$10 per share.

10. Commitments and Contingencies

From time to time, the Company may be a party to legal proceedings in the ordinary course of, or incidental to the normal course of, its business, including proceedings to enforce its contractual or statutory rights. While the Company cannot predict the outcome of these legal proceedings with certainty, based upon currently available information, the Company does not believe the final outcome of any pending or threatened legal proceeding will have a material adverse effect on its results of operations or financial condition.

11. Income Taxes

The accompanying condensed consolidated financial statements include an interim tax provision for the three months ended March 31, 2019 and 2018. The components of income tax expense for the three months ended March 31, 2019 and 2018 are as follows:

	Three Months Ended March 31,	
	2019	2018
Current:		
Federal	\$ —	\$ (25,250)
State	—	(5,150)
Total current expense	—	(30,400)
Deferred:		
Federal	(25,300)	(593)
State	(5,233)	(363)
Total deferred expense	(30,533)	(956)
Income tax expense	\$ (30,533)	\$ (31,356)

CNL HEALTHCARE PROPERTIES II, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2019 (UNAUDITED)

11. Income Taxes (continued)

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets as of March 31, 2019 and December 31, 2018 are as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Carryforwards of net operating loss	\$ 85,010	\$ —
Prepaid rent	35,768	30,533
Valuation allowance	(120,778)	—
Deferred tax assets, net	<u>\$ —</u>	<u>\$ 30,533</u>

The recording of a valuation allowance relates primarily to a change in judgment about the Company's ability to realize deferred tax assets in future years, due to its current and foreseeable operations.

A reconciliation of the income tax expense for the three months ended March 31, 2019 and 2018 computed at the statutory federal tax rate on income (loss) before income taxes is as follows:

	<b>Three Months Ended March 31,</b>			
	<b>2019</b>		<b>2018</b>	
Tax benefit computed at federal statutory rate	\$ 132,014	21.0%	\$ 82,199	21.0%
Impact of REIT election	(126,781)	(20.2)%	(108,042)	(27.6)%
State income tax expense	(5,233)	(0.8)%	(5,513)	(1.4)%
Impact of change in deferred tax asset	90,245	14.4%	—	—%
Impact of change in valuation allowance	(120,778)	(19.2)%	—	—%
Income tax expense	<u>\$ (30,533)</u>	<u>(4.8)%</u>	<u>\$ (31,356)</u>	<u>(8.0)%</u>

The Company analyzed its material tax positions and determined that it has not taken any uncertain tax positions. The tax years 2016 and forward remain subject to examination by taxing authorities throughout the United States.

12. Subsequent Events

In May 2019, the Company completed the MOB Sale and received net sales proceeds of approximately \$15.4 million, which were used to pay off the Mid America Surgery loan of approximately \$5.6 million. The net sales proceeds exceeded the net carrying value of the property comprising the MOB Sale. The remaining proceeds were used to strategically pay down debt secured by one of the Company's two remaining seniors housing properties.

## *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*

### **Caution Concerning Forward-Looking Statements**

Statements contained under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q for the fiscal three months ended March 31, 2019 ("Quarterly Report") that are not statements of historical or current fact may constitute "forward-looking statements" within the meaning of the Federal Private Securities Litigation Reform Act of 1995. The Company intends that such forward-looking statements be subject to the safe harbor created by Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Forward-looking statements are statements that do not relate strictly to historical or current facts, but reflect management's current understandings, intentions, beliefs, plans, expectations, assumptions and/or predictions regarding the future of the Company's business and its performance, the economy, and other future conditions and forecasts of future events and circumstances. Forward-looking statements are typically identified by words such as "believes," "expects," "anticipates," "intends," "estimates," "plans," "continues," "pro forma," "may," "will," "seeks," "should," "could" and words and terms of similar substance in connection with discussions of future operating or financial performance, business strategy and portfolios, projected growth prospects, cash flows, costs and financing needs, legal proceedings, amount and timing of anticipated future distributions, estimates of per share net asset value of the Company's common stock, and/or other matters. The Company's forward-looking statements are not guarantees of future performance. While the Company's management believes its forward-looking statements are reasonable, such statements are inherently susceptible to uncertainty and changes in circumstances. As with any projection or forecast, forward-looking statements are necessarily dependent on assumptions, data and/or methods that may be incorrect or imprecise, and may not be realized. The Company's forward-looking statements are based on management's current expectations and a variety of risks, uncertainties and other factors, many of which are beyond the Company's ability to control or accurately predict. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those set forth in the forward-looking statements due to a variety of risks, uncertainties and other factors. Given these uncertainties, the Company cautions you not to place undue reliance on such statements.

For further information regarding risks and uncertainties associated with the Company's business, and other important factors that could cause the Company's actual results to vary materially from those expressed or implied in its forward-looking statements, please refer to the risk factors listed and described in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, copies of which may be obtained from the Company's website at [www.cnlhealthcarepropertiesii.com](http://www.cnlhealthcarepropertiesii.com).

All written and oral forward-looking statements attributable to the Company or persons acting on its behalf are qualified in their entirety by this cautionary note. Forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to, and expressly disclaims any obligation to, publicly release the results of any revisions to its forward-looking statements to reflect new information, changed assumptions, the occurrence of unanticipated subsequent events or circumstances, or changes to future operating results over time, except as otherwise required by law.

### **Introduction**

The following discussion is based on the condensed consolidated financial statements as of March 31, 2019 (unaudited) and December 31, 2018. Amounts as of December 31, 2018, included in the unaudited condensed consolidated financial statements have been derived from the audited consolidated financial statements as of that date. This information should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto, as well as the audited consolidated financial statements, notes thereto and management's discussion and analysis included in our Annual Report on Form 10-K for the year ended December 31, 2018.

### **Overview**

CNL Healthcare Properties II, Inc. (referred to herein as "we", "us", "our" or the "Company") is a Maryland corporation that incorporated on July 10, 2015. We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with the year ended December 31, 2017 and our intention is to be organized and operate in a manner that allows us to remain qualified as a REIT for federal income tax purposes.

We are externally managed and advised by our Advisor, CHP II Advisors, LLC. Our Advisor is responsible for managing substantially all aspects of our investments and operations, including real estate acquisitions and dispositions, asset management and other operational matters.

## Strategic Alternatives

On August 31, 2018, our board of directors approved the termination of our Offering and the suspension of our Reinvestment Plan, effective October 1, 2018. We also suspended our Redemption Plan and discontinued our stock dividends concurrently. In October 2018, we deregistered the unsold shares of common stock under our previous registration statement on Form S-11. Through the close of our Offering, we received aggregate proceeds of approximately \$51.2 million (4.9 million shares), including approximately \$1.2 million (0.1 million shares) of proceeds pursuant to our Reinvestment Plan. In 2018, our board of directors appointed a Special Committee comprised solely of our independent board members to oversee the process of exploring strategic alternatives to maximize value for our stockholders, including, without limitation, (i) an orderly disposition of our assets or one or more of our asset classes and the distribution of the net sale proceeds thereof to our stockholders and (ii) a potential business combination or other transaction with an unrelated third-party or affiliated party of our Sponsor. In January 2019, the Special Committee engaged SunTrust Robinson Humphrey, Inc., an investment banker, to act as a financial advisor to the aforementioned Special Committee and, subsequently, we committed to a plan to sell Mid America Surgery. Although we have formed the Special Committee for the exploration of strategic alternatives, we are not obligated to enter into any particular transaction or any transaction at all. In the meantime, we continue to strategically manage and position our portfolio to drive performance and maximize value for our stockholders.

In March 2019, we entered into a Sale Agreement with HCP Medical Office Buildings, LLC related to the MOB Sale for a gross sales price of \$15.4 million, subject to certain pro-rations and other adjustments as described in the Sale Agreement. In May 2019, we completed the MOB Sale resulting in net cash proceeds of approximately \$9.5 million after the repayment of approximately \$5.6 million on our Mid America Surgery loan and approximately \$0.3 million of closing costs and pro-rations. We used the remaining proceeds, along with a portion of our available cash on hand, to strategically pay down approximately \$12.8 million of debt secured by one of our two remaining seniors housing properties. The net sales proceeds exceeded the net carrying value of the property comprising the MOB Sale.

In March 2019, in connection with exploring strategic alternatives, our board of directors suspended our monthly cash distributions to stockholders effective April 1, 2019. Accordingly, our board of directors does not currently intend to declare any regular distributions after the effective date of the suspension, though special distributions may be made from time to time from net sales proceeds received from the sale of properties. In addition, in March 2019, our board of directors and our Advisor agreed to terminate the Expense Support Agreement effective April 1, 2019. Any restricted stock shares granted to our Advisor under the Expense Support Agreement shall continue to be held by the Advisor, subject to the vesting and forfeiture provisions of the Expense Support Agreement which survive termination.

## Portfolio Overview

As of May 7, 2019, our healthcare investment portfolio consists of two seniors housing properties that are both located in Florida: Summer Vista Assisted Living (“Summer Vista”) and The Crossings at Riverview (“Riverview”). We have leased our two seniors housing properties to single member limited liability companies wholly-owned by TRS Holdings and engaged independent third-party property managers under management agreements to operate the properties as permitted under RIDEA structures.

While we are not directly impacted by the performance of our property managers, to the extent that our property managers experience operating difficulties and become unable to generate sufficient cash to make payments to us, there could be a material adverse impact on our consolidated operating results, liquidity and/or financial condition. Our property managers are generally contractually required to provide financial information to us in accordance with their management agreements, which we monitor in order to mitigate the aforementioned risk.

We monitor the performance of our third-party operators to stay abreast of material changes in the operations of underlying property by: (1) reviewing the current, historical and prospective operating margins (measured by earnings before interest, taxes, depreciation, amortization and facility rent); (2) monitoring trends in the source of our revenue, including relative mix of payors (including Medicare, Medicaid, etc.) and private payors (including commercial insurance and private pay patients); (3) evaluating the effect of evolving healthcare legislation and other regulations on our profitability and liquidity; and (4) reviewing the competition and demographics of the local and surrounding areas in which we operate.

We also review certain operating and other statistical measures of the underlying property such as occupancy levels and revenue per occupied unit (“RevPOU”), which we define as total revenue before charges for ancillary and care services offered at the community divided by average number of occupied units. As of March 31, 2019, 99% and 79% of resident units were occupied at Summer Vista and Riverview, respectively. The average monthly RevPOU as of March 31, 2019 and 2018 was \$4,230 and \$4,202, respectively, for assisted living units and \$5,327 and \$4,846, respectively, for memory care units.



## Liquidity and Capital Resources

### *General*

As described above under “Strategic Alternatives,” we began evaluating strategic alternatives to maximize value for our stockholders. During 2019, our principal demands for funds have been and are expected to be for:

- the payment of operating expenses;
- the payment of debt service on our outstanding indebtedness; and
- the payment of distributions through the suspension of cash distributions effective April 1, 2019.

We strategically leveraged our real estate assets and used debt as a means of providing additional funds for the acquisition of properties. As of March 31, 2019, all of our debt is unhedged variable rate debt. We may be negatively impacted by rising interest rates on our unhedged variable rate debt. As of March 31, 2019 and December 31, 2018, our debt leverage ratio was approximately 36.5% and 36.0%, respectively, of the aggregate carrying value of our assets, including properties classified as held for sale.

Our cash flows from operating and investing activities described within “Sources of Liquidity and Capital Resources” and “Uses of Liquidity and Capital Resources” represent cash flows from continuing operations, which includes our two seniors housing properties and excludes our MOB property that was classified as discontinued operations. The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto.

### **Sources of Liquidity and Capital Resources**

#### *Expense Support Agreement*

During the three months ended March 31, 2019 and 2018, our cash flows from operating activities was positively impacted by the Expense Support Agreement with our Advisor pursuant to which our Advisor has agreed to accept payment in restricted stock in lieu of cash for services rendered, in the event that the Company does not achieve established distribution coverage targets (as defined in the Expense Support Agreement). For each of the three months ended March 31, 2019 and 2018, approximately \$0.2 million of asset management fees and Advisor personnel expenses have been or will be settled in the form of restricted stock pursuant to the Expense Support Agreement. Any amounts settled, and for which restricted stock shares will be issued, pursuant to the Expense Support Agreement are permanently settled and we have no further obligation to pay such amounts to our Advisor.

In March 2019, as further described above under “Strategic Alternatives,” our board of directors and our Advisor agreed to terminate the Expense Support Agreement effective April 1, 2019. Any restricted stock shares granted to our Advisor under the Expense Support Agreement shall continue to be held by the Advisor, subject to the vesting and forfeiture provisions of the Expense Support Agreement which survive termination. As a result of terminating the Expense Support Agreement effective April 1, 2019, the amount of expense support we receive from our Advisor in 2019 will be limited to the three months ended March 31, 2019. Accordingly, in future periods, we expect to settle asset management fees and Advisor personnel expenses in cash rather than restricted stock.

Effective March 2, 2019, our advisory agreement was amended and restated to eliminate acquisition fees and dispositions fees as well as to reduce our AUM Fee to 0.40% per annum of average invested assets. Our AUM Fee is further subject and subordinate to an agreed upon hurdle relating to the total operating expenses (as described in the amended and restated advisory agreement) of the Company, though to the extent any portion of the AUM Fee is not paid as a result of total operating expenses exceeding the prescribed limits, it may be recovered by our Advisor if certain Company performance thresholds are subsequently met. Our board of directors approved renewing the amended and restated advisory agreement through March 2020.

#### *Proceeds from Sale of Real Estate*

In March 2019, we entered into a Sale Agreement with HCP Medical Office Buildings, LLC related to the MOB Sale for a gross sales price of \$15.4 million, subject to certain pro-rations and other adjustments as described in the Sale Agreement. In May 2019, we completed the MOB Sale resulting in net cash proceeds of approximately \$9.5 million after repayment of approximately \$5.6 million on our Mid America Surgery loan and approximately \$0.3 million of closing costs and pro-rations. We used the remaining proceeds, along with a portion of our available cash on hand, to strategically pay down approximately \$12.8 million of debt secured by one of our two remaining seniors housing properties.

### *Subscription Proceeds*

In October 2018, in light of the decision to terminate our Offering, we suspended our Reinvestment Plan and our Redemption Plan. As such, there were no subscription proceeds received for the three months ended March 31, 2019. For the three months ended March 31, 2018, we received subscription proceeds of approximately \$7.0 million (0.7 million shares) and \$0.2 million (0.2 million shares) through our Offering and Reinvestment Plan, respectively.

### **Uses of Liquidity and Capital Resources**

#### *Net Cash Provided By (Used In) Operating Activities – Continuing Operations*

We experienced positive cash flow from operating activities for the three months ended March 31, 2019 of approximately \$0.3 million as compared to negative cash flow from operating activities for the three months ended March 31, 2018 of approximately \$24,000. The fluctuation across periods was primarily the result of our second seniors housing property, Riverview, being acquired on August 31, 2018 and, as such, the prior period consisted entirely of operations for Summer Vista while the current period included operations for both Summer Vista and Riverview.

During the three months ended March 31, 2019 and 2018, our cash flows from operating activities were positively impacted by the expense support received from our Advisor. As a result of terminating the Expense Support Agreement effective April 1, 2019, as described above under “Expense Support Agreement,” the amount of expense support we receive from our Advisor in 2019 will be limited to the three months ended March 31, 2019. Accordingly, in future periods, we expect to settle asset management fees and Advisor personnel expenses in cash rather than restricted stock.

We generally do not expect to meet future cash needs for general and administrative expenses or debt service from the net operating income (“NOI”) from our two seniors housing properties. We have and may continue to meet some or all of our future cash needs from other sources, a component of which may include the remaining proceeds of our Offering and, to a lesser extent, the net sales proceeds from sales of properties.

#### *Capital Expenditures*

We paid approximately \$51,000 and \$4,000 in capital expenditures during the three months ended March 31, 2019 and 2018, respectively. The increase across periods primarily relates to additions at our Riverview property during 2019.

#### *Underwriting Compensation*

As further described above under “Strategic Alternatives,” we terminated and closed our Offering effective October 1, 2018. As such, there was no underwriting compensation for the three months ended March 31, 2019. For the three months ended March 31, 2018, we paid approximately \$0.4 million in underwriting compensation. Under the terms of the Primary Offering, our Dealer Manager was entitled to receive selling commissions, dealer manager fees and/or annual distribution and stockholder servicing fees, which were based on the respective share class of our common stock sold, all or a portion of which could be reallocated to participating broker dealers. Refer to Note 8. “Related Party Arrangements” for additional information related to amounts incurred for the three months ended March 31, 2018.

#### *Distributions*

In order to qualify as a REIT, we are required to make distributions, other than capital gain distributions, to our stockholders each year in the amount of at least 90% of our taxable income. We may make distributions in the form of cash or other property, including distributions of our own securities. To the extent we did not have sufficient cash flows from operations available for cash distributions, we paid some or all of our cash distributions from sources other than cash flows from operations, such as cash flows provided by financing activities, a component of which included proceeds of our Offering and/or borrowings, whether collateralized by our assets or unsecured. As further described above under “Strategic Alternatives,” we terminated and closed our Offering effective October 1, 2018. We suspended our Reinvestment Plan and discontinued stock dividends concurrently. As a consequence of suspending our Reinvestment Plan, effective October 1, 2018, stockholders who were participants in our Reinvestment Plan began to receive cash distributions instead of additional shares of our common stock.



The following table details our cash distributions per share and our cash distributions paid, including distribution reinvestments as applicable, for the three months ended March 31, 2019 and 2018 (in thousands, except per share data):

Periods	Cash Distributions per Share (1)			Cash Distributions Paid (2)			Cash Flows Provided by Operating Activities (3)
	Class A Share	Class T Share	Class I Share	Cash Distributions Declared	Distribution Reinvestments	Cash Distributions net of Distribution Reinvestments	
<b>2019 Quarters</b>							
First	\$ 0.1440	\$ —	\$ —	\$ 705	\$ —	\$ 705	\$ 426
Year	\$ 0.1440	\$ —	\$ —	\$ 705	\$ —	\$ 705	\$ 426
<b>2018 Quarters</b>							
First	\$ 0.1440	\$ 0.1178	\$ 0.1312	\$ 402	\$ 225	\$ 177	\$ 157
Year	\$ 0.1440	\$ 0.1178	\$ 0.1312	\$ 402	\$ 225	\$ 177	\$ 157

#### FOOTNOTES:

- (1) Our board of directors authorized monthly cash distributions on the outstanding shares of all classes of our common stock, beginning in August 2016 and continuing each month through March 31, 2017, in monthly amounts equal to \$0.0350 per share, less class-specific expenses with respect to each class. Beginning April 1, 2017 and continuing each month through March 31, 2019, monthly cash distributions on the outstanding shares of all classes of our common stock were declared in monthly amounts equal to \$0.0480 per share, less class-specific expenses with respect to each class (as applicable).
- (2) Represents cash distributions declared, the amount of distributions reinvested in additional shares through our Reinvestment Plan and the amount of proceeds used to fund cash distributions.
- (3) Amounts herein include cash flows from discontinued operations. For the three months ended March 31, 2019 and 2018, our net loss was approximately \$0.6 million and \$0.4 million, respectively, while cash distributions declared were approximately \$0.7 million and \$0.4 million, respectively. For the three months ended March 31, 2019 and 2018, approximately 60% and 39%, respectively, of cash distributions declared to stockholders were considered to be funded with cash provided by operating activities as calculated on a quarterly basis for GAAP purposes. For the three months ended March 31, 2019 and 2018, approximately 40% and 61%, respectively, of the cash distributions paid to stockholders were considered to be funded with flows provided by financing activities, a component of which included proceeds of our Offering and/or borrowings, whether collateralized by our assets or unsecured.

In March 2019, our board of directors suspended our monthly cash distributions effective April 1, 2019. Accordingly, our board of directors does not currently intend to declare any regular distributions on our common stock after the effective date of the suspension, though special distributions may be made from time to time from net sales proceeds received from the sale of properties.

#### Common Stock Redemptions

Our Redemption Plan was designed to provide eligible stockholders with limited interim liquidity by enabling them to sell shares back to us prior to any liquidity event. In connection with the termination of our Offering and our board of directors' decision to consider possible strategic alternatives available to us, our Redemption Plan was suspended effective October 1, 2018 and we no longer accept or process any redemption requests received after such date. During the three months ended March 31, 2018, we paid approximately \$25,000 related to a request received for the redemption of common stock.

#### Results of Operations

We are not aware of any material trends or uncertainties, favorable or unfavorable, that may be reasonably anticipated to have a material impact on either capital resources or the revenues and income to be derived from the operation of properties and other permitted investments, other than those referred to in the risk factors identified in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018.

The following discussion focuses on continuing operations, which includes our two seniors housing properties and excludes our MOB property that was classified as discontinued operations. The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the notes thereto.





***The following is a discussion of our continuing operations for three months ended March 31, 2019 as compared to three months ended March 31, 2018:***

- Resident fees and services for the three months ended March 31, 2019 was approximately \$2.2 million as compared to approximately \$1.1 million for the three months ended March 31, 2018. As a result of our second seniors housing property, Riverview, being acquired on August 31, 2018, the prior period consisted entirely of resident fees and services for Summer Vista while the current period included resident fees and services for both Summer Vista and Riverview.
- Property operating expenses for the three months ended March 31, 2019 were approximately \$1.4 million as compared to approximately \$0.6 million for the three months ended March 31, 2018. As a result of our second seniors housing property, Riverview, being acquired on August 31, 2018, the prior period consisted entirely of property operating expenses for Summer Vista while the current period included property operating expenses for both Summer Vista and Riverview.
- General and administrative expenses for the three months ended March 31, 2019 were approximately \$0.5 million as compared to approximately \$0.4 million for the three months ended March 31, 2018. General and administrative expenses were comprised primarily of directors' and officers' insurance, accounting and legal fees, Advisor personnel expenses and board of director fees. However, these Advisor personnel expenses have been or are expected to be settled in the form of restricted stock pursuant to the Expense Support Agreement and, as such, our general and administrative expenses were reduced by approximately \$0.1 million and \$0.1 million for the three months ended March 31, 2019 and 2018, respectively. As a result of terminating the Expense Support Agreement effective April 1, 2019, as described above under "Expense Support Agreement," the amount of expense support we receive from our Advisor in 2019 will be limited to the three months ended March 31, 2019. Accordingly, in future periods, Advisor personnel expenses that are settled in cash rather than restricted stock will be reflected within our financial results as we will no longer receive the aforementioned expense reductions that resulted from the expense support arrangement with our Advisor.
- Property management fees for the three months ended March 31, 2019 were approximately \$110,000 as compared to approximately \$74,000 for the three months ended March 31, 2018. As a result of our second seniors housing property, Riverview, being acquired on August 31, 2018, the prior period consisted entirely of property management fees for Summer Vista while the current period included property management fees for both Summer Vista and Riverview.
- Asset management fees for the three months ended March 31, 2019 and 2018 were approximately \$99,000 and \$71,000, respectively. However, these asset management fees have been or are expected to be settled in the form of restricted stock pursuant to the Expense Support Agreement and, as such, our asset management fees were reduced by approximately \$99,000 and \$71,000, respectively. As a result of terminating the Expense Support Agreement effective April 1, 2019, as described above under "Expense Support Agreement," the amount of expense support we receive from our Advisor in 2019 will be limited to the three months ended March 31, 2019. Accordingly, in future periods, asset management fees that are settled in cash rather than restricted stock will be reflected within our financial results as we will no longer receive the aforementioned expense reductions that resulted from the expense support arrangement with our Advisor.
- Depreciation and amortization for the three months ended March 31, 2019 were approximately \$0.7 million as compared to approximately \$0.3 million for the three months ended March 31, 2018. As a result of our second seniors housing property, Riverview, being acquired on August 31, 2018, the prior period consisted entirely of depreciation and amortization for Summer Vista while the current period included depreciation and amortization for both Summer Vista and Riverview.
- Interest expense and loan cost amortization for the three months ended March 31, 2019 was approximately \$0.3 million as compared to approximately \$0.2 million for the three months ended March 31, 2018. The increase is reflective of the current period consisting of mortgage loans for both Summer Vista and Riverview, which we acquired on August 31, 2018; whereas, the prior period consisted of our Summer Vista loan as well as the notes issued in connection with our private placement, which we repaid in October 2018. We expect lower interest expense in future periods as a result of using the remaining net proceeds from our MOB Sale to strategically pay down debt secured by one of our two remaining seniors housing properties.
- Income from discontinued operations for the three months ended March 31, 2019 and 2018, was approximately \$0.1 million and \$33,000, respectively. As discussed above under "Strategic Alternatives," we classified our Mid America Surgery as held for sale. We believe the MOB Sale would cause a strategic shift in our operations and, therefore, we have classified the corresponding revenues and expenses as discontinued operations. The increase across periods is primarily reflect of lower depreciation and amortization, which was ceased as of January 2019 as a result of our Mid America Surgery property being classified as held for sale.

## Net Operating Income

We define NOI, a non-GAAP measure, as total revenues and services less property operating expenses and property management fees. We use NOI as a key performance metric for internal monitoring and planning purposes, including the preparation of annual operating budgets and monthly operating reviews, as well as to facilitate analysis of future investment and business decisions. It does not represent cash flows generated from operating activities in accordance with GAAP and should not be considered to be an alternative to net income or loss (determined in accordance with GAAP) as an indication of our operating performance or to be an alternative to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity. We believe the presentation of this non-GAAP measure is important to the understanding of our operating results for the periods presented because it is an indicator of the return on property investment and provides a method of comparing property performance over time. In addition, we have aggregated NOI on a “same-store” basis only for comparable properties that we have owned during the entirety of all periods presented. Non-same-store NOI represents NOI from our Riverview acquisition completed after January 1, 2018 as we did not own the property during the entirety of all periods presented. The chart below reconciles our net loss and NOI for the three months ended March 31, 2019 and 2018, excluding our MOB property classified as discontinued operations (in thousands):

	Three Months Ended		Change	
	March 31,		\$	%
	2019	2018		
Net loss	\$ (556)	\$ (390)		
Adjusted to exclude:				
General and administrative expenses	403	319		
Acquisition fees and expenses	—	1		
Depreciation and amortization	670	324		
Other expenses, net of other income	251	181		
Income tax expense	31	31		
Income from discontinued operations	(103)	(33)		
NOI	696	433	\$ 263	61%
Less: Non-same-store NOI	(273)	—		
Same-store NOI	\$ 423	\$ 433	\$ (10)	-3%

Overall, our NOI for the three months ended March 31, 2019 increased by approximately \$0.3 million as compared to the three months ended March 31, 2018, which was primarily the result of our second seniors housing property, Riverview, being acquired on August 31, 2018 and, as such, the prior period consisted entirely of operations for Summer Vista while the current period included operations for both Summer Vista and Riverview. Accordingly, our non-same-store NOI increased by approximately \$0.3 million for the three months ended March 31, 2019 and related entirely to our Riverview property. In addition, our same-store NOI for the three months ended March 31, 2019 decreased by approximately \$10,000, or 3%, as compared to the three months ended March 31, 2018 and related entirely to our Summer Vista property.

## Funds from Operations and Modified Funds from Operations

Due to certain unique operating characteristics of real estate companies, as discussed below, the North American Real Estate Investment Trust (“NAREIT”) promulgated a measure known as Funds From Operations (“FFO”), which we believe to be an appropriate supplemental measure to reflect the operating performance of a REIT. The use of FFO is recommended by the REIT industry as a supplemental performance measure. FFO is not equivalent to net income or loss as determined under GAAP.

We define FFO, a non-GAAP measure, consistent with the standards approved by the board of governors of NAREIT. NAREIT defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property, real estate asset impairment write-downs, plus depreciation and amortization of real estate related assets, and after adjustments for unconsolidated partnerships and joint ventures. Our FFO calculation complies with NAREIT’s policy described above.

The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time, especially if such assets are not adequately maintained or repaired and renovated as required by relevant circumstances and/or is requested or required by lessees for operational purposes in order to maintain the value of the property. We believe that, because real estate values historically rise and fall with market conditions, including inflation, interest rates, the business cycle, unemployment and consumer spending, presentations of operating results for a REIT using

historical accounting for depreciation may be less informative. Historical accounting for real estate involves the use of GAAP. Any other method of accounting for real estate such as the fair value method cannot be construed to be any more accurate or relevant than the comparable methodologies of real estate valuation found in GAAP.

Nevertheless, we believe that the use of FFO, which excludes the impact of real estate related depreciation and amortization, provides a more complete understanding of our performance to investors and to management, and when compared year over year, reflects the impact on our operations from trends in occupancy rates, rental rates, operating costs, general and administrative expenses, and interest costs, which may not be immediately apparent from net income or loss. However, FFO and Modified Funds From Operations (“MFFO”), as described below, should not be construed to be more relevant or accurate than the current GAAP methodology in calculating net income or loss in its applicability in evaluating operating performance. The method utilized to evaluate the value and performance of real estate under GAAP should be construed as a more relevant measure of operational performance and considered more prominently than the non-GAAP FFO and MFFO measures and the adjustments to GAAP in calculating FFO and MFFO.

Changes in the accounting and reporting promulgations under GAAP (for acquisition fees and expenses for business combinations from a capitalization/depreciation model) to an expensed-as-incurred model that were put into effect in 2009, and other changes to GAAP accounting for real estate subsequent to the establishment of NAREIT’s definition of FFO, have prompted an increase in cash-settled expenses, specifically acquisition fees and expenses, as items that are expensed under GAAP and accounted for as operating expenses. Our management believes these fees and expenses do not affect our overall long-term operating performance. Publicly registered, non-listed REITs typically have a significant amount of acquisition activity and are substantially more dynamic during their initial years of investment and operation. While other start up entities may also experience significant acquisition activity during their initial years, we believe that non-listed REITs are unique in that they have a limited life with targeted exit strategies within a relatively limited time frame after acquisition activity ceases. Due to the above factors and other unique features of publicly registered, non-listed REITs, the IPA, an industry trade group, has standardized a measure known as MFFO which the IPA has recommended as a supplemental measure for publicly registered non-listed REITs and which we believe to be another appropriate supplemental measure to reflect the operating performance of a non-listed REIT. MFFO is not equivalent to our net income or loss as determined under GAAP, and MFFO may not be a useful measure of the impact of long-term operating performance on value if we do not continue to operate with a limited life and targeted exit strategy, as currently intended. We believe that because MFFO excludes costs that we consider more reflective of investing activities and other non-operating items included in FFO and also excludes acquisition fees and expenses that affect our operations only in periods in which properties are acquired, MFFO can provide, on a going forward basis, an indication of the sustainability (that is, the capacity to continue to be maintained) of our operating performance after the period in which we acquired our properties and once our portfolio is in place. By providing MFFO, we believe we are presenting useful information that assists investors and analysts to better assess the sustainability of our operating performance after the offering and acquisition phases are complete. We also believe that MFFO is a recognized measure of sustainable operating performance by the non-listed REIT industry.

We define MFFO, a non-GAAP measure, consistent with the IPA’s Guideline 2010-01, Supplemental Performance Measure for Publicly Registered, Non-Listed REITs: MFFO, or the Practice Guideline, issued by the IPA in November 2010. The Practice Guideline defines MFFO as FFO further adjusted for the following items, as applicable, included in the determination of GAAP net income or loss: acquisition fees and expenses; amounts relating to deferred rent receivables and amortization of above and below market leases and liabilities (which are adjusted in order to remove the impact of GAAP straight-line adjustments from rental revenues); accretion of discounts and amortization of premiums on debt investments, mark-to-market adjustments included in net income; gains or losses included in net income from the extinguishment or sale of debt, hedges, foreign exchange, derivatives or securities holdings where trading of such holdings is not a fundamental attribute of the business plan, and unrealized gains or losses resulting from consolidation from, or deconsolidation to, equity accounting and after adjustments for consolidated and unconsolidated partnerships and joint ventures, with such adjustments calculated to reflect MFFO on the same basis. The accretion of discounts and amortization of premiums on debt investments, unrealized gains and losses on hedges, foreign exchange, derivatives or securities holdings, unrealized gains and losses resulting from consolidations, as well as other listed cash flow adjustments are adjustments made to net income in calculating the cash flows provided by operating activities and, in some cases, reflect gains or losses which are unrealized and may not ultimately be realized.

Our MFFO calculation complies with the IPA’s Practice Guideline described above. In calculating MFFO, we exclude acquisition related expenses. Under GAAP, acquisition fees and expenses are characterized as operating expenses in determining operating net income or loss. These expenses are paid in cash by us. All paid and accrued acquisition fees and expenses will have negative effects on returns to investors, the potential for future distributions, and cash flows generated by us, unless earnings from operations or net sales proceeds from the disposition of other properties are generated to cover the purchase price of the property.

Our management uses MFFO and the adjustments used to calculate it in order to evaluate our performance against other non-listed REITs which have limited lives with short and defined acquisition periods and targeted exit strategies shortly thereafter. As noted above, MFFO may not be a useful measure of the impact of long-term operating performance on value if we do not continue to operate in this manner. We believe that our use of MFFO and the adjustments used to calculate it allow us to present our performance in a manner that reflects certain characteristics that are unique to non-listed REITs, such as their limited life, limited and defined acquisition period and targeted exit strategy, and hence that the use of such measures is useful to investors. For example, acquisition costs are funded from our subscription proceeds and other financing sources and not from operations. By excluding expensed acquisition costs, the use of MFFO provides information consistent with management’s analysis of the operating performance of the properties.



Presentation of this information is intended to provide useful information to investors as they compare the operating performance of different non-listed REITs, although it should be noted that not all REITs calculate FFO and MFFO the same way and as such comparisons with other REITs may not be meaningful. Furthermore, FFO and MFFO are not necessarily indicative of cash flows available to fund cash needs and should not be considered as an alternative to net income (loss) or income (loss) from continuing operations as an indication of our performance, as an alternative to cash flows from operations, as an indication of our liquidity, or indicative of funds available to fund our cash needs including our ability to make distributions to our stockholders. FFO and MFFO should be reviewed in conjunction with other GAAP measurements as an indication of our performance. MFFO is useful in assisting management and investors in assessing the sustainability of operating performance in future operating periods, and in particular, after the offering and acquisition stages are complete. FFO and MFFO are not useful measures in evaluating NAV because impairments are taken into account in determining NAV but not in determining FFO and MFFO.

Neither the Security and Exchange Commission (“SEC”), NAREIT nor any other regulatory body has passed judgment on the acceptability of the adjustments we use to calculate FFO or MFFO. In the future, the SEC, NAREIT or another regulatory body may decide to standardize the allowable adjustments across the non-listed REIT industry and we would have to adjust our calculation and characterization of FFO or MFFO.

The following table reconciles our net loss to FFO and MFFO for the three months ended March 31, 2019 and 2018 (in thousands, except per share data):

	Three Months Ended	
	March 31,	
	2019	2018
Net loss	\$ (556)	\$ (390)
Adjustments to reconcile net loss to FFO		
Depreciation and amortization:		
Continuing operations	670	324
Discontinued operations	44	130
Total FFO	158	64
Straight-line rent adjustments: (1)		
Continuing operations	5	19
Discontinued operations	(13)	(51)
Amortization of above and below market intangibles: (2)		
Discontinued operations	1	2
Acquisition fees and expenses: (3)		
Continuing operations	—	1
Total MFFO	\$ 151	\$ 35
Class A common stock (basic and diluted):		
Weighted average number of Class A common shares outstanding (4) (5)	4,899	825
Net loss per share of Class A common stock outstanding	(0.11)	(0.12)
FFO per share of Class A common stock outstanding	0.03	0.02
MFFO per share of Class A common stock outstanding	0.03	0.01
Class T common stock (basic and diluted):		
Weighted average number of Class T common shares outstanding (4) (5)	—	2,321
Net loss per share of Class T common stock outstanding	—	(0.12)
FFO per share of Class T common stock outstanding	—	0.02
MFFO per share of Class T common stock outstanding	—	0.01
Class I common stock (basic and diluted):		
Weighted average number of Class I common shares outstanding (4) (5)	—	211
Net loss per share of Class I common stock outstanding	—	(0.12)
FFO per share of Class I common stock outstanding	—	0.02
MFFO per share of Class I common stock outstanding	—	0.01





## FOOTNOTES:

- (1) Under GAAP, rental receipts are allocated to periods using various methodologies. This may result in income recognition that is significantly different than underlying contract terms. By adjusting for these items (from a GAAP accrual basis in order to reflect such payments on a cash basis of amounts expected to be received for such lease and rental payments), MFFO provides useful supplemental information on the realized economic impact of lease terms and debt investments, providing insight on the contractual cash flows of such lease terms and debt investments, and aligns results with management's analysis of operating performance.
- (2) Under GAAP, certain intangibles are accounted for at cost and reviewed at least annually for impairment, and certain intangibles are assumed to diminish predictably in value over time and are amortized, similar to depreciation and amortization of other real estate-related assets that are excluded from FFO. However, because real estate values and market lease rates historically rise or fall with market conditions, management believes that by excluding charges relating to amortization of these intangibles, MFFO provides useful supplemental information on the performance of the real estate.
- (3) In evaluating investments in real estate, management differentiates the costs to acquire the investment from the operations derived from the investment. By adding back acquisition expenses, management believes MFFO provides useful supplemental information of its operating performance and will also allow comparability between different real estate entities regardless of their level of acquisition activities. Acquisition expenses include payments to our Advisor or third-parties. Acquisition expenses for business combinations under GAAP are considered operating expenses and as expenses included in the determination of net income (loss) and income (loss) from continuing operations, both of which are performance measures under GAAP. All paid or accrued acquisition expenses will have negative effects on returns to investors, the potential for future distributions, and cash flows generated by us, unless earnings from operations or net sales proceeds from the disposition of properties are generated to cover the purchase price of the property.
- (4) For the purposes of determining the weighted average number of shares of common stock outstanding, stock dividends are treated as if such shares were outstanding as of July 11, 2016 (the date we commenced operations). Effective October 1, 2018, in connection with the close of our Offering, we discontinued our stock dividends.
- (5) In connection with the close of the Offering effective October 1, 2018, we reached certain underwriting compensation limits, and, effective October 31, 2018, each Class T and Class I share automatically converted into a Class A share pursuant to the terms of our charter. As such, there were no Class T or Class I shares outstanding effective October 31, 2018.

## Related Party Transactions

We have entered into agreements with our Advisor and its affiliates, whereby we agree to pay certain fees to, or reimburse certain expenses of, our Advisor or its affiliates for acquisition and advisory services, selling commissions, dealer manager fees, asset management fees and reimbursement of operating costs.

Our Advisor and its affiliates and related parties also are entitled to reimbursement of certain operating expenses in connection with their provision of services to us, including personnel costs, subject to the limitation that, beginning on the earlier of the Expense Year after (i) we make our first investment or (ii) six months after the commencement of the Offering, we will not reimburse the Advisor for any amount by which operating expenses exceed the greater of 2% of our average invested assets or 25% of our net income in any Expense Year unless approved by the independent directors. For the Expense Year ended March 31, 2019, our total operating expenses were in excess of this limitation by approximately \$28,000. As of March 31, 2019, we had received cumulative approvals by our independent directors for total operating expenses in excess of this limitation of approximately \$0.9 million. Our independent directors determined that the higher relationship of operating expenses to average invested assets was justified based on our unattained capital raise expectations, which limited the number of investments, and the cost of operating a public company.

See Note 8. "Related Party Arrangements" in the accompanying condensed consolidated financial statements for additional information.

## Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2019.

## Contractual Obligations

The following table presents our contractual obligations by payment period as of March 31, 2019, including liabilities associated with assets held for sale (in thousands):

	Payments Due by Period				
	2019	2020-2021	2022-2023	Thereafter	Total
Mortgage loans, net (principal and interest)	\$ 871	\$ 8,233	\$ 19,109	\$ —	\$ 28,213
	<u>\$ 871</u>	<u>\$ 8,233</u>	<u>\$ 19,109</u>	<u>\$ —</u>	<u>\$ 28,213</u>

## Critical Accounting Policies and Estimates

See Item 1. “Condensed Consolidated Financial Information (unaudited)” and our Annual Report on Form 10-K for the year ended December 31, 2018 for a summary of our critical accounting policies and estimates.

## Recent Accounting Pronouncements

See Item 1. “Condensed Consolidated Financial Information (unaudited)” for a summary of the impact of recent accounting pronouncements.

### Item 3. Quantitative and Qualitative Disclosures about Market Risks

We may be exposed to financial market risks, specifically changes in interest rates as we have borrowed money to acquire properties. As of March 31, 2019, all of our debt is unhedged variable rate debt. Our management objectives related to interest rate risk is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve our objectives, we assess interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating interest rate protection opportunities through swaps or caps.

The following is a schedule as of March 31, 2019 of our variable rate debt maturities for the remainder of 2019, and each of the next four years and thereafter (principal maturities only) (in thousands):

	Expected Maturities							Fair Value (1)
	2019	2020	2021	2022	2023	Thereafter	Total	
Variable rate debt	\$ —	\$ 5,788	\$ 249	\$ 13,624	\$ 4,839	\$ —	\$ 24,500	\$ 24,591
Average interest rate on variable rate debt	—	LIBOR + 2.21%	LIBOR + 2.57%	LIBOR + 2.70%	LIBOR + 2.25%		LIBOR + 2.49%	

## FOOTNOTE:

(1) The estimated fair value of our variable rate debt was determined using discounted cash flows based on current rates and spreads we would expect to obtain for similar borrowings.

Management estimates that a one-percentage point increase or decrease in LIBOR in 2019, compared to LIBOR rates as of March 31, 2019, would result in fluctuation of interest expense on our variable rate debt of approximately \$0.2 million for the year ending December 31, 2019. This sensitivity analysis contains certain simplifying assumptions, and although it gives an indication of our exposure to changes in interest rates, it is not intended to predict future results and actual results will likely vary given that our sensitivity analysis on effects of changes in LIBOR does not factor in a potential change in variable rate debt levels, or the impact of any LIBOR floors or caps that may exist under our debt arrangements.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures are effective at the reasonable assurance level as of the end of the period covered by this report to provide reasonable assurance that information required

to be disclosed by us in the reports we filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the relevant SEC rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

### *Internal Controls Over Financial Reporting*

During the most recent fiscal quarter, there were no changes in our internal controls over financial reporting (as defined under Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II. OTHER INFORMATION**

### ***Item 1. Legal Proceedings***

From time to time, we may be a party to legal proceedings in the ordinary course of, or incidental to the normal course of, our business, including proceedings to enforce our contractual or statutory rights. While we cannot predict the outcome of these legal proceedings with certainty, based upon currently available information, we do not believe the final outcome of any pending or threatened legal proceeding will have a material adverse effect on our results of operations or financial condition.

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

There have been no material changes in our assessment of our risk factors from those set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### ***Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***

**Unregistered Sales of Equity Securities – None**

**Issuer Purchases of Equity Securities - None**

#### **Use of Proceeds from Registered Securities**

On March 2, 2016, our Registration Statement on Form S-11 (File No. 333-206017), covering a public offering of up to \$2.0 billion shares of common stock, was initially declared effective under the Securities Act of 1933, as amended. Our Primary Offering closed effective October 1, 2018 and was conducted on a “best efforts” basis wherein we offered, in any combination, three classes of our common stock: Class A shares, Class T shares and Class I shares. There were differing selling fees and commissions for each class of common stock. We also paid annual distribution and stockholder servicing fees, subject to certain underwriting compensation limits, on the Class T and Class I shares sold in the Primary Offering.

The use of proceeds from our Primary Offering was as follows as of March 31, 2019 (in thousands):

	<b>Total</b>	<b>Payments to Affiliates (1)</b>	<b>Payments to Others</b>
Aggregate price of offering amount registered (2)	\$ 1,750,000		
Shares sold (3)	4,715		
Aggregate amount sold (3)	\$ 49,479		
Payment of underwriting compensation (4)	(2,257)	\$ (2,257)	\$ —
Net offering proceeds to the issuer	47,222		
Purchases of real estate and development costs	(32,783)	—	(32,783)
Payment of investment services fees and acquisition expenses	(1,727)	(1,382)	(345)
Payment of capital expenditures	(287)	—	(287)
Redemptions of common stock	(447)	—	(447)
Payment of operating expenses (5)	(295)	—	(295)
Repayments of mortgages and notes payable (5)	(2,421)	—	(2,421)
Distributions to stockholders (5)	(1,334)	(382)	(952)
Payment of loan costs	(20)	—	(20)

Remaining proceeds from the Offering

\$ 7,908

**FOOTNOTES:**

- (1) Represents direct or indirect payments to directors, officers, or general partners of the issuer or their associates; to persons owning 10% or more of any class of equity securities of the issuer; and to affiliates of the issuer.
- (2) We also offered, in any combination, up to \$250 million of Class A, Class T and Class I shares pursuant to our Reinvestment Plan, which was suspended effective October 1, 2018.
- (3) Excludes all shares issued as stock dividends, all shares issued pursuant to our Reinvestment Plan, \$200,000 of unregistered shares issued to our Advisor in a private transaction exempt from the registration requirements pursuant to section 4(a)(2) of the Securities Act of 1933, as amended, and \$251,250 of unregistered equity securities sold in our private placement. In October 2018, we discontinued our stock dividends, suspended our Reinvestment Plan and redeemed all shares of common stock sold pursuant to our private placement.
- (4) Underwriting compensation includes selling commissions and fees paid to the Dealer Manager through the close of our Offering; all or a portion of which could be reallocated to participating broker-dealers.
- (5) We have and may continue to pay cash distributions, debt service and/or operating expenses from remaining net proceeds of our Offering and/or borrowings. The amounts presented herein represent the net proceeds used for such purposes.

*Item 3. Defaults Upon Senior Securities* - None

*Item 4. Mine Safety Disclosure* – Not Applicable

*Item 5. Other Information* - None

*Item 6. Exhibits*

The exhibits required by this item are set forth in the Exhibit Index attached hereto and are filed or incorporated as part of this report.

## EXHIBIT INDEX

The following exhibits are included, or incorporated by reference in this Quarterly Report on Form 10-Q for the three months ended March 31, 2019 (and are numbered in accordance with Item 601 of Regulation S-K).

Exhibit No.	Description
3.1	<a href="#"><u>Second Articles of Amendment and Restatement (Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed March 15, 2017 and incorporated herein by reference.)</u></a>
3.2	<a href="#"><u>Amended and Restated Bylaws (Previously filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed May 6, 2016 and incorporated herein by reference.)</u></a>
4.1	<a href="#"><u>Form of Subscription Agreement (Previously included as Appendix B to the Prospectus filed with the Company's Post-Effective Amendment No. 8 to the Registration Statement on Form S-11 (File No. 333-206017), filed April 13, 2018 and incorporated herein by reference.)</u></a>
4.2	<a href="#"><u>Distribution Reinvestment Plan (Previously filed as Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q filed May 6, 2016 and incorporated herein by reference.)</u></a>
4.3	<a href="#"><u>Amended and Restated Redemption Plan (Previously filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed April 17, 2017 and incorporated herein by reference.)</u></a>
4.4	<a href="#"><u>Statement regarding transfer restrictions, preferences, limitations and rights of holders of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) (Previously filed as Exhibit 4.4 to the Company's Pre-Effective Amendment No. 2 to Registration Statement on Form S-11 (File No. 333-206017), filed January 15, 2016 and incorporated herein by reference.)</u></a>
10.1	<a href="#"><u>Amended and Restated Advisory Agreement (Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 6, 2019 and incorporated herein by reference.)</u></a>
10.2	<a href="#"><u>Asset Purchase Agreement for Overland Park (Certain information in this document has been excluded pursuant to Regulation S-K, Item 601(b)(10).) (Filed herewith.)</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer of CNL Healthcare Properties II, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer of CNL Healthcare Properties II, Inc., Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer and Chief Financial Officer of CNL Healthcare Properties II, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)</u></a>
101	The following materials from CNL Healthcare Properties II, Inc. Quarterly Report on Form 10-Q for the three months ended March 31, 2019, formatted in XBRL (Extensible Business Reporting Language); (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on the 9th day of May 2019.

CNL HEALTHCARE PROPERTIES II, INC.

By: /s/ Stephen H. Mauldin  
STEPHEN H. MAULDIN  
Chief Executive Officer and President  
(Principal Executive Officer)

By: /s/ Ixchell C. Duarte  
IXCHELL C. DUARTE  
Chief Financial Officer, Senior Vice President and Treasurer  
(Principal Financial Officer)



**\*\*\*] Certain information in this document has been excluded pursuant to Regulation S-K, Item 601(b)(10). Such excluded information is not material and would likely cause competitive harm to the registrant if publicly disclosed.**

ASSET PURCHASE AGREEMENT  
BETWEEN

CHP II OVERLAND PARK KS MOB OWNER, LLC,

AS SELLER,

AND

HCP MEDICAL OFFICE BUILDINGS, LLC,

AS PURCHASER

Dated as of March 15, 2019

## TABLE OF CONTENTS

<b>1. DEFINITIONS</b>	<b>1</b>
<b>1.1 Definitions</b>	<b>1</b>
<b>2. PURCHASE AND SALE, ASSETS AND LIABILITIES</b>	<b>9</b>
<b>2.1 Purchase and Sale</b>	<b>9</b>
<b>2.2 Description of the Assets</b>	<b>10</b>
<b>2.3 Excluded Assets</b>	<b>11</b>
<b>2.4 Retained Liabilities</b>	<b>11</b>
<b>2.5 Assumed Liabilities</b>	<b>12</b>
<b>3. PURCHASE PRICE</b>	<b>12</b>
<b>3.1 Purchase Price</b>	<b>12</b>
<b>3.2 Deposit.</b>	<b>12</b>
<b>3.3 Payment of Purchase Price.</b>	<b>14</b>
<b>3.4 Allocation of Purchase Price</b>	<b>15</b>
<b>3.5 Like-Kind Exchange</b>	<b>15</b>
<b>4. DUE DILIGENCE AND INSPECTION</b>	<b>15</b>
<b>4.1 Right to Inspect.</b>	<b>15</b>
<b>4.2 Matters Relating to Title.</b>	<b>17</b>
<b>4.3 Assignment and Assumption of Facility Contracts, Tenant Leases, and Transferred Licenses and Permits</b>	<b>19</b>
<b>4.4 Purchaser's Election Whether or Not to Proceed</b>	<b>19</b>
<b>4.5 Indemnification</b>	<b>19</b>
<b>4.6 No Representation or Warranty by Seller</b>	<b>20</b>
<b>5. REPRESENTATIONS AND WARRANTIES</b>	<b>20</b>
<b>5.1 Seller's Representations and Warranties</b>	<b>20</b>
<b>5.2 Purchaser's Representations and Warranties</b>	<b>26</b>
<b>6. COVENANTS</b>	<b>28</b>
<b>6.1 Confidentiality.</b>	<b>28</b>
<b>6.2 IT Systems</b>	<b>29</b>
<b>6.3 Conduct of the Operations of the Property.</b>	<b>30</b>
<b>6.4 Tax Contests.</b>	<b>31</b>
<b>6.5 Notices and Filings</b>	<b>31</b>



6.6	Further Assurances	32
6.7	Estoppel Certificates	32
6.8	Exclusivity	33
6.9	Bulk Sales	33
6.10	Licenses and Permits	33
7.	CLOSING CONDITIONS	33
7.1	Purchaser's Closing Conditions	33
7.2	Failure of Any Purchaser's Closing Condition	35
7.3	Seller's Closing Conditions	35
7.4	Failure of Seller's Closing Conditions	36
8.	CLOSING	36
8.1	Closing Date	36
8.2	Closing Escrow	36
8.3	Seller's Closing Deliveries	37
8.4	Purchaser's Closing Deliveries	39
9.	PRORATIONS AND EXPENSES	39
9.1	Closing Statement	39
9.2	Closing and Other Costs, Adjustments and Prorations	39
9.3	Proration Schedule	41
9.4	Re-Prorations	41
9.5	Cash	41
10.	DEFAULT AND REMEDIES	42
10.1	Seller's Default	42
10.2	Purchaser's Default	42
10.3	Liquidated Damages	42
11.	RISK OF LOSS	43
11.1	Casualty	43
11.2	Condemnation	44
12.	SURVIVAL, INDEMNIFICATION AND RELEASE	44
12.1	Survival	44
12.2	Indemnification by Seller	46
12.3	Indemnification by Purchaser	46

<b>12.4</b>	<b>Indemnification Procedure. Notice of Indemnification Claim</b>	<b>46</b>
<b>12.5</b>	<b>Guarantor Guaranty</b>	<b>47</b>
<b>12.6</b>	<b>Acknowledgements Concerning Representations and Warranties.</b>	<b>47</b>
<b>12.7</b>	<b>Disclaimers by Seller</b>	<b>48</b>
<b>12.8</b>	<b>Sale “As Is, Where Is”</b>	<b>48</b>
<b>12.9</b>	<b>Seller Released from Liability</b>	<b>49</b>
<b>12.10</b>	<b>Survival</b>	<b>50</b>
<b>13.</b>	<b>MISCELLANEOUS PROVISIONS</b>	<b>51</b>
<b>13.1</b>	<b>Notices.</b>	<b>51</b>
<b>13.2</b>	<b>Time is of the Essence</b>	<b>52</b>
<b>13.3</b>	<b>Assignment</b>	<b>52</b>
<b>13.4</b>	<b>Successors and Assigns</b>	<b>52</b>
<b>13.5</b>	<b>Third Party Beneficiaries</b>	<b>52</b>
<b>13.6</b>	<b>Rules of Construction</b>	<b>53</b>
<b>13.7</b>	<b>Severability</b>	<b>53</b>
<b>13.8</b>	<b>Governing Law, Jurisdiction and Venue</b>	<b>53</b>
<b>13.9</b>	<b>WAIVER OF JURY TRIAL</b>	<b>53</b>
<b>13.10</b>	<b>Attorneys’ Fees</b>	<b>54</b>
<b>13.11</b>	<b>Incorporation of Recitals Exhibits, and Schedules</b>	<b>54</b>
<b>13.12</b>	<b>No Other Agreements</b>	<b>54</b>
<b>13.13</b>	<b>Further Actions</b>	<b>54</b>
<b>13.14</b>	<b>No Waiver</b>	<b>54</b>
<b>13.15</b>	<b>Modifications</b>	<b>55</b>
<b>13.16</b>	<b>Counterpart and Electronic Execution</b>	<b>55</b>
<b>13.17</b>	<b>Required Disclosures</b>	<b>55</b>
<b>13.18</b>	<b>No Personal Liability</b>	<b>55</b>
<b>13.19</b>	<b>Good Faith Efforts</b>	<b>55</b>
<b>13.20</b>	<b>Post-Execution Disclosures</b>	<b>55</b>
<b>13.21</b>	<b>No Recordation</b>	<b>55</b>
<b>13.22</b>	<b>Discharge of Obligations</b>	<b>56</b>

## LISTS OF EXHIBITS AND SCHEDULES

### List of Exhibits

Exhibit A –	Property
Exhibit 4.2.5 –	Assignment and Assumption of Ground Lease Form
Exhibit 8.3.1 –	Seller’s Closing Certificate Form
Exhibit 8.3.2 –	Deed Form
Exhibit 8.3.3 –	Bill of Sale Form
Exhibit 8.3.4 –	Assignment and Assumption of Tenant Leases Form
Exhibit 8.3.5 –	Assignment and Assumption of Facility Contracts and Licenses and Permits Form
Exhibit 8.3.6 –	Assignment and Assumption of Intellectual Property Form
Exhibit 8.4.3 –	Purchaser’s Closing Certificate Form

### List of Schedules

Schedule 2.2.4 –	Personal Property
Schedule 2.2.5 –	Tenant Leases and Leasing Costs
Schedule 2.2.7 –	Facility Contracts
Schedule 5.1.6 –	Litigation
Schedule 5.1.8 –	Licenses and Permits

## ASSET PURCHASE AGREEMENT

**THIS ASSET PURCHASE AGREEMENT** (this “**Agreement**”) is made as of March 15, 2019 (the “**Effective Date**”), by and between **CHP II OVERLAND PARK KS MOB OWNER, LLC**, a Delaware limited liability company (“**Seller**”), and **HCP MEDICAL OFFICE BUILDINGS, LLC**, a Delaware limited liability company (“**Purchaser**”) (Seller and Purchaser are at times hereinafter referred to individually as a “**Party**” and collectively as the “**Parties**”).

### R E C I T A L S

- A. Seller is the owner of tenant’s ground lease interest in and to certain real property improved as a medical office building containing approximately 38,496 square feet known as “Overland Park Medical Office Building”, located at 5525 West 119th Street, Overland Park, KS 66209 (the “**MOB**”).
- B. Purchaser desires to purchase, and Seller desires to sell the Assets (as defined herein) on the terms and conditions set forth in this Agreement.

**NOW, THEREFORE**, in consideration of the provisions contained in this Agreement, and intending to be legally bound hereby, the Parties agree as follows:

#### 1. **DEFINITIONS**

##### 1.1 **Definitions**

. In addition to the terms defined in the body of this Agreement, the following terms will have the following meanings in this Agreement:

“**2005 Declaration**” means that certain Declaration of Covenants, Restrictions and Easements dated February 28, 2005 and recorded March 2, 2005 in Official Records Book 200503, Page 937, Register of Deeds, Johnson County, Kansas, as amended by that certain First Amendment to Declaration of Covenants, Restrictions and Easements effectively dated February 28, 2005 and recorded July 20, 2005 in Official Records Book 200507, Page 8859, Register of Deeds, Johnson County, Kansas and as further amended by that certain Second Amendment to Declaration of Covenants, Restrictions and Easements effectively dated December 19, 2017 and recorded January 2, 2018 in Official Records Book 201801, Page 105, Register of Deeds, Johnson County, Kansas.

“**2007 Declaration**” means that certain Declaration of Covenants, Restrictions and Easements dated September 10, 2007 and recorded September 11, 2007 in Official Records Book 200709, Page 2447, Register of Deeds, Johnson County, Kansas.

“**Affiliate**” has the following meaning: two entities are “Affiliates” if

- (a) one of the entities is a Subsidiary of the other entity;
- (b) both of the entities are Subsidiaries of the same entity; or
- (c) both of the entities are Controlled by the same Person.

“Agreement” has the meaning set forth in the first paragraph of this Agreement.

“Applicable Law” means (i) all federal, state, and local statutes, laws, common law, rules, regulations, ordinances, codes, guidances, policies, or other legal requirements of any Governmental Authority, stock exchange, board of fire underwriters and similar quasi-governmental authority, and (ii) any judgment, injunction, restrictive covenant, declaration, order or other similar requirement of any court or other adjudicatory authority of competent jurisdiction in effect at the time in question and in each case to the extent the Person or property in question is subject to the same.

“Assets” has the meaning set forth in Section 2.2 of this Agreement.

“Assumed Liabilities” has the meaning set forth in Section 2.5 of this Agreement.

“Bankruptcy Code” has the meaning set forth in Section 5.1.14 of this Agreement.

“Basket” has the meaning set forth in Section 12.1.1 of this Agreement.

“Books and Records” has the meaning set forth in Section 2.2.12 of this Agreement.

“Business Day” means any day other than a Saturday, Sunday or any United States federal legal holiday.

“Cap” has the meaning set forth in Section 12.1.1 of this Agreement.

“Casualty” has the meaning set forth in Section 11.1 of this Agreement.

“Closing” has the meaning set forth in Section 8.1 of this Agreement.

“Closing Date” means the date on which the Closing takes place.

“Closing Escrow” has the meaning set forth in Section 8.1 of this Agreement.

“Closing Escrow Agreement” has the meaning set forth in Section 8.2 of this Agreement.

“Closing Statement” has the meaning set forth in Section 9.1 of this Agreement.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and any regulations, rulings and guidance issued by the Internal Revenue Service.

“Condemnation” has the meaning set forth in Section 11.2 of this Agreement.

“Control” means:

(a) the right to exercise, directly or indirectly, a majority of the votes which may be voted at a meeting of (i) the shareholders of the corporation, in the case of a corporation, (ii) the shareholders of the general partner, in the case of a limited partnership, or (iii) the equity holders or other voting participants of a Person that is not a corporation or limited partnership; or



(b) the right to elect or appoint, directly or indirectly, a majority of (i) the directors of the corporation, in the case of a corporation, (ii) the directors of the general partner, in the case of a limited partnership, or (iii) a majority of the Persons who have the right to manage or supervise the management of the affairs and business of a Person that is not a corporation or limited partnership,

(c) and “Controlled” has a corresponding meaning.

“Deed” means the deed to be delivered by Seller to Purchaser pursuant to Section 8.3.2.

“Deposit” has the meaning set forth in Section 3.2.1 of this Agreement.

“Effective Date” has the meaning set forth in the opening paragraph of this Agreement.

“Embargoed Person” has the meaning set forth in Section 5.1.24 of this Agreement.

“Environmental Claims” means all claims for reimbursement, remediation, abatement, removal, clean up, contribution, personal injury, property damage or damage to natural resources made by any Governmental Authority or other Person arising from or in connection with (i) the presence or actual or potential spill, leak, emission, discharge or release of any Hazardous Materials over, on, in, under or from the Property, or any portion thereof, or (ii) any violation of any Environmental Laws with respect to the Assets.

“Environmental Laws” means all Applicable Law relating to industrial hygiene or to environmental or unsafe conditions or to human health including, but not limited to, those relating to the generation, manufacture, storage, handling, transportation, disposal, release, emission or discharge of Hazardous Materials, including those in connection with the construction, fuel supply, power generation and transmission, waste disposal or any other operations or processes relating to the Assets, including, without limitation, the Property, or any portion thereof, and those relating to the atmosphere, soil, surface and ground water, wetlands, stream sediments and vegetation on, under, in or about the Assets, including, without limitation, any portion of the Property.

“Environmental Liabilities” means all Liabilities under any Environmental Laws arising from or in connection with the Assets, including, without limitation, any obligations to manage, control, contain, remove, remedy, respond to, clean up or abate any actual or potential presence, spill, leak, emission, discharge or release of any Hazardous Materials, pollution, contamination or radiation into any water, soil, sediment, air, Improvements or other environmental media.

“Escrow Agent” means Title Company, acting in its capacity as escrow agent pursuant to the terms hereof, or such other escrow agent as is mutually acceptable to Seller and Purchaser.

“Exception Cure Period” has the meaning set forth in Section 4.2.1 of this Agreement.

“Excluded Assets” has the meaning set forth in Section 2.3 of this Agreement.

“Facility Contracts” has the meaning set forth in Section 2.2.7 of this Agreement.

“FDIC” has the meaning set forth in Section 3.2.2 of this Agreement.

“First Deposit” has the meaning set forth in Section 3.2.1 of this Agreement.

“Fixtures” has the meaning set forth in Section 2.2.3 of this Agreement.

“Ground Lease” means that certain Ground Lease dated February 28, 2005 between Ground Lessor, as lessor, and MidAmerica Surgery Institute Properties, LLC, a Kansas limited liability company, as lessee, as evidenced by that certain Memorandum of Lease dated February 28, 2005 and recorded March 2, 2005 in Official Records Book 200503, Page 938, Register of Deeds, Johnson County, Kansas, as amended by that certain First Amendment to Ground Lease to Correct Scrivener’s Error dated effective as of February 28, 2005, as further amended by that certain Second Amendment to Ground Lease dated October 21, 2005, as further amended by that certain Amendment to Memorandum of Lease dated January 9, 2007 and recorded February 26, 2007 in Official Records Book 200702, Page 7473, Register of Deeds, Johnson County, Kansas, as further amended by that certain Third Amendment of Ground Lease, dated May 17, 2007 and recorded June 25, 2007 in Official Records Book 200706, Page 8529, Register of Deeds, Johnson County, Kansas, as further amended by that certain Fourth Amendment to Ground Lease dated December 19, 2017 and recorded January 4, 2018 in Official Records Book 201801, Page 889, Register of Deeds, Johnson County, Kansas, and as assigned to Seller pursuant to that certain Assignment and Assumption of Ground Lease dated December 27, 2017 and recorded January 2, 2018 in Official Records Book 201801, Page 102, Register of Deeds, Johnson County, Kansas.

“Ground Lessor” means Central Tennessee Hospital Corporation, a Tennessee corporation.

“Governmental Authority” or “Governmental Authorities” means any federal, state or local government or other political subdivision thereof, including, without limitation, any Person exercising executive, legislative, judicial, regulatory or administrative governmental powers or functions, in each case to the extent the same has jurisdiction over the Person or property in question.

“Guarantor” means CHP II Partners, LP, a Delaware limited partnership.

“Guaranty” has the meaning set forth in Section 12.5 of this Agreement.

“Hazardous Materials” means petroleum and petroleum products, flammable explosives, radioactive materials (excluding radioactive materials in smoke detectors), polychlorinated biphenyls, radon, lead/asbestos in any form, hazardous waste, toxic or hazardous substances, molds, microbiological agents, and other related materials whether in the form of a chemical, biologic, element, natural agent, compound, solution, mixture or otherwise, all to the extent identified, managed, regulated or governed by Environmental Law, including, but not limited to, those materials defined under Environmental Laws as “hazardous substances,” “extremely hazardous substances,” “hazardous chemicals,” “hazardous materials,” “toxic substances,” “solid waste,” “toxic chemicals,” “air pollutants,” “toxic pollutants,” “hazardous wastes,” “extremely hazardous waste,” or “restricted hazardous waste”.

“Improvements” means all buildings, structures, and improvements located on or affixed to the Property, including all fixtures which constitute real property under Applicable Law.

“Indemnification Loss” means, with respect to any Indemnitee, any Liability, including, without limitation, reasonable attorneys’ fees and expenses and court costs, incurred by such Indemnitee as a result of the act, omission or occurrence in question.

“Indemnification Claim” has the meaning set forth in Section 12.4 of this Agreement.

“Indemnitee” has the meaning set forth in Section 12.4 of this Agreement.

“Indemnitor” has the meaning set forth in Section 12.4 of this Agreement.

“Inspection Period” means the period beginning on the Effective Date of this Agreement and ending at 5:00 p.m., Eastern Standard Time, on the twenty-first (21st) day following such Effective Date.

“Inspections” means any inspections, examinations, tests, investigations, or studies of the Assets, including, without limitation, the Property, in each case conducted by or on behalf of Purchaser (or any Affiliate thereof).

“Intangible Assets” has the meaning set forth in Section 2.2.11 of this Agreement.

“Intellectual Property” means all works of authorship, including without limitation, all literary works, pictorial, graphic and sculptural works, architectural works, software, works of visual art, and any other work that may be the subject matter of copyright protection and all worldwide registrations thereof; any trademarks, service marks, brand names, trade dress, trade names, designs and any other word, symbol, device, product configuration, slogan or any combination thereof used to distinguish or identify goods or services that may be the subject matter of trademark protection, including all worldwide applications and registrations therefore and associated goodwill; any patents, invention disclosures or inventions, including all processes, machines, manufactures and compositions of matter, designs and any other invention that may be the subject matter of patent protection, and all worldwide statutory or other legal protection obtained or obtainable therein, including without limitation all published and granted patents and pending applications and provisionals, reissues, divisionals, renewals, extensions, continuations, and continuations-in-part, design patents and industrial design registrations; all domain names, URLs, websites, and all data, content, “look and feel”, operating and underlying code or software of all websites; all trade secrets, proprietary information, data, and knowledge and experience of a technical, commercial or administrative nature, including all proprietary information, know-how, information processes, operating, maintenance and other manuals, data and databases, computer programs, including all documentation, design specifications, and flowcharts, operational and other plans, schematics and drawings, customer/tenant and potential customer/tenant data and lists, advertising, marketing and product concepts and campaigns and other valuable or proprietary information or data; and all worldwide statutory protection obtained or obtainable thereon on all of the preceding; all rights to enforce, enjoin or sue, any claims, judgments, causes of action or other legal and equitable rights and remedies arising out of or related to any infringement, misappropriation or violation of any of the foregoing; and all right, title and interest to claim royalties, residuals, damages and other remuneration for use of any of the foregoing rights.

“Knowledge” means Seller’s Knowledge or Purchaser’s Knowledge, as applicable.

“Leasehold Interests” mean all rights, title and interests of the tenant under the Ground Lease.

“Leasing Costs” means all leasing commissions, brokerage commissions, costs for tenant improvements, tenant improvement allowances, lease buyout costs, moving allowances, design allowances, legal fees, rebates, rent concessions and free, reduced or otherwise abated rent incurred in order to induce a tenant to enter into a Lease or Lease renewal or extension.

“Liability” means any liability, obligation, damage, loss, cost or expense of any kind or nature whatsoever, whether accrued or unaccrued, and “Liabilities” has a corresponding meaning.

“Licenses and Permits” means all licenses, permits, consents, authorizations, approvals, registrations and certificates issued to Seller or its Affiliate by any Governmental Authority in Seller’s or its Affiliate’s name and relating to Seller’s ownership of the Leasehold Interests, Improvements or other Assets.

“MOB” has the meaning set forth in Recital A of this Agreement.

“New Survey Defect” has the meaning set forth in Section 4.2.2 of this Agreement.

“New Title Exception” has the meaning set forth in Section 4.2.2 of this Agreement.

“OFAC” has the meaning set forth in Section 5.1.24 of this Agreement.

“OFAC List” has the meaning set forth in Section 5.1.24 of this Agreement.

“Ordinary Course of Business” means the ordinary course of business consistent with Seller’s past custom and practice for the applicable business, taking into account the commercially reasonable facts and circumstances in existence from time to time.

“Party” or “Parties” has the meaning set forth in the first paragraph of this Agreement.

“Permitted Exception” has the meaning set forth in Section 4.2.1 of this Agreement.

“Person” means any natural person, firm, corporation, general or limited partnership, limited liability company, association, joint venture, trust, estate, Governmental Authority or other legal entity, in each case whether in its own or a representative capacity.

“Personal Property” has the meaning set forth in Section 2.2.2 of this Agreement.

“Plans and Specifications” has the meaning set forth in Section 2.2.9 of this Agreement.

“Property” means that certain real property more particularly described as such on Exhibit A attached hereto.

“Proration Date” has the meaning set forth in Section 9.2.4 of this Agreement.

“Proration Schedule” has the meaning set forth in Section 9.2.4 of this Agreement.

“Prorations” has the meaning set forth in Section 9.2.4 of this Agreement.

“Purchase Price” has the meaning set forth in Section 3.1 of this Agreement.

“Purchaser” has the meaning set forth in the opening paragraph of this Agreement.

“Purchaser’s Closing Condition Failure” has the meaning set forth in Section 7.2 of this Agreement.

“Purchaser’s Closing Conditions” has the meaning set forth in Section 7.1 of this Agreement.

“Purchaser’s Closing Deliveries” has the meaning set forth in Section 8.4 of this Agreement.

“Purchaser’s Default” has the meaning set forth in Section 10.2 of this Agreement.

“Purchaser’s Documents” has the meaning set forth in Section 5.2.2 of this Agreement.

“Purchaser’s Due Diligence Reports” means all studies, reports and assessments prepared by any Person for or on behalf of Purchaser and at Purchaser’s direction (other than any internal studies, reports and assessments prepared by any of Purchaser’s employees, attorneys or accountants) in connection with the Inspections.

“Purchaser’s Indemnitees” means Purchaser and its Affiliates, and each of their respective shareholders, members, partners, trustees, beneficiaries, directors, officers and employees, and the successors, assigns, legal representatives, heirs and devisees of each of the foregoing.

“Purchaser’s Inspectors” means any Person that conducted any Inspections for or on behalf of Purchaser or any Affiliate thereof.

“Purchaser’s Knowledge” means the present actual knowledge of Jay Buckley, who Purchaser represents and warrants is knowledgeable about the matters qualified to Purchaser’s Knowledge in this Agreement; provided that so qualifying Purchaser’s knowledge shall in no event give rise to any personal liability on the part of Jay Buckley, or any other officer or employee of Purchaser, on account of any breach of any representation or warranty made by Purchaser herein.

“Required Disclosure” means any disclosure required by Applicable Law or legal process, including public reporting requirements of applicable securities laws and/or stock exchanges.

“Retained Liabilities” has the meaning set forth in Section 2.4 of this Agreement.

“ROFR” has the meaning set forth in Section 5.1.12 of this Agreement.

“ROFR Affidavit” has the meaning set forth in Section 7.1.9 of this Agreement.

“ROFR Waiver” has the meaning set forth in Section 7.1.9 of this Agreement.

“Second Deposit” has the meaning set forth in Section 3.2.1 of this Agreement.

“Seller” and “Seller” have the meanings set forth in the opening paragraph of this Agreement.

“Seller’s Certificate” means that certain document, the form of which is attached hereto as Exhibit 8.3.1, to be delivered by Seller at Closing.

“Seller’s Closing Condition Failure” has the meaning set forth in Section 7.4 of this Agreement.

“Seller’s Closing Conditions” has the meaning set forth in Section 7.3 of this Agreement.

“Seller’s Closing Deliveries” has the meaning set forth in Section 8.3 of this Agreement.

“Seller’s Default” has the meaning set forth in Section 10.1 of this Agreement.

“Seller’s Documents” has the meaning set forth in Section 5.1.2 of this Agreement.

“Seller’s Due Diligence Materials” means all documents and materials provided by Seller to Purchaser, pursuant to this Agreement or otherwise, together with any copies or reproductions of such documents or materials.

“Seller’s Indemnitees” means Seller and its Affiliates, and each of their respective shareholders, members, partners, trustees, beneficiaries, directors, officers and employees, and the successors, assigns, legal representatives, heirs and devisees of each of the foregoing.

“Seller’s Knowledge” means the present actual knowledge of John F. Starr and Mike Tetrick, who Seller represents and warrants (i) are knowledgeable about the matters qualified to Seller’s Knowledge in this Agreement and (ii) will inquire with Seller’s property manager regarding the matters stated to Seller’s Knowledge in this Agreement that relate to the operation of the Assets; provided that so qualifying Seller’s knowledge shall in no event give rise to any personal liability on the part of John F. Starr and Mike Tetrick, or any other officer or employee of Seller, on account of any breach of any representation or warranty made by Seller herein.

“Subsidiary” means, in respect of any Person:

(d) any corporation of which more than 50% of the outstanding capital stock having ordinary voting power to elect the majority of the board of directors of such corporation is at the time directly or indirectly owned by (i) such Person, (ii) such Person and one or more subsidiaries of such Person, or (iii) one or more subsidiaries of such Person; or

(e) any limited or general partnership, joint venture, limited liability company or other entity as to which (i) such Person, (ii) such Person and one or more of its subsidiaries, or (iii) one or more subsidiaries of such Person owns, more than a 50% ownership, equity or similar interest or has power to direct or cause the direction of management and policies, or the power to elect the general partner or managing partner (or equivalent thereof), of such limited or general partnership, joint venture, limited liability company or other entity, as the case may be.

“Survey Defects” has the meaning set forth in Section 4.2.1 of this Agreement.

“Survey” means the survey of the Property, or any portion thereof, to be obtained by Purchaser, at Purchaser’s option, during the Inspection Period.

“Taxes” means any federal, state, local or foreign, real property, personal property, sales, use, room, occupancy, ad valorem or similar taxes, assessments, levies, charges or fees imposed by any Governmental Authority on Seller with respect to any of the Assets, including, without limitation, any interest, penalty or fine with respect thereto, but expressly excluding any (i) federal, state, local or foreign income, capital gain, gross receipts, capital stock, franchise, profits, estate, gift or generation skipping tax, or (ii) transfer, documentary stamp, recording or similar tax, levy, charge or fee incurred with respect to the transactions described in this Agreement.

“Tenant Leases” has the meaning set forth in Section 2.2.5 of this Agreement.

“Third-Party Claim” means, with respect to the Person in question, any claim, demand, lawsuit, arbitration or other legal or administrative action or proceeding against the Person in question by any other Person which is not an Affiliate of the Person in question.

“Third-Party Estoppels” has the meaning set forth in Section 6.7 of this Agreement.

“Title Commitment” has the meaning set forth in Section 4.2.1 of this Agreement.

“Title Company” means Fidelity National Title Insurance Company, whose address is 1 East Washington Street, Suite 450, Phoenix, Arizona 85003, Attention: Mary Garcia, Senior Commercial Escrow Officer; Phone: 602-343-7571; E-Mail: mary.garcia@fnf.com.

“Title Exceptions” has the meaning set forth in Section 4.2.1 of this Agreement.

“Title Notice” has the meaning set forth in Section 4.2.1 of this Agreement.

“Title Policy” has the meaning set forth in Section 4.2.4 of this Agreement.

“Transferred Licenses and Permits” means Seller’s right, title and interests, if any, in all Licenses and Permits, together with any deposits made by Seller thereunder, to the extent the same and such deposits are transferable or the Parties obtain any consent necessary to effectuate such a transfer.

“Unpermitted Exceptions” has the meaning set forth in Section 4.2.1 of this Agreement.

“Warranties” has the meaning set forth in Section 2.2.10 of this Agreement.

## 2. **PURCHASE AND SALE, ASSETS AND LIABILITIES**

2.1 **Purchase and Sale.** Seller agrees to sell the Assets to Purchaser and Purchaser agrees to buy the Assets from Seller, all in accordance with the terms and conditions set forth in this Agreement.



2.2 **Description of the Assets.** In this Agreement, the term “**Assets**” means all of the following, but expressly excluding the Excluded Assets:

2.2.1 Leasehold Interests. The Leasehold Interests.

2.2.2 Improvements. All Improvements.

2.2.3 Fixtures. All of Seller’s right, title and interest to any fixtures located on, attached to and/or forming a part of the Property, other than those which constitute the Improvements (the “**Fixtures**”)

2.2.4 Personal Property. All of Seller’s tangible personal property located at the Property, including, without limitation, any and all furniture, equipment, machinery, tools, appliances, computer hardware, telecommunications and information technology systems (subject to the terms of any applicable license agreements, a complete listing of which is set forth on Schedule 2.2.4) located at or used in connection with the Property, a complete listing of which is attached as Schedule 2.2.4 (the “**Personal Property**”).

2.2.5 Tenant Leases. All of Seller’s right, title and interest in and to all leases, subleases, licenses, concessions and similar agreements granting to any other Person the right to use or occupy any portion of the Property, a complete listing of which is attached hereto as Schedule 2.2.5 (collectively, the “**Tenant Leases**”) together with all security deposits held by Seller thereunder.

2.2.6 Intellectual Property. All of Seller’s right, title and interest (if any) in and to any Intellectual Property related to the Property, including (if any) all trade names and trademarks associated with the Property and Improvements, to the extent transferable or the Parties obtain any consent necessary to effectuate such transfer.

2.2.7 Assigned Facility Contracts. To the extent assignable or transferable, and to the extent Purchaser has agreed to assume such Facility Contracts in accordance with Section 4.3 hereof, all of Seller’s right, title and interest in and to any contracts, including, but not limited to, maintenance, service and supply contracts, and all other similar agreements for goods or services which are applicable to the operation of the Property, and all leases and purchase money security agreements for any equipment, machinery or other personal property located at the Property (the “**Facility Contracts**”), which Facility Contracts are set forth in Schedule 2.2.7, together with all deposits made or held by Seller thereunder.

2.2.8 Transferred Licenses and Permits. All of Seller’s right, title and interest in and to the Transferred Licenses and Permits together with any deposits made by Seller thereunder.



2.2.9 Plans and Specifications. To the extent assignable or transferable, all of Seller's right, title and interest in and to any plans and specifications, blue prints, architectural plans, engineering diagrams and similar items which specifically relate to the Property (the "**Plans and Specifications**").

2.2.10 Warranties. To the extent assignable or transferable or the Parties obtain any consent necessary to effectuate such assignment or transfer, all warranties, guaranties and indemnities held by Seller with respect to any of the Assets (the "**Warranties**").

2.2.11 Intangible Assets. To the extent assignable or transferable, all of Seller's right, title and interest in and to any and all drawings, surveys, environmental and soil reports, telephone and facsimile numbers listing in directories, vendor and supplier lists and files, credit records and security codes (collectively, the "**Intangible Assets**").

2.2.12 Books and Records. Copies of all of Seller's books and records which relate to the use, ownership or operation of any of the Assets, but expressly excluding all documents and other materials which are legally privileged or constitute attorney work product, any purchase and escrow agreements and correspondence pertaining to Seller's acquisition of the Property, market studies, appraisals, any documents pertaining to any potential acquisition of the Property by any past or prospective purchasers, and any third Person purchase inquiries (the "**Books and Records**").

2.2.13 Other Assets. All other assets, rights, and interest of Seller in and to the Property, not constituting Excluded Assets.

2.3 **Excluded Assets**. Notwithstanding anything to the contrary in Section 2.2, the following property, assets, rights and interests (the "**Excluded Assets**") are excluded from the Assets:

2.3.1 Third-Party Assets. Any fixtures, personal property or intellectual property owned by tenants under Tenant Leases or Seller's property manager.

2.3.2 Accounts Receivable. Seller's accounts receivable and rents receivable accruing prior to the Closing Date.

2.3.3 Organizational Documents. All Organizational Documents, minutes books, stock registers and such other books and records of Sellers as pertain to the ownership, organization or existence of Sellers.

2.3.4 Cash. All cash on hand and cash equivalents, including bank accounts, money market funds and temporary cash investments, but excluding any security deposits held by Seller under the Tenant Leases unless a credit is given to Purchase for such security deposit at Closing.

2.4 **Retained Liabilities.** The parties acknowledge that Purchaser is acquiring the Assets only and, as such, Purchaser shall not have any obligations or liabilities concerning or in any way relating to, arising or accruing from the ownership or operation of the Property prior to Closing, unless the same are explicitly assumed pursuant to the terms of this Agreement (“**Retained Liabilities**”). The Retained Liabilities will include, without limitation, Seller’s obligations under Seller’s existing management agreement for the Assets. The Retained Liabilities will not include any and all accrued but unpaid compensation owed to property manager’s employees as of the Proration Date, including without limitation salary, wages, employment taxes, bonuses, paid time off, vacation, sick days, severance or termination fees or any other accrued but unpaid benefits provided to such employees to the extent Purchaser receives a credit therefor pursuant to Section 9.2.3(b). The rights and obligations of the Parties under this Section 2.4 shall survive the Closing.

2.5 **Assumed Liabilities.** At Closing, Purchaser shall assume (i) all Liabilities under the Ground Lease, Tenant Leases, Facility Contracts and Transferred Licenses and Permits that are not Retained Liabilities and which arise or accrue on or after the Closing Date, (ii) the payment of Taxes and assessments which arise or accrue on or after the Closing Date, and (iii) any and all obligations or liabilities concerning or in any way relating to, arising or accruing from the ownership or operation of the Property or Assets arising on or after the Closing or as a result of Purchaser’s acts or omissions, in each case expressly excluding the Retained Liabilities (“**Assumed Liabilities**”). The rights and obligations of the Parties under this Section 2.5 shall survive Closing.

### 3. PURCHASE PRICE

3.1 **Purchase Price.** The purchase price for the Assets is FIFTEEN MILLION FOUR HUNDRED THOUSAND AND NO/100 DOLLARS (\$15,400,000.00) (the “**Purchase Price**”), which shall be adjusted at Closing as expressly set forth in this Agreement.

#### 3.2 **Deposit.**

3.2.1 **Deposit.** Within three (3) Business Days after the Effective Date, Purchaser shall deliver to Escrow Agent the sum of THREE HUNDRED THOUSAND AND NO/100 Dollars (\$300,000.00), which shall be held by the Escrow Agent as a deposit under this Agreement (the “**First Deposit**”). Unless this Agreement is terminated prior to the expiration of the Inspection Period, whereupon the First Deposit shall be promptly returned by Escrow Agent to the Purchaser, Purchaser shall, within three (3) Business Days following the expiration of the Inspection Period, deposit with the Title Company an additional sum equal to THREE HUNDRED THOUSAND AND NO/100 Dollars (\$300,000.00) (the “**Second Deposit**”) in good funds either by certified bank or cashier’s check or by federal wire transfer. The First Deposit and the Second Deposit (together totaling \$600,000.00), together with any interest earned thereon as provided herein, shall hereinafter be referred to collectively as the “**Deposit**”.

3.2.2 Maintenance of Deposit. The Deposit shall be held by the Escrow Agent in an interest-bearing account, under Purchaser's taxpayer identification number pursuant to the terms and conditions of this Agreement with such changes thereto as may be agreed to by Seller and Purchaser pursuant thereto. The Deposit shall be fully refunded to Purchaser upon termination of this Agreement by Purchaser prior to the expiration of the Inspection Period and otherwise if this Agreement is terminated by Purchaser in accordance with any right of Purchaser to do so under this Agreement. Otherwise, following the Inspection Period, the Deposit shall be non-refundable to Purchaser except as expressly provided in this Agreement. If the Deposit is to be paid to Seller under the provisions of this Agreement, Escrow Agent shall pay the Deposit to Seller in the manner and on the terms and conditions set forth herein. Escrow Agent shall not be responsible for any penalties, or loss of principal or interest or any delays in the withdrawal of the Deposit which may be imposed by the depository as a result of the making or redeeming of the investment pursuant to the instructions of Purchaser and Seller, nor shall Escrow Agent be liable for any loss or impairments of funds while those funds are in the course of collection or while those funds are on deposit in a financial institution if such a loss or impairment results from the failure, insolvency or suspension of such financial institution. Escrow Agent is not responsible for levies by taxing authorities based on the taxpayer identification number used to establish the Account. Purchaser and Seller are aware of the Federal Deposit Insurance Corporation ("**FDIC**") coverage limits for each individual depositor. Further, Purchaser and Seller understand that Escrow Agent assumes no responsibility for any loss that occurs due to any individual depositor's account balance exceeding the amount, if any, insured by the FDIC, and Purchaser and Seller will not hold Escrow Agent liable for any such loss. Purchaser and Seller further understand that certain banking instruments are not covered at all by FDIC insurance.

3.2.3 Disbursement of Deposit to Seller. At Closing, Purchaser shall cause the Escrow Agent to disburse the Deposit to Seller, and Purchaser shall receive a credit against the Purchase Price in the amount of the Deposit.

3.2.4 Refund of Deposits to Purchaser. If this Agreement is terminated and Purchaser is entitled to a refund of the Deposit, whether during the Inspection Period or under any other express provision of this Agreement, then the Escrow Agent shall disburse the Deposit to Purchaser no later than two (2) Business Days after termination.

3.2.5 Forfeiture of Deposit. If Purchaser's Default occurs and remains uncured beyond any applicable cure period, upon the expiration of such cure period, and Seller elects to terminate this Agreement pursuant to Section 10.2, Purchaser shall forfeit the Deposit and Escrow Agent shall disburse the Deposit to Seller no later than two (2) Business Days after the termination of this Agreement by Seller. In such case, pursuant to Section 10.2, the Deposit shall be Seller's sole and exclusive remedy except as otherwise set forth in this Agreement, and the Parties shall have no further rights or obligations under this Agreement, except those which expressly survive such termination.

3.2.6 Disagreements Regarding Deposit. If Escrow Agent shall be unable to determine at any time to whom the Deposit should be paid or if a dispute should develop between Seller and Purchaser concerning the disposition of the Deposit, then in any such event, Escrow Agent shall pay the Deposit in accordance with the joint (or consistent) written instructions of Seller and Purchaser. In the event that such joint (or consistent) written instructions shall not be received by Escrow Agent within ten (10) days after Escrow Agent shall have served written requests for such joint (or consistent) written instructions upon Seller and Purchaser, Escrow Agent shall have the right to pay all of the Deposit into a court of competent jurisdiction in Kansas City, Kansas, and to interplead Seller and Purchaser in respect thereof; and, thereafter, Escrow Agent shall be discharged of any further or continuing obligations in connection with the Deposit.

3.2.7 Escrow Agent's Costs and Expenses. If costs and expenses (including attorneys' fees) are incurred by Escrow Agent because of litigation or any dispute between Seller and Purchaser arising out of the holding of the Deposit, the non-prevailing party in such dispute shall reimburse Escrow Agent for reasonable costs and expenses incurred. Seller and Purchaser hereby agree and acknowledge that Escrow Agent assumes no Liability in connection with the holding or investment of the Deposit pursuant hereto, except for the negligence or willful misconduct of Escrow Agent and its employees and agents. Escrow Agent shall not be responsible for the validity, correctness or genuineness of any document or notice referred to herein; and, in the event of any dispute under this Agreement relating to the disposition of the Deposit, Escrow Agent may seek advice from its own counsel and, provided that Escrow Agent tenders the Deposit into a court of competent jurisdiction in Kansas City, Kansas, Escrow Agent shall be fully protected in any action taken in good faith in accordance with the opinion of Escrow Agent's counsel. Seller and Purchaser hereby agree and acknowledge that the Escrow Agent assumes no Liability in connection with the holding or investment of the Deposit pursuant hereto, and Seller and Purchaser hereby agree to indemnify and hold Escrow Agent harmless from and an all liability, costs, damages, including court costs and attorney's fees, which Escrow Agent may in good faith sustain or incur in connection with this Agreement, except for the gross negligence or willful misconduct of Escrow Agent and its employees and agents.

### 3.3 **Payment of Purchase Price.**

3.3.1 Payment at Closing. At Closing, Purchaser shall pay to Seller (through Escrow Agent) by wire transfer an amount equal to the Purchase Price (as adjusted pursuant hereto), less the Deposit.

3.3.2 Method of Payment. All amounts to be paid by Purchaser to Seller pursuant to this Agreement shall be paid by wire transfer of immediately available U.S. federal funds.

3.4 **Allocation of Purchase Price.** The Parties agree that the Purchase Price shall be allocated between the Property, the Improvements and the Personal Property for title insurance and transfer tax purposes as may be mutually determined by Purchaser and Seller in their reasonable discretion prior to the expiration of the Inspection Period. Otherwise, the Parties shall be free to allocate the Purchase Price as they reasonably see fit.

3.5 **Like-Kind Exchange.** Notwithstanding anything to the contrary in this Agreement, Purchaser may consummate the purchase of the Property as part of a so-called like-kind exchange, simultaneous exchange, non-simultaneous exchange, “Starker deferred” exchange or reverse exchange (each, an “**Exchange**”) pursuant to § 1031 of the Internal Revenue Code, provided that: (a) Purchaser provides Seller notice of same within ten (10) days following the expiration of the Inspection Period; (b) the consummation or accomplishment of an Exchange shall not be a condition precedent or condition subsequent to the Purchaser’s obligations under this Agreement; (c) Purchaser shall effect its Exchange through an assignment of this Agreement, or its rights under this Agreement, to a “qualified intermediary” (as defined in Treas. Reg. § 1.1031(k)-1(g)(4) of the Code); (d) Seller shall not be required to take an assignment of the purchase agreement for the relinquished or replacement property or be required to acquire or hold title to any real property for purposes of consummating an Exchange desired by Purchaser; and (e) Purchaser shall pay any additional costs that would not otherwise have been incurred by Seller had Purchaser not consummated the transaction through an Exchange. Seller shall not, by this Agreement or acquiescence to an Exchange desired by Purchaser, have its rights under this Agreement affected or diminished in any manner or be responsible for compliance with or be deemed to have warranted to Purchaser that its Exchange in fact complies with § 1031 of the Internal Revenue Code. Subject to the foregoing, however, Seller shall reasonably cooperate with Purchaser in order to permit such an Exchange to be made, including executing and delivering additional documents reasonably requested by Purchaser.

#### 4. **DUE DILIGENCE AND INSPECTION**

##### 4.1 **Right to Inspect.**

4.1.1 At all times prior to Closing, Purchaser and Purchaser’s Inspectors shall, subject to at least two (2) business days’ prior notice to Matt Ragsdale (Telephone: 407-650-3608, E-Mail: [matt.ragsdale@cnl.com](mailto:matt.ragsdale@cnl.com)) with a copy to Mike Tetrick (E-Mail: [Mike.Tetrick@cnl.com](mailto:Mike.Tetrick@cnl.com)) (except that for any invasive testing permitted herein or any requested tenant interview at least three (3) business days’ prior notice shall be provided), have the right to enter upon the Property at reasonable times and to perform, at Purchaser’s expense, such Inspections of and concerning the Assets, as Purchaser may reasonably deem appropriate. Upon two (2) Business Days’ notice, Purchaser shall have the right to meet and interview Persons involved in the management and operation of the Property to discuss the business operations, including the revenues, expenses, operation and physical condition of the Assets, and shall have the one-time right to meet and interview tenant representatives (provided, however, Purchaser shall have the right to conduct follow-ups with tenants if reasonably required by Purchaser). In addition, Purchaser shall have the right, but not the obligation, to contact such Governmental Authorities as it may elect in connection with the transactions

contemplated by this Agreement. The Inspections shall not unreasonably interfere with the operation of the applicable Property or the tenant's operations thereon. Purchaser shall allow Seller the opportunity to participate in any communication with a tenant or Governmental Authority and to be present for any physical Inspections of the Assets, but such right to have a Seller representative present shall not cause a material delay in any such communications or Inspections. Within three (3) Business Days following the Effective Date, to the extent in Seller's possession or reasonable control, Seller shall furnish to Purchaser, or make available to Purchaser via an electronic "war room," certain due diligence information with respect to the Assets and shall upon request provide such other information and documentation that Purchaser may reasonably request in writing regarding the Assets so long as such information and documentation is in Seller's possession or control, excluding Seller's internal plans, strategies, policies, resolutions, negotiations, marketing strategies, appraisals, market analyses, projections and similar information proprietary to Seller (collectively, "**Seller Disclosure Materials**").

From the Effective Date through Closing, Seller shall reasonably cooperate with Purchaser, at Purchaser's expense, in the conduct of its Inspections of the Assets and shall answer any reasonable questions of Purchaser and provide updates of the rent rolls and other financial information provided as set forth above or otherwise in the Agreement as the same are produced or at the request of Purchaser and in any event five (5) Business Days prior to Closing. Purchaser and Purchaser's Inspectors shall take all reasonable precautions to not interfere with Seller's operations of the Assets, make reasonable commercial efforts to minimize the impact on the Property of any Inspections and coordinate with Seller regarding communications with Seller's employees and Governmental Authorities relating to the Inspections, except with respect to routine inquiries with Governmental Authorities related to the Property such as zoning reports and lien searches. With respect to physical Inspections of the Assets to be conducted by Purchaser (e.g., environmental Inspections), Purchaser shall retain professional third-party consultants to complete such Inspections and shall require such third-party consultants to maintain liability insurance coverage for their activities that is consistent with liability insurance coverage customarily maintained by similar professional third-party consultants, provided that in all events such liability insurance shall be in an amount at least equal to One Million Dollars (\$1,000,000) combined single limit. Upon Seller's request, Purchaser shall provide insurance certificates evidencing such insurance coverage. Such insurance shall (a) name Seller and Ground Lessor as additional insureds, (b) contain a provision that the insurance provided thereunder shall be primary and noncontributing with any other insurance available to Seller, and (c) otherwise be in a form and substance reasonably satisfactory to the Seller (which approval Seller agrees to provide within one (1) business day following receipt of evidence of insurance and, if Seller fails to respond within one (1) business day, such failure to respond shall be deemed approval by Seller). Notwithstanding the foregoing, Seller agrees to reasonably cooperate with Purchaser if, after commercially reasonable efforts, Purchaser is unable to cause a third-party consultant to strictly comply with the insurance requirements set forth herein so long as such third-party consultant otherwise provides insurance which is generally consistent with insurance coverage customarily maintained by similar professional third-party consultants. Such third-party consultants will be notified of and advised to comply with the confidentiality provisions set forth in this Agreement. If Purchaser or Purchaser's Inspectors intend to undertake or perform any "Phase II" environmental studies or



other invasive or destructive testing, sampling or studies, Purchaser shall first obtain Seller's written approval, such approval not to be unreasonably withheld, conditioned or delayed. At Seller's request, Purchaser shall promptly repair any damage to the Assets arising from or in connection with the Inspections, and restore the Assets, in all material respects and at its sole cost, to the condition which existed immediately prior thereto (to the extent practicable), including replacing paving and landscaping. The foregoing restoration obligations of Purchaser shall survive the Closing or earlier termination of this Agreement. In the event the transaction contemplated by this Agreement is not consummated, Purchaser shall return to Seller or destroy any and all of Seller's Due Diligence Materials provided by Seller to Purchaser hereunder; provided, however, (i) Purchaser's legal department and/or outside counsel may keep one copy of Seller's Due Diligence Materials (in electronic or paper form) and, with respect to copies of such Seller's Due Diligence Materials held by accounting firms, brokers, securities firms or financial institutions, such firms may keep a copy or copies of such Seller's Due Diligence Materials if required by policies and procedures implemented by such accounting firms, brokers, securities firms or financial institutions in order to comply with Applicable Laws, professional standards or reasonable business practice, and (ii) Purchaser and its representatives may retain Seller's Due Diligence Materials to the extent it is "backed-up" on its or their (as the case may be) electronic information management and communications systems or servers, is not available to an end user without use of procedures for which end users are not typically trained and cannot be expunged without considerable effort. All Inspections shall be performed in accordance with all applicable laws.

#### 4.2 **Matters Relating to Title.**

4.2.1 **State of Title.** Purchaser acknowledges its receipt of a commitment for an ALTA owner's title insurance policy from the Title Company for the Property dated February 18, 2019 as file number 190260 (the "**Title Commitment**"), together with legible copies of all title exception documents. Purchaser may also obtain, at its own cost, the Survey during the Inspection Period. Within ten (10) Business Days after the date of receipt by Purchaser of the Title Commitment and Survey (but in any event, five (5) Business days prior to the expiration of the Inspection Period), Purchaser may submit to Seller a written Notice from Purchaser ("**Title Notice**") specifying any alleged defects in or objections to the title shown in the Title Commitment or any of the Survey. Any matters to which Purchaser objects in the Title Notice shall constitute "**Title Exceptions**", and any survey defects to which Purchaser objects in the Title Notice shall constitute "**Survey Defects**" (the Title Exceptions and Survey Defects shall collectively be referred to as the "**Unpermitted Exceptions**"). Notwithstanding the foregoing, Seller agrees that the following shall constitute Unpermitted Exceptions regardless of whether actually objected to by Purchaser: (i) any mortgages, deeds of trust or other security interests for any financing and (ii) Taxes which constitute Title Exceptions which would be delinquent if unpaid at Closing; provided, however, that if any such Taxes are payable in installments, such obligation shall apply only to the extent such installments would be delinquent if unpaid at Closing. Seller shall notify Purchaser in writing within three (3) Business Days of receiving the Title Notice (the "**Exception Cure Period**") whether Seller will cure any Unpermitted Exceptions set forth in the Title Notice

and, if Seller elects to cure such Unpermitted Exceptions, Seller shall do so at its own expense (the failure to so notify Purchaser within such three (3) Business Days being deemed an election not to cure such Unpermitted Exceptions). Upon Purchaser's failure to timely object, all matters shown on the Title Commitment or on the Survey shall thereafter be deemed a "**Permitted Exception**". Any matter which Seller elects or is deemed to have elected not to cure shall also be deemed a Permitted Exception unless Purchaser elects to terminate this Agreement by written notice to Seller within two (2) Business Days after Purchaser receives written notice of Seller's election not to cure such objection or Seller is deemed to have elected not to cure such Unpermitted Exception. If Seller elects to cure any or all of the Unpermitted Exceptions, but is unable to complete the cure of such Unpermitted Exceptions before Closing, Purchaser shall have the right, in its absolute discretion, to elect, upon written notice to Seller within two (2) Business Days of written notice from Seller that Seller is unable to cure such Unpermitted Exceptions, to either (A) proceed to the Closing in which event any such Unpermitted Exceptions shall be deemed to be Permitted Exceptions; or (B) to proceed pursuant to Section 4.2.2. Failure by Purchaser to deliver the notice referred to in the immediately preceding sentence shall be deemed an election under (A) above and failure of Seller to cure or remove any Unpermitted Exception it has elected to cure or remove hereunder shall be an Event of Default. Notwithstanding anything to the contrary in this Agreement, the Ground Lease, the 2005 Declaration and the 2007 Declaration shall be Permitted Exceptions.

4.2.2 Failure of Title. If on the Closing Date the Leasehold Interests and Improvements are not insurable or are subject to any Unpermitted Exceptions, Purchaser may elect, as its sole right and remedy, either (i) to take such title to such interests as can be conveyed, with no abatement of the Purchase Price (except for abatement to the extent of monetary liens of a definite, fixed and ascertainable amount not in excess of the Purchase Price), or (ii) to terminate this Agreement and proceed pursuant to Article 10 below.

4.2.3 Updated Title Commitment and Survey. If prior to Closing any update of the Title Commitment discloses any Title Exception which is not disclosed in a Title Commitment previously obtained by Purchaser and is not caused or created by Purchaser (a "**New Title Exception**"), or any update of the Survey obtained by Purchaser discloses any Survey Defect which is not disclosed in the Survey previously obtained by Purchaser (a "**New Survey Defect**"), Purchaser shall notify Seller of any objections thereto within three (3) Business Days of receipt of such Title Commitment (together with copies of all documents relating to such New Title Exception) or Survey. If Purchaser sends such an objection, the Parties shall have the same rights and obligations with respect to such matters as apply to Unpermitted Exception under Section 4.2.1. Seller will not, during the term of this Agreement, create or permit to exist any New Title Exception or New Survey Defect without Purchaser's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed.



4.2.4 Title Policy. At Closing, Seller shall use commercially reasonable efforts to cause the Title Company to issue an ALTA extended coverage owner's title insurance policy to Purchaser insuring Purchaser as owner of good, marketable and indefeasible (i) leasehold title to the Leasehold Interest and (ii) fee title to the Improvements effective as of the Effective Date with liability in the amount of the Purchase Price subject only to the applicable Permitted Exceptions (the "Title Policy").

4.2.5 Conveyance of the Leasehold Interests and Improvements. At Closing Seller shall convey the Leasehold Interests via the form of Assignment and Assumption of Ground Lease attached hereto as Exhibit 4.2.5 and the Improvements to Purchaser via the Deed, subject only to the Permitted Exceptions (provided, however, neither Assignment nor Deed shall list as a Permitted Exception any exception for any matters appearing solely on the Survey and not otherwise appearing in the public records of Johnson County, Kansas).

4.3 Assignment and Assumption of Facility Contracts, Tenant Leases, and Transferred Licenses and Permits. On the Closing Date, the Tenant Leases shall be assigned by Seller and assumed by Purchaser as of the Closing Date pursuant to the assignment and assumption agreement described in Section 8.3.4 and the Facility Contracts and Transferred Licenses and Permits shall be assigned by Seller and assumed by Purchaser as of the Closing Date pursuant to the assignment and assumption agreement described in Section 8.3.5. Notwithstanding the foregoing, on or before the termination of the Inspection Period, Purchaser shall identify in writing to Seller (i) which Facility Contracts it agrees to assume, and (ii) any such Facility Contracts it does not agree to assume, and Seller shall retain such Facility Contracts as Retained Liabilities or terminate such disapproved Facility Contracts at its sole cost and expense as of the Closing Date. Notwithstanding anything to the contrary, Purchaser shall not be responsible for the obligations under any Facility Contracts that it does not expressly approve in writing during the Inspection Period and assume in the assignment and assumption, all of which Facility Contracts shall constitute Retained Liabilities for purposes of this Agreement.

4.4 Purchaser's Election Whether or Not to Proceed. If Purchaser determines in its sole discretion for any reason, or no reason at all, that it does not desire to acquire the Assets and Purchaser notifies Seller and the Escrow Agent of such determination in writing prior to the expiration of the Inspection Period, then the Deposit shall be returned to Purchaser, this Agreement shall be of no further force or effect, and the Parties hereto shall have no further obligations to the other (except for any obligations or liabilities that expressly survive termination of this Agreement). In any instance where Purchaser has the discretion to elect to terminate this Agreement, and in fact does elect to terminate this Agreement pursuant to this Article 4, Escrow Agent shall return the Deposit to Purchaser without further instructions, consent or written authorization by Seller. This provision shall constitute the mutual escrow instructions to Escrow Agent and Escrow Agent shall be entitled and required to rely upon such instructions to return the Deposit to Purchaser without consent or further action by Seller.

4.5 Indemnification. Purchaser shall indemnify, save, insure pay, defend and hold harmless Seller's Indemnitees in accordance with Article 12 from and against any Indemnification Loss incurred by Seller's Indemnitee arising from or in connection with the Inspections (including,

without limitation, any liens placed on the Assets or any other property owned by a Person other than Purchaser as a result of such Inspections), except (a) to the extent resulting from the gross negligence or willful misconduct of Seller's Indemnitee or (b) for the discovery of any preexisting condition at the Property which is not exacerbated by Purchaser.

4.6 **No Representation or Warranty by Seller.** Purchaser acknowledges that, except as expressly set forth in the Seller's Documents, Seller has not made and does not make any warranty or representation regarding the truth, accuracy or completeness of the Property or Seller's Due Diligence Materials or the source(s) thereof. Purchaser further acknowledges that, except as expressly set forth in the Seller's Documents, some if not all of the Seller's Due Diligence Materials were prepared by third parties other than Seller. Except as expressly set forth in the Seller's Documents, Seller expressly disclaims any and all liability for representations or warranties, express or implied, statements of fact and other matters contained in such information, or for omissions from the Seller's Due Diligence Materials, or in any other written or oral communications transmitted or made available to Purchaser. Except as expressly set forth in the Seller's Documents (including Seller's representations and warranties in Section 5.1, which Seller acknowledges Purchaser has relied on) Purchaser shall rely solely upon its own investigation with respect to the Property and Assets, including, without limitation, the Property's and Assets' physical, environmental or economic condition, compliance or lack of compliance with any ordinance, order, permit or regulation or any other attribute or matter relating thereto. Except as expressly set forth in the Seller's Documents, Seller has not undertaken any independent investigation as to the truth, accuracy or completeness of the Seller's Due Diligence Materials and are providing the Seller's Due Diligence Materials solely as an accommodation to Purchaser.

## 5. REPRESENTATIONS AND WARRANTIES

5.1 **Seller's Representations and Warranties.** To induce Purchaser to enter into this Agreement and to consummate the transactions described in this Agreement, Seller hereby makes the representations and warranties in this Section 5.1, upon which Seller acknowledges and agrees that Purchaser is entitled to rely, and as of Closing shall provide a certificate reconfirming that all such representations and warranties remain true and correct as of the Closing Date, except as updated in accordance with Section 13.20.

5.1.1 **Organization and Power.** Seller is duly formed, validly existing, in good standing in the jurisdiction of its incorporation or formation, and is qualified to do business in the State of Kansas and has all requisite limited liability company power and authority to own the Leasehold Interests and conduct the business as currently owned and conducted on the Property.

5.1.2 **Authority and Binding Obligation.** (i) Seller has obtained the approval of its members of this Agreement and the transactions described herein and has full power and authority to execute and deliver this Agreement and all other documents to be executed and delivered by it pursuant to this Agreement (such documents, together with this Agreement, collectively, the "**Seller's Documents**"), and to perform all obligations required of it under each of Seller's Documents; (ii) the execution and delivery by Seller of this Agreement and, when executed and delivered, the other Seller's Documents, and the performance by

Seller of its obligations under this Agreement and, when executed and delivered, each of the other Seller's Documents, have been duly and validly authorized by all necessary limited liability company action by Seller; and (iii) this Agreement and, when executed and delivered, the other Seller's Documents constitutes, or will constitute, legal, valid and binding obligations of Seller enforceable against Seller in accordance with its and their terms, except to the extent Purchaser itself is in default hereunder or thereunder.

5.1.3 Consent and Approvals; No Conflicts. Subject to the recording of Seller's Documents, as appropriate, (i) no filing with, and no permit, authorization, consent or approval of, any Governmental Authority or other Person is necessary for execution or delivery by Seller of any of Seller's Documents, or the performance by Seller of any of its obligations under this Agreement or any of Seller's Documents or the consummation by Seller of the transactions described in this Agreement, except to the extent such permit, authorization, consent or approval (a) has been or will be obtained by Seller prior to or at Closing or (b) obtaining such permit, authorization, consent or approval is Purchaser's responsibility hereunder, and (ii) neither the execution and delivery by Seller of any of the Seller's Documents, nor the performance by Seller of any of its obligations under any of the Seller's Documents, nor the consummation by Seller of the transaction described in this Agreement, will: (A) violate any provision of Seller's organizational or governing documents; (B) to Seller's Knowledge, violate any Applicable Law; (C) result in a violation or breach of, or constitute a default under any material Facility Contract, or (D) result in the creation or imposition of any lien or encumbrance on the Property or any portion thereof.

5.1.4 Condemnation. Seller has not received any written notice of any pending condemnation proceeding or other proceeding in eminent domain, and to Seller's Knowledge, no such condemnation proceeding or eminent domain proceeding is threatened affecting the Property, or any portion thereof.

5.1.5 Compliance with Applicable Law. Seller has not received any written notice of, any violation of any provision of Applicable Law with respect to the ownership, operation, use, maintenance or condition of the Property and to Seller's Knowledge, no such violation exists, in each case which has not been cured or dismissed with prejudice.

5.1.6 Litigation. Except as set forth on Schedule 5.1.6, Seller has not (i) been served or threatened in writing with any court filing in any litigation with respect to any Assets in which Seller is named a party which has not been resolved, settled or dismissed or (ii) received written notice of any claim, charge or complaint from any Governmental Authority pursuant to any administrative, arbitration, or similar adjudicatory proceeding with respect to any Assets which has not been resolved, settled or dismissed.

5.1.7 Taxes. All Taxes which would be delinquent if unpaid at Closing will be paid in full or prorated at Closing as part of the Prorations pursuant to Article 9; provided, however, that if any Taxes are payable in installments, such representation and warranty shall apply only to such installments which would be delinquent if unpaid at Closing. Seller has not received any written notice for an audit or delinquency of any Taxes with respect to any Assets which has not been resolved or completed. To Seller's Knowledge, there are no outstanding unpaid municipal assessment notices against the Assets. Seller is not currently contesting any Taxes with respect to any Assets. All state and local Tax returns and Tax reports required to be filed by Seller with respect to the Assets on or before the date hereof have been timely filed with the appropriate governmental agencies. All Taxes and other assessments and levies which Seller is required by law to withhold or to collect with respect to the Assets have been duly withheld and collected, and have been paid over to the proper governmental authorities and agencies to the extent due and payable. Other than extensions to file any Seller's tax returns, there are no agreements by Seller for the extension of time for the assessment of any Tax.

5.1.8 Licenses and Permits. Schedule 5.1.8 sets forth a correct and complete listing of the material Licenses and Permits, and Seller has made, or will make, available to Purchaser a true and complete copy of the material Licenses and Permits. Except as set forth in Schedule 5.1.8, Seller has not received any written notice from any Governmental Authority or other Person of (i) any violation, suspension, revocation or non-renewal of any Licenses and Permits with respect to the Property or the Assets that has not been cured or dismissed, or (ii) any failure by Seller to obtain any Licenses and Permits required for the Property or the operation of the business on the Property that has not been cured or dismissed.

5.1.9 Ground Lease. To Seller's Knowledge, the Ground Lease is in full force and effect and neither Seller nor Ground Lessor is in breach or default under any obligation thereunder, or any provision thereof. Seller has received no written notice of default under the Ground Lease nor has Seller served upon Ground Lessor written notice of default by Ground Lessor under the Ground Lease. Other than the Ground Lease or Permitted Exceptions, there are no additional agreements between Seller and Ground Lessor that will be binding on Purchaser after the Closing. Seller has provided to Purchaser a true, correct, and complete copy of the Ground Lease and all amendments thereto. Seller is the current tenant under the Ground Lease.

5.1.10 Tenant Leases. Schedule 2.2.5 sets forth a true, correct and complete copy of the list of the Tenant Leases and rent roll with respect to the Tenant Leases prepared by Seller's property manager and relied upon by Seller in the ordinary course of its business operations with respect to the Property, and Seller has made available to Purchaser for review a copy of each of the Tenant Leases in Seller's possession, which are true, correct and complete copies of the Tenant Leases in all material respects. Neither Seller nor, to Seller's Knowledge, any tenant is in breach or default of any Tenant Leases and Seller has not given nor received any written

notice of any breach or default under any of the Tenant Leases which has not been cured. No rents due under any of the Tenant Leases are presently assigned, hypothecated or encumbered by Seller, other than in connection with any mortgage encumbering the Property which shall be satisfied prior to or in connection with the Closing. Except as set forth in Schedule 2.2.5, there are no outstanding Leasing Costs, in each case in connection with the current term of occupancy or any extension thereof of tenants under the Tenant Leases. Except as set forth on Schedule 2.2.5, no rent under any of the Tenant Leases has been prepaid (except for rental for the current month and payments that are required to be made in advance pursuant to the terms and provisions of the Tenant Leases and except for prepayments set forth in the Tenant Leases). No tenant has notified Seller in writing of its intent to terminate its Tenant Lease prior to expiration of the term of such Tenant Lease. Prior to Closing, Seller will deliver to Purchaser an updated rent roll signed by a representative of Seller which shall contain updated information prepared by Seller's property manager, current as of no earlier than five (5) Business Days prior to Closing and shall replace the rent roll attached hereto as part of Schedule 2.2.5 for all purposes under this Agreement; provided, however, that the foregoing shall in no way limit Purchaser's rights in the event that the rent roll attached hereto as part of Schedule 2.2.5 is not true, correct and complete as of the date of this Agreement. Seller does not hold any letters of credit or other security under any of the Tenant Leases other than in the form of a cash security deposit.

5.1.11 Possession. Except pursuant to the Permitted Exceptions, Tenant Leases, and Facility Contracts, no Person other than Seller has any license, lease or other right pursuant to an agreement signed by or on behalf of Seller or Seller's property manager relating to the use or possession of the Property or any part thereof.

5.1.12 Purchase Rights. There are no options or other agreements of any kind, whereby any Person other than Purchaser will have acquired or has any right to acquire title or interest to all or any portion of the Assets, and there are no purchase contracts, options or other agreements of any kind, whereby any Person has any right to acquire title or interest to all or any portion of the Assets, except for the rights of first refusal held collectively by Ground Lessor and Las Encinas Hospital, a California corporation, as the "Hospital Parcel Owner" under each of the 2005 Declaration and the 2007 Declaration (the "**ROFR**").

5.1.13 Facility Contracts. Schedule 2.2.7 sets forth a true, correct and complete list of the Facility Contracts. The copies heretofore delivered to Purchaser are true, correct and complete in all material respects. Except as set forth on Schedule 2.2.7, Seller has neither given nor received any written notice of any breach or default under any of the Facility Contracts which has not been cured and, to Seller's Knowledge, no party to the Facility Contracts is in breach or default under any material obligation thereunder or any provisions thereof and each of the Facility Contracts is in full force and effect in accordance with its terms. With respect to any Persons whose consent is required as a condition to

Seller's assignment of the Facility Contracts to Purchaser at Closing, Seller covenants to employ diligent, good faith efforts to obtain such consent(s) in writing (in a form reasonably acceptable to Purchaser) prior to the Closing Date.

5.1.14 Bankruptcy. Seller is not insolvent within the meaning of Title 11 of the United States Code, as amended (the "**Bankruptcy Code**"), and Seller is able to repay its debts as they become due. Seller has not filed or taken any action to file a voluntary petition, case or proceeding under any section or chapter of the Bankruptcy Code, or under any similar law or statute of the United States or any state thereof, relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of its debts and no such petition, case or proceeding has been filed against it which has not been dismissed, vacated or stayed on appeal and Seller has not been adjudicated as a bankrupt or insolvent or consented to, nor filed an answer admitting or failing reasonably to contest an allegation of bankruptcy or insolvency. Seller has not sought, or consented to or acquiesced in, the appointment of any receiver, trustee, liquidator or other custodian of it or a material part of its assets, and Seller has not made or taken any action to make a general assignment for the benefit of creditors or an arrangement, attachment or execution has been levied and no tax lien or other governmental or similar lien has been filed, against it or a material part of its properties, which has not been duly and fully discharged prior to the date hereof.

5.1.15 Construction Contracts. There are no outstanding contracts made by Seller for the construction or repair of any Improvements, and Seller shall discharge and have released of record or bonded all mechanic's, builder's or materialman's liens, if any, arising from any labor or materials furnished to any portion of the Property prior to the Closing to the extent any such lien is not bonded over pursuant to Applicable Law and to Purchaser's reasonable satisfaction.

5.1.16 Insurance Policies. Seller has not received written notice from any insurance carrier of defects or inadequacies in the Assets which, if uncorrected, would result in a termination of insurance coverage or a material increase in the premiums charged therefor. Seller shall maintain uninterrupted insurance coverage through the Closing Date.

5.1.17 Environmental Condition of Property. To Seller's Knowledge, there are no underground storage tanks on the Property and the Property does not contain any Hazardous Materials (other than any Hazardous Materials situated at the Property in the Ordinary Course of Business or the ordinary course of business of any tenant or other occupant of the Property which are stored, held, used and disposed of in compliance with Environmental Laws) and there are no Environmental Claims, Environmental Liabilities or violations of Environmental Laws in respect of the Property.

5.1.18 Management Agreements. As of the Closing Date, there will be no management agreements with respect to the Assets other than the Seller's existing management agreement for the Assets, for which a termination notice shall be delivered and effective as of the Closing Date.



5.1.19 Compliance with Of-Record Matters. Seller has not received, nor given, any written notice, nor does Seller have any Knowledge, of any material violation of any easement, restriction, covenant, declaration or other matter of record which has not been cured or dismissed and there exists no breach or default with respect to any such matter.

5.1.20 Finders and Investment Brokers. Seller has not dealt with any Person who has acted, directly or indirectly, as a broker, finder, financial adviser or in such other capacity for or on behalf of Seller in connection with the transactions contemplated by this Agreement in a manner which would entitle such Person to any fee or commission in connection with this Agreement or the transactions contemplated by this Agreement.

5.1.21 Foreign Person. Seller is a “United States person” (as defined in Section 7701(a)(30)(B) or (C) of the Code) for the purposes of the provisions of Section 1445(a) of the Code.

5.1.22 Financial Statements. The profit and loss statements for the Property for the years ended December 2016, December 2017 and December 2018 and year to date financial statements from January 2019 have been provided to Purchaser and: (i) are true and complete copies of the profit and loss statements for such periods prepared by Seller’s property manager and submitted to Seller in the ordinary course of its business operations with respect to the Property; and (ii) to Seller’s Knowledge, present fairly, in all material respects, the operation results of the Property for the periods covered by such income statements, subject to standard year-end adjustments for any year to date income statements and financial notes and qualifications to such statements. No later than five (5) Business Days prior to Closing, Seller will deliver to Purchaser true, correct and complete copies of the most recent available profit and loss statements prepared by Seller’s property manager and submitted to Seller in the ordinary course of its business operations with respect to the Property.

5.1.23 Intellectual Property. To Seller’s Knowledge, Seller does not own, license or control any Intellectual Property in connection with the Property, including without limitation the name “Overland Park Medical Office Building”. Seller has not received written notification of any claims or actions by any party disputing or challenging Seller’s right to use the name “Overland Park Medical Office Building” or any variation thereof.

5.1.24 Prohibited Persons and Transactions. Seller and, to Seller’s Knowledge, each Person owning a direct or indirect interest in Seller is (i) currently in compliance with and shall at all times during the term of this Agreement (including any extension thereof) remain in compliance with the regulations of Office of Foreign Assets Control (“**OFAC**”) (including those named on OFAC’s Specially Designated Nationals and Blocked Persons List maintained by OFAC and/or on any other similar list maintained by OFAC pursuant to any authorizing statute, executive order or regulation (collectively, the

“**OFAC List**”) and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action relating thereto, (ii) not currently identified on any OFAC List, and (iii) not a person or entity with whom a citizen of the United States is prohibited to engage in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or Executive Order of the President of the United States. None of the funds or other assets of Seller constitute property of, or, to Seller’s Knowledge, are beneficially owned, directly or indirectly, by any Embargoed Person (as hereinafter defined). To Seller’s Knowledge, no Embargoed Person has any interest of any nature whatsoever in Seller (whether directly or indirectly). The term “**Embargoed Person**” means any person, entity or government subject to trade restrictions under U.S. law, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq., and any Executive Orders or regulations promulgated thereunder with the result that the investment is prohibited by law or is in violation of law.

5.1.25 Restriction of Access. Seller has no Knowledge of any current federal, state, county or municipal plans to materially restrict or materially change access to any part of the Property from any highway or road leading directly to or abutting any part of the Property.

5.1.26 Title to Personal Property. Seller has good and valid title to all tangible Personal Property, which shall be free and clear of all liens and encumbrances as of the Closing (subject, in the case of computer hardware, telecommunications and information technology systems, to the terms of any applicable license agreement set forth on Schedule 2.2.4).

5.1.27 Employees. Seller does not have, and has never had, any employees, and no Persons are employed by Seller in connection with the Property.

5.2 **Purchaser’s Representations and Warranties**. To induce Seller to enter into this Agreement and to consummate the transactions described in this Agreement, Purchaser hereby makes the representations and warranties in this Section 5.2, upon which Purchaser acknowledges and agrees that Seller are entitled to rely, and as of Closing shall provide a certificate reconfirming that all such representations and warranties remain true and correct as of the Closing Date, except as updated in accordance with Section 13.20.

5.2.1 Organization and Power. Purchaser is duly incorporated or formed (as the case may be), validly existing and in good standing in the jurisdiction of its incorporation or formation, and has all requisite power and authority to own, lease and operate its properties and to carry on its business as currently being conducted.

5.2.2 Authority and Binding Obligation. Purchaser has full power and authority to execute and deliver this Agreement and to perform all obligations of Purchaser arising under this Agreement. Subject to Purchaser obtaining approval from its Investment Committee during the Inspection Period, Purchaser has full



power and authority to execute and deliver all other documents to be executed and delivered by Purchaser pursuant to this Agreement (such documents, together with this Agreement, collectively, the “**Purchaser’s Documents**”), and to perform all obligations of Purchaser arising under each of Purchaser’s Documents. The execution and delivery by the signer on behalf of Purchaser of this Agreement and, when executed and delivered, each of the other Purchaser’s Documents, and the performance by Purchaser of its obligations under this Agreement, and when executed and delivered, each of the other Purchaser’s Documents, has been, or will be, duly and validly authorized by all necessary actions by Purchaser. This Agreement and, when executed and delivered, each of the other Purchaser’s Documents, constitutes, or will constitute, legal, valid and binding obligations of Purchaser, enforceable against Purchaser in accordance with its and their terms, except to the extent Seller is in default thereunder. Unless Purchaser terminates this Agreement prior to the end of the Inspection Period as provided for herein, following the expiration of the Inspection Period, Purchaser shall be deemed to have represented that it has obtained all necessary Investment Committee approvals.

5.2.3 Consents and Approvals; No Conflicts. No filing with, and no permit, authorization, consent or approval of, any Governmental Authority or other Person is necessary for the execution or delivery by Purchaser of this Agreement or the performance by Purchaser of any of its obligations under this Agreement. Other than approval by Purchaser’s Investment Committee referenced in Section 5.2.2. above, no filing with, and no permit, authorization, consent or approval of, any Governmental Authority or other Person is necessary for the execution or delivery by Purchaser of any of Purchaser’s Documents, the performance by Purchaser of any of its obligations under any of Purchaser’s Documents, or the consummation by Purchaser of the transactions contemplated by any of Purchaser’s Documents. Upon receipt of Investment Committee approval by Purchaser, neither the execution and delivery by Purchaser of any of Purchaser’s Documents, nor the performance by Purchaser of any of its obligations under any of Purchaser’s Documents, nor the consummation by Purchaser of the transactions described in this Agreement, will: (A) violate any provision of the organizational or governing documents of Purchaser; (B) violate any Applicable Law to which Purchaser is subject; or (C) result in a violation or breach of or constitute a default under any material contract, agreement or other instrument or obligation to which Purchaser is a party or by which any of Purchaser’s properties are subject.

5.2.4 Finders and Investment Brokers. Purchaser has not dealt with any Person who has acted, directly or indirectly, as a broker, finder, financial adviser or in such other capacity for or on behalf of Purchaser in connection with the transactions described by this Agreement in any manner which would entitle such Person to any fee or commission in connection with this Agreement or the transactions described in this Agreement.

5.2.5 Prohibited Persons and Transactions. Purchaser and, to Purchaser's Knowledge, each Person owning a direct or indirect interest in Purchaser is (i) currently in compliance with and shall at all times during the term of this Agreement (including any extension thereof) remain in compliance with the regulations of OFAC (including those named on any OFAC List) and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action relating thereto, (ii) not currently identified on any OFAC List, and (iii) not a person or entity with whom a citizen of the United States is prohibited to engage in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or Executive Order of the President of the United States. None of the funds or other assets of Purchaser constitute property of, or, to Purchaser's Knowledge, are beneficially owned, directly or indirectly, by any Embargoed Person (as hereinafter defined). To Purchaser's Knowledge, no Embargoed Person has any interest of any nature whatsoever in Purchaser (whether directly or indirectly).

## 6. COVENANTS

### 6.1 Confidentiality.

6.1.1 Disclosure of Confidential Information. Prior to Closing, the Parties acknowledge and agree that the existence of this Agreement, the terms of this Agreement and any other information disclosed in Seller's Due Diligence Materials, Purchaser's Due Diligence Reports or any other documents, materials, data or other information with respect to the Assets which is not generally known to the public shall be confidential; provided, that each Party may disclose information about the transaction and information it receives during its investigation of the Property (i) to the extent already within the public domain, (ii) to the extent it is a Required Disclosure, and (iii) consistent with Purchaser's standard business practice in connection with public filings. Notwithstanding the foregoing, (a) Purchaser may reveal and deliver Seller's Due Diligence Materials, Purchaser's Due Diligence Reports, and all other documents, information, and materials concerning the Property and transaction contemplated by this Agreement to its agents, representatives, lenders, potential lenders, investors, principals, Affiliates, potential managers and such other Persons whose assistance is necessary or desirable to consummate the transactions described in this Agreement, and (b) Purchaser shall not be obligated to keep confidential any information or materials Purchaser obtains from sources other than Seller or its representatives or that Purchaser develops on its own without the use of Seller's confidential information. Nothing herein shall restrict or limit Seller or Purchaser from communicating with tenants, lenders, contract parties, owners associations, or government officials or bodies in connection with obtaining estoppels or other required consents or approvals, in connection with Purchaser's due diligence pursuant to this Agreement or as may be reasonably necessary to consummate the transactions contemplated under this Agreement, or Purchaser from contacting

Seller's company officials, property engineers and architects, and other third-party consultants assisting Purchaser in its investigation of the Assets, subject to Section 6.1.3. Nothing herein shall restrict or limit Seller from communicating the existence and progress of the transactions contemplated by this Agreement to their lenders.

6.1.2 Public Announcements. Prior to Closing, no Party shall have the right to make a public announcement regarding the transactions described in this Agreement without the prior approval of the other Party. Notwithstanding the foregoing, Seller and Purchaser shall approve the timing, form and substance of any such public announcement, which approval shall not be unreasonably withheld, conditioned or delayed, except to the extent such disclosure is a Required Disclosure, in which case no such approval by any other Party shall be required. Following Closing, each Party shall have the right to make a public announcement regarding the transactions described in this Agreement without the necessity of approval by the other Party, except as otherwise provided in the following sentence. Notwithstanding anything in this Section 6.1.2 to the contrary, at any time prior to or following Closing, (i) no public announcement or public filing may include the identity of the other Party or the Purchase Price without the prior consent of the other Party in its sole and absolute discretion, unless the identity of such Party or the Purchase Price has been or is required to be disclosed pursuant to Applicable Law or other Required Disclosure, and (ii) in connection with any Required Disclosure, the disclosing Party shall use commercially reasonable efforts to seek confidential treatment of any information as requested by the other Party.

6.1.3 Communication with Governmental Authorities. Purchaser and its representatives and consultants shall have the right to review building department, health department and other local Governmental Authority records with respect to the Assets and the operation of the Property and request written or verbal confirmation of zoning and any other compliance by the Assets with any Applicable Law. Purchaser and its representatives and consultants shall have the right to contact Governmental Authorities to pursue the issuance of any Licenses and Permits desired by Purchaser. Following the expiration of the Inspection Period, Purchaser and its representatives and consultants shall have the right to communicate with any Governmental Authority or any official, employee or representative thereof, involving any matter with respect to the Property or the Assets.

6.2 IT Systems. With respect to any Personal Property consisting of computer hardware, telecommunications and information technology systems, Seller shall provide Purchaser with a contact name and telephone number of the applicable licensor, vendor or supplier for such Personal Property, and (i) Purchaser and Seller shall cooperate in obtaining any consents or approvals necessary for the assignment or transfer of such Personal Property from Seller to Purchaser, or a new license for such Personal Property (as the case may be), and (ii) Seller shall pay any fees or expenses charged by the licensor, vendor or supplier of such Personal Property in respect of such assignment or transfer or new license (as the case may be). The provisions of this Section 6.2 shall survive the Closing.

## 6.3 Conduct of the Operations of the Property.

6.3.1 Operation, Maintenance and Repair in Ordinary Course of Business. From the Effective Date until Closing or earlier termination of this Agreement, Seller shall conduct the operations of the Property in the Ordinary Course of Business including, without limitation, (i) performing maintenance and repairs to the Property and the Assets in the Ordinary Course of Business; (ii) maintaining insurance coverage consistent with Seller's risk management policies in place as of the date hereof; and (iii) replacing and/or repairing Personal Property in the Ordinary Course of Business. Seller shall maintain the Assets in accordance with the Ordinary Course of Business (such obligation to include the maintenance of Seller's casualty and liability insurance policies in the Ordinary Course of Business), subject to reasonable wear and tear and further subject to destruction by casualty or eminent domain. Purchaser shall have the right to inspect the Assets prior to Closing to determine if any Seller has breached the covenants of such Seller in this Section 6.3.1. Seller in all material respects shall comply with the terms conditions and requirements under the Facility Contracts, Tenant Leases, and Licenses and Permits, and shall continue to make all payments due thereunder prior to delinquency (whether or not Purchaser shall assume the same). Seller shall not sell, remove or otherwise dispose of any Assets other than the removal or disposal of worn out or obsolete Personal Property in the Ordinary Course of Business.

6.3.2 Facility Contracts, Tenant Leases and Licenses and Permits. From the expiration of the Inspection Period until Closing or earlier termination of this Agreement, Seller shall not, (i) without Purchaser's prior written consent in its sole discretion, amend, extend, renew or terminate any of the existing Facility Contracts, Tenant Leases or Licenses and Permits, or (ii) without Purchaser's prior written consent in its sole discretion, procure or enter into any new contract that will be binding on Seller or the Property after the Closing, or any new tenant leases or licenses or permits; provided, that in the event of an emergency involving the threat of material damage or injury to the Property, the Assets or individuals, Seller may enter into Facility Contracts to remediate or address such damage or injury without Purchaser's consent, to the extent such Facility Contracts will not bind Purchaser following Closing and Seller notifies Purchaser that such Facility Contract has been executed as soon as reasonably practicable. Promptly following the execution thereof, and in any event no later than three (3) Business Days prior to the expiration of the Inspection Period, Seller shall deliver to Purchaser true, correct and complete copies, in all material respects, of all amendments, extensions, renewals or terminations of the existing Facility Contracts, Tenant Leases or Licenses and Permits, and any new Facility Contracts, Tenant Leases or Licenses and Permits, in each case entered into during the Inspection Period.

6.3.3 Title. From the Effective Date until the Closing or earlier termination of this Agreement, Seller shall not create or permit any new Title Exception with respect to the all or any portion of the Property.

## 6.4 Tax Contests.

6.4.1 Taxable Period Terminating Prior to Closing Date. Seller shall not commence any proceeding to contest any Taxes for any taxable period which terminates prior to the Closing Date.

6.4.2 Taxable Period Including the Closing Date. Either Party shall have the right to commence, continue and settle any proceeding to contest any Taxes for any taxable period which includes the Closing Date, upon ten (10) days written notice to the other Party, following which the Party receiving such notice shall not have the right to contest such Taxes. Any refunds or abatements awarded in such proceedings shall be used first to reimburse the Party contesting such Taxes for the reasonable costs and expenses incurred by such Party in contesting such Taxes, and the remainder of such refunds or abatements shall be prorated between Seller and Purchaser (subject to the terms of the Tenant Leases) as of the Closing Date, and the Party receiving such refunds or abatements promptly shall pay such prorated amount due to the other Party. This Section 6.4.2 shall survive the Closing until the date which is [\*\*\*] after the Closing Date.

6.4.3 Cooperation. Seller and Purchaser shall use commercially reasonable efforts to cooperate with the Party contesting the Taxes (at no cost or expense to the Party not contesting the Taxes other than any *de minimis* cost or expense or any cost or expense which the requesting Party agrees in writing to reimburse) and to execute and deliver any documents and instruments reasonably requested by the Party contesting the Taxes in furtherance of the contest of such Taxes. This Section 6.4.3 shall survive the Closing until the date which is [\*\*\*] after the Closing Date.

6.5 Notices and Filings. Seller and Purchaser shall use commercially reasonable efforts to cooperate with each other (at no cost or expense to the Party whose cooperation is requested, other than any *de minimis* cost or expense or any cost or expense which the requesting Party agrees in writing to reimburse) to provide written notice to any Person under any Facility Contracts, the Ground Lease, Tenant Leases, or Licenses and Permits and to effect any required registrations or filings with any Governmental Authority or other Person, regarding the change in ownership of the Assets. This Section 6.5 shall survive the Closing until the date which is [\*\*\*] after the Closing Date.

6.6 **Further Assurances.** From the Effective Date until the Closing or termination of this Agreement, Seller and Purchaser shall use commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate the transactions described in this Agreement, including, without limitation, (i) obtaining all necessary consents, approvals and authorizations required to be obtained from any Governmental Authority or other Person under this Agreement or Applicable Law, and (ii) effecting all registrations and filings required under this Agreement or Applicable Law. After Closing, Seller and Purchaser shall use commercially reasonable efforts (at no cost or expense to such Party, other than any *de minimis* cost or expense or any cost or expense which the requesting Party agrees in writing to reimburse) to further effect the transactions contemplated in this Agreement. The immediately preceding sentence of this Section 6.6 shall survive the Closing until the date which is [\*\*\*] after the Closing Date.

6.7 **Estoppel Certificates.** Seller shall use commercially reasonable efforts to obtain estoppel certificates (the “**Third-Party Estoppels**”) and deliver the same to Purchaser at least three (3) Business Days prior to the Closing Date from, the following: (i) tenant estoppels from Mid-American Physician Services and a sufficient number of other tenants at the MOB such that estoppel certificates shall have been received with respect to not less than [\*\*\*] of the total net rentable square footage of the MOB covered by Tenant Leases in effect as of the Closing, each of which tenant estoppel shall be in substantially the same form as obtained by Seller upon Seller’s acquisition of the Assets, copies of which have been provided to Purchaser by Seller, and (ii) a landlord estoppel from Ground Lessor in substantially the same form as obtained by Seller upon Seller’s acquisition of the Assets, a copy of which has been provided to Purchaser, which, in each case, do not disclose a default or breach by Seller under the applicable lease and which do not conflict with the representations and warranties of Seller set forth in this Agreement (collectively, the “**Required Third-Party Estoppels**”). Seller shall additionally use good faith efforts to obtain prior to Closing Third Party Estoppels from (w) the “Association” under the certain Private Agreement and Deed Restrictions recorded at Book 4878, Page 219, as amended by the certain First Amendment to Private Agreement and Deed Restrictions recorded at Book 4993, Page 376, both recorded in the Register of Deeds, Johnson County, Kansas, (x) each declarant under the 2005 Declaration and the 2007 Declaration, (y) all other tenants at the MOB, in substantially the same form as obtained by Seller upon Seller’s acquisition of the Assets, copies of which have been provided to Purchaser by Seller, and (z) any other third party reasonably required by Purchaser as a result of its due diligence regarding the Assets. Seller agrees that Purchaser’s draft tenant estoppel from Mid-America Surgery Institute, LLC may include language which grants a royalty and cost-free license to Purchaser (or its assignee) for the use of the name “Mid America Surgery Institute” in marketing materials, U.S. Securities and Exchange Commission filings, and other similar public notices and filings, but Seller does not warrant or agree that any such license will be approved by Mid-America Surgery Institute, LLC. In no event shall Seller be in default hereunder for its failure to obtain any or all of the Third-Party Estoppels (so long as Seller used commercially reasonable efforts to obtain such Third-Party Estoppels), but the delivery of the Required Third-Party Estoppels shall be a condition precedent to Purchaser’s obligation (which may be waived by Purchaser in writing specifically waiving such requirement) to acquire the Assets. If, after using commercially reasonable efforts, Seller cannot cause any applicable counterparty to execute a Required Third-Party Estoppel reasonably acceptable to Purchaser and acceptable to Purchaser’s lender at least three (3) Business Days prior to the Closing Date, Seller may, upon written notice to Purchaser, extend the Closing Date for up to thirty (30) days to allow



Seller additional time to obtain such Required Third-Party Estoppel, as applicable. If Seller cannot cause such applicable counterparties to execute the Required Third-Party Estoppels at least three (3) Business Days prior to the Closing Date (as the same may have been extended pursuant to the previous sentence), Purchaser shall have the right to either (i) terminate this Agreement by delivering written notice to Seller of its election of the same, or (ii) proceed to the Closing notwithstanding Seller's failure to deliver the missing Required Third-Party Estoppels, in which event Seller shall provide an estoppel certificate for any Tenant Lease or Ground Lease for which Seller failed to obtain an executed Required Third-Party Estoppel. If Purchaser terminates this Agreement in accordance with the foregoing, the Deposit shall be promptly delivered to Purchaser, and, provided that Seller used good faith, commercially reasonable efforts to comply with the terms of this Section, thereafter neither Party shall have any further rights or obligations hereunder, except as specifically provided in this Agreement.

6.8 **Exclusivity**. Seller covenants and agrees to refrain, and to cause its directors, officers, agents, employees, Affiliates, attorneys, accountants, financial advisers or other representatives to refrain, during the term of this Agreement from, directly or indirectly, making, accepting, encouraging, soliciting, initiating, entertaining, substantively reviewing or participating in any negotiations or discussions with respect to any offer or proposal (formal or informal, oral, written or otherwise) to sell, finance, lease or contribute the Property or the Assets or any portion thereof or any interest therein, either directly or indirectly, and will deal exclusively with Purchaser in good faith toward the completion of the transaction contemplated herein unless this Agreement shall be terminated as provided herein.

6.9 **Bulk Sales**. Seller, at no expense to Purchaser, shall comply with all applicable "bulk sales laws" in a timely manner, taking into account the timing of the Closing.

6.10 **Licenses and Permits**. Purchaser shall be responsible for obtaining the transfer of all Licenses and Permits (to the extent transferable) or the issuance of new licenses and permits. Purchaser shall submit all necessary applications and other materials to the appropriate Governmental Authority and take such other actions to effect the transfer of Licenses and Permits or issuance of new licenses and permits as of the Closing, and Seller shall use commercially reasonable efforts to cooperate with Purchaser to cause the Licenses and Permits to be transferred or new licenses and permits to be issued to Purchaser.

6.11 **ROFR Affidavit**. Prior to the expiration of the Inspection Period, Seller shall agree on a form of ROFR Affidavit that is acceptable to the Title Company and reasonably acceptable to Purchaser, and shall satisfy any other requirements of the Title Company with respect to the ROFR necessary to cause the Title Company to issue the Title Policy on the Closing Date with no exception for the ROFR, unless the ROFR Waiver is received prior to the expiration of the Inspection Period.

## 7. CLOSING CONDITIONS

7.1 **Purchaser's Closing Conditions**. Purchaser's obligations to close the transactions described in this Agreement are subject to the satisfaction at or prior to Closing (or such other time as specified below) of the following conditions precedent (the "**Purchaser's Closing Conditions**"):

7.1.1 **Seller's Closing Deliveries**. All of the Seller's Closing Deliveries shall have been delivered to Purchaser or deposited with Escrow Agent in the Closing Escrow, to be delivered to Purchaser at the Closing.

7.1.2 Representations and Warranties. The representations and warranties of Seller in this Agreement shall be true and correct in all material respects as of the Closing (or as such other date to which such representation and warranties expressly were made).

7.1.3 Covenants and Obligations. The covenants and obligations of Seller in this Agreement shall have been performed in all material respects.

7.1.4 Title Policy. The Title Company shall have irrevocably committed to issue the Title Policy pursuant to Section 4.2.4 with all standard exceptions deleted, all requirements for issuance of each such Title Policy satisfied and deleted, with all endorsements reasonably required by Purchaser.

7.1.5 Change in Environmental Condition of Property. No event shall have occurred following the Effective Date and prior to the Closing Date which would result in a violation of any Environmental Law.

7.1.6 Adverse Proceedings. No litigation or other court action shall have been commenced seeking to obtain an injunction or other relief from such court to enjoin the consummation of the transactions described in this Agreement, and no preliminary or permanent injunction or other order, decree or ruling shall have been issued by a court of competent jurisdiction or by any Governmental Authority, would make illegal or invalid or otherwise prevent the consummation of the transactions described in this Agreement.

7.1.7 Adverse Law. No Applicable Law shall have been enacted that would make illegal or invalid or otherwise prevent the consummation of the transactions described in this Agreement.

7.1.8 Estoppel Certificates. Seller shall have delivered or caused to be delivered all executed Required Third-Party Estoppels as required by Section 6.7 hereof.

7.1.9 Ground Lessor Actions. Ground Lessor shall have consented in writing to the assignment of the Ground Lease by Seller to Purchaser (which consent shall be in a form reasonably approved by Purchaser). Additionally, prior to the expiration of the Inspection Period, Seller shall have either (i) obtained from Ground Lessor and Las Encinas Hospital, a California corporation, a written waiver of the ROFR with respect to the transaction contemplated by this Agreement (a "ROFR Waiver"), or (ii) if said parties have not exercised the ROFR within the time periods set forth in the 2005 Declaration and 2007 Declaration, respectively, provided an affidavit in form and substance satisfactory to the Title Company and reasonably satisfactory to Purchaser, and satisfied any other requirements of the Title Company with respect to the ROFR necessary to cause the Title Company to issue the Title Policy on the Closing Date with no exception for the ROFR (collectively, the "ROFR Affidavit").



7.1.10 Guaranty. Seller shall have caused Guarantor to execute the Guaranty.

7.2 **Failure of Any Purchaser's Closing Condition**. Subject to Section 6.7, if any of Purchaser's Closing Conditions is not satisfied at Closing (a "Purchaser's Closing Condition Failure"), and Seller fails to cure such condition failure within five (5) days after written notice is delivered by Purchaser to Seller (excepting a failure to deliver Seller's Closing Deliveries at Closing for which there shall be no notice or cure period) then Purchaser shall have the right (unless such Purchaser's Closing Condition Failure was within the control of Purchaser), in Purchaser's absolute discretion, to either (i) terminate this Agreement by providing written notice to Seller, in which case the Deposit shall be refunded to Purchaser in accordance with Section 3.2.4, and the Parties shall have no further rights or obligations under this Agreement, except those which expressly survive such termination, or (ii) waive in writing the Purchaser's Closing Condition and complete the transactions set out herein, in which event Seller shall have no liability for any Purchaser's Closing Condition Failure.

7.3 **Seller's Closing Conditions**. Seller's obligations to close the transactions contemplated in this Agreement are subject to the satisfaction at or prior to Closing of the following conditions precedent, as applicable (the "Seller's Closing Conditions"):

7.3.1 Receipt of the Purchase Price. Purchaser shall have (i) paid to Seller or deposited with Escrow Agent with written direction to disburse the same to Seller, the Purchase Price (as allocated, and as adjusted for Prorations pursuant to Article 9) and (ii) delivered written direction to Escrow Agent to disburse the Deposit to Seller.

7.3.2 Purchaser's Closing Deliveries. All of Purchaser's Closing Deliveries shall have been delivered to Seller or deposited with Escrow Agent in the Closing Escrow, to be delivered to the Seller at the Closing.

7.3.3 Representations and Warranties. The representations and warranties of Purchaser in this Agreement shall be true and correct in all material respects as of the Closing (or as of such other date to which such representation or warranty expressly is made).

7.3.4 Covenants and Obligations. The applicable covenants and obligations of Purchaser in this Agreement shall have been performed in all material respects.

7.3.5 Adverse Proceedings. No litigation or other court action shall have been commenced by a third-party seeking to obtain an injunction or other relief from such court to enjoin the consummation of the transactions described in this Agreement, and no preliminary or permanent injunction or other order, decree or ruling shall have been issued by a court of competent jurisdiction or by any Governmental Authority, would make illegal or invalid or otherwise prevent the consummation of the transactions described in this Agreement.

7.3.6 Adverse Law. No Applicable Law shall have been enacted that would make illegal or invalid or otherwise prevent the consummation of the transactions described in this Agreement.

7.3.7 Ground Lessor Actions. Ground Lessor shall have consented in writing to the assignment of the Ground Lease by Seller to Purchaser (which consent shall be in a form reasonably approved by Purchaser). Additionally, prior to the expiration of the Inspection Period, Seller shall have either (i) obtained the ROFR Waiver, or (ii) provided the ROFR Affidavit.

7.4 Failure of Seller's Closing Conditions. If any of Seller's Closing Conditions is not satisfied at Closing (a "Seller's Closing Condition Failure"), and Purchaser fails to cure such condition failure within five (5) days after written notice from Seller to Purchaser of such failure (excepting a failure to deliver the Purchase Price or Purchaser Closing Deliveries at Closing for which there shall be no cure period) then Seller shall have the right, in Seller's absolute discretion (unless such Seller's Closing Condition Failure was within the control of Seller), to either (i) terminate this Agreement by providing written notice to Purchaser, in which case the Deposit shall be disbursed to Seller in accordance with Section 3.2.5 (unless such termination is as a result of Seller's Closing Condition under Sections 7.3.5, 7.3.6 or 7.3.7, in which case the Deposit shall be returned to Purchaser) and the Parties shall have no further rights or obligations under this Agreement, except those which expressly survive the termination, or (ii) waive in writing the Seller's Closing Condition and complete the transactions set out herein, in which event Purchaser shall have no liability for any Seller's Closing Condition Failure.

## 8. CLOSING

8.1 Closing Date. If both Purchaser's Closing Conditions and Seller's Closing Conditions have been satisfied pursuant to Article 7, and subject to any Purchaser's or Seller's extension rights as set forth in this Agreement, the closing of the transactions described in this Agreement (the "Closing") shall occur on the date which is thirty (30) days following the expiration of the Inspection Period or such earlier date as may be agreed by the Parties. The Parties shall accomplish the Closing "by mail" with Escrow Agent (the "Closing Escrow").

8.2 Closing Escrow. In connection with closing this transaction via a Closing Escrow, prior to or at the Closing, the Parties may enter into any supplemental escrow instructions as may be desired by Seller, Purchaser and Escrow Agent with respect to the Closing Escrow in form and substance reasonably acceptable to Seller, Purchaser and the Escrow Agent (together, the "Closing Escrow Agreement") which shall not in any event be in contravention of the terms and conditions of this Agreement. The Closing Escrow Agreement shall provide that (a) the Purchase Price to be paid by Purchaser pursuant to Section 3.3 shall be deposited with Escrow Agent, (b) all of the documents required to be delivered by Seller and Purchaser at Closing pursuant to this Agreement shall be deposited with Escrow Agent, and (c) at Closing, the Purchase Price (as adjusted pursuant to Article 9) and the Deposit shall be disbursed to Seller and the documents deposited into the Closing Escrow shall be delivered to Seller and Purchaser (as the case may be) pursuant to the Closing Escrow Agreement.

8.3 Seller's Closing Deliveries. At Closing, Seller shall deliver or cause to be delivered to Purchaser, or deposited with Escrow Agent in the Closing Escrow to be delivered to Purchaser at Closing, or (with the approval of Purchaser, acting reasonably) otherwise to be delivered or made available to Purchaser upon Closing, all of the following documents, each of

which shall have been duly executed by the Seller and acknowledged (if required), and other items, set forth in this Section 8.3 (the “Seller’s Closing Deliveries”), as follows:

8.3.1 Closing Certificate. A closing certificate substantially in the form attached hereto as Exhibit 8.3.1.

8.3.2 Deed. A special warranty deed (the “Deed”) with respect to the Improvements located on the Property (only) substantially in the form attached hereto as Exhibit 8.3.2, conveying all of such Improvements to Purchaser, free and clear of all liens restrictions and encumbrances, subject only to Permitted Exceptions.

8.3.3 Bill of Sale. A Bill of Sale with respect to the Property substantially in the form attached hereto as Exhibit 8.3.3, transferring the Fixtures, Personal Property, Plans and Specifications, Warranties, Intangible Assets, Books and Records and all other assets, rights, and interest of Seller in and to the Property, not constituting Excluded Assets to Purchaser.

8.3.4 Assignment and Assumption of Ground Lease and Tenant Leases. For the Ground Lease, an Assignment and Assumption of Ground Lease in substantially the form attached hereto as Exhibit 4.2.5 and for each of the Tenant Leases, an Assignment and Assumption of Tenant Leases in substantially the form attached hereto as Exhibit 8.3.4 transferring Seller’s interest as landlord thereunder to Purchaser.

8.3.5 Assignment and Assumption of Facility Contracts and Licenses and Permits. An Assignment and Assumption of Facility Contracts and Transferred Licenses and Permits with respect to the Property substantially in the form attached hereto as Exhibit 8.3.5, assigning the Facility Contracts and Transferred Licenses and Permits to Purchaser;

8.3.6 Assignment and Assumption of Intellectual Property. An Assignment and Assumption of Intellectual Property with respect to the Property substantially in the form attached hereto as Exhibit 8.3.6 assigning the Intellectual Property to Purchaser.

8.3.7 Guaranty. The Guaranty executed by the Guarantor.

8.3.8 ROFR. The ROFR Waiver executed by Ground Lessor and Las Encinas Hospital, a California corporation, or the ROFR Affidavit executed by Seller.

8.3.9 Title Requirements. Such agreements, affidavits or other documents as may be reasonably and customarily required by the Title Company from Seller and reasonably approved by Seller to issue the Title Policy, including an affidavit from Seller in favor of the Title Company which shall be sufficient to delete the standard exceptions from the Title Policy. Additionally, Seller agrees to use commercially reasonable efforts to obtain such other documents as may be required by the Title Company to issue a Title Policy without exception for the ROFR as to the sale and purchase contemplated by this Agreement.

8.3.10 Other Declarations. Any transfer tax declarations or other documents required under Applicable Law in connection with the conveyance of the Assets.

8.3.11 FIRPTA Certificates. An affidavit from Seller with respect to compliance with the Foreign Investment in Real Property Tax Act (Internal Revenue Code Sec. 1445, as amended) and the regulations issued thereunder and any similar state tax requirements.

8.3.12 Closing Statement. The Closing Statement prepared pursuant to Section 9.1.

8.3.13 Authority Documents. Such resolutions, and incumbency certificates as required by the Title Company to evidence the capacity and authority of any Person signing on behalf of Seller.

8.3.14 Tenant Notices. Executed written notices, to be delivered post-Closing by Purchaser, from Seller to each tenant under the Tenant Leases advising such tenants of the transaction.

8.3.15 Possession and Keys. Possession of the Property free and clear of all parties in possession, except tenants in possession pursuant to the Tenant Leases or as set forth in the Permitted Exceptions, and duplicates of or access information for all keys, codes and other security devices relating to the Improvements and the Property in Seller's possession or control.

8.3.16 Property Related Deliveries. On the Closing Date, (1) originals, or copies if originals are not available, of the Ground Lease and Tenant Leases; and (2) in addition, to the extent the foregoing have not heretofore been delivered to Purchaser, Seller shall cause to be delivered to Purchaser: (i) any Plans and Specifications for the Improvements in Seller's possession or control; (ii) all Warranties which Seller has received in connection with any work or services performed with respect to, or equipment installed in, the Improvements; (iii) originals, or copies if originals are not available, of all Facility Contracts that will be assigned to Purchaser and remain in effect after Closing; (v) copies of all Transferred Licenses and Permits; (vi) copies of all Books and Records, whether kept in paper or electronic form; (vii) duplicates of all keys and lock combinations relating to the Assets and (ix) copies of all other materials necessary for the continuity of operations at the Property, together with all files, advertising and promotional information and materials.

8.3.17 Other Documents. Such other documents and instruments as may be reasonably requested by the Title Company in order to consummate the transactions described in this Agreement.

8.4 **Purchaser's Closing Deliveries.** At Closing, Purchaser shall deliver or cause to be delivered to Seller or deposited with Escrow Agent in the Closing Escrow to be delivered to Seller all of the following, each of which, to the extent applicable, shall have been duly executed by Purchaser and acknowledged (if required), and other items set forth in this Section 8.4 (the "**Purchaser's Closing Deliveries**"):

8.4.1 **Purchase Price.** The Purchase Price (as adjusted for Prorations pursuant to Article 9 and with respect to the Deposit) in the form of immediately available funds delivered by wire transfer, to be paid by Purchaser.

8.4.2 **Disbursement Letter.** A letter of direction or email to Escrow Agent directing Escrow Agent to disburse the Deposit to Seller.

8.4.3 **Closing Certificate.** A closing certificate substantially in the form attached hereto as Exhibit 8.4.3.

8.4.4 **Counterpart Execution Documents.** A counterpart of each of the documents and instruments to be delivered by Seller under Section 8.3 which require execution by Purchaser;

8.4.5 **Other Documents.** Such other documents and instruments as may be reasonably requested by the Title Company in order to consummate the transactions described in this Agreement.

## 9. PRORATIONS AND EXPENSES

9.1 **Closing Statement.** No later than the day prior to Closing, the Parties shall jointly prepare or cause the Escrow Agent to prepare prior to Closing a closing statement (the "Closing Statement"), which shall set forth their best estimate of the amounts of the items to be adjusted and prorated under this Agreement. The Closing Statement shall be approved and executed by the Parties at Closing, and such adjustments and Prorations shall be final with respect to the items set forth in the Closing Statement, except to the extent any such items shall be re-prorated after the Closing as expressly set forth in Section 9.2.

9.2 **Closing and Other Costs, Adjustments and Prorations.** The Closing costs shall be allocated and other closing adjustments and prorations made between Seller and Purchaser as follows:

9.2.1 **Seller Closing Costs.** Seller shall be charged with the following items, all of which shall be paid by Seller at the Closing, and if and only if the Closing occurs: [\*\*\*].

9.2.2 **Purchaser Closing Costs.** Purchaser shall be charged with the following items in addition to the Purchase Price payable to Seller at Closing: (i) fees and expenses of Purchaser's counsel: [\*\*\*].

9.2.3 **Proration of Income and Expenses.** All income and expenses (including prepaid expenses) with respect to the Assets shall be prorated on a

daily basis between Seller and Purchaser (the “**Prorations**”) as of 11:59:59 p.m. local time for the Property on the date immediately preceding the Closing Date (the “**Proration Date**”). In accordance with the terms of this Section 9.2.4, such items to be prorated shall include: (i) rents and other income received by Seller as of the Proration Date, if any, including amounts prepaid, accrued or due and payable under the Tenant Leases; (ii) any amounts prepaid, accrued or due and payable under the Transferred Licenses and Permits and the Facility Contracts assigned to Purchaser, with Seller being credited for amounts prepaid, and Purchaser being credited for amounts accrued and unpaid; (iii) utility charges, if any; (iv) payments under any other agreements assigned to Purchaser, if any; (v) Taxes; and (vi) payments under any leases of personal property used in connection with the operation of the Property, to the extent such leases remain in place on and after Closing; provided, that, notwithstanding the foregoing, Base Rent (as defined in the Ground Lease) shall not be prorated and has been paid in full by Seller for the term of the Ground Lease. Additionally, the Parties agree that:

(a) Facility Contracts. Seller shall receive a credit for all deposits made by Seller under the Facility Contracts (together with any interest thereon) which are transferred to Purchaser or remain on deposit for the benefit of Purchaser. Purchaser shall receive a credit for all deposits held by Seller under the Facility Contracts (together with any interest thereon) which are not transferred to Purchaser, and Purchaser thereafter shall be obligated to refund or apply such deposits in accordance with the terms of such Facility Contracts.

(b) Income and Expenses Prior to Proration Date. Subject to subsection 9.2.3(e) below with respect to rents, Seller shall receive all income from the Property attributable to the period prior to the Proration Date and shall, except as otherwise provided for in this Agreement, be responsible for all expenses of the Property attributable to the period prior to the Proration Date. Purchaser shall receive a credit for all accrued but unpaid compensation owed to property manager’s employees as of the Proration Date, including salary, wages, employment taxes, bonuses, paid time off, vacation, sick days, severance or termination fees and any other accrued but unpaid benefits provided to such employees.

(c) Income and Expenses After Proration Date. Purchaser shall receive all income from the Property attributable to the period from and after the Proration Date and shall, except as otherwise provided for in this Agreement, be responsible for all expenses of the Property attributable to the period from and after the Proration Date.

(d) Taxes. All real property and personal property Taxes shall be prorated as of the Proration Date between Seller and Purchaser. If the amount of any Taxes prorated hereunder are not ascertainable on the Closing Date, the proration for such Taxes shall be based on the most recent available bill; provided, however, that after the Closing, Seller and Purchaser shall re-prorate the Taxes and pay any deficiency or excess of the original proration to the applicable Party promptly upon receipt of the actual bill for the relevant taxable period.

(e) Tenant Leases. Purchaser shall receive a credit for all security deposits with respect to Tenant Leases that are not transferred by Seller to Purchaser. Purchaser shall not receive a credit for any security deposits held by Seller that are transferred to Purchaser at Closing. Purchaser shall also receive a credit for all outstanding Leasing Costs with respect to the Tenant Leases in effect as of the Effective Date and any renewals or extensions thereof



exercised prior to the Effective Date. As of Closing, Purchaser shall assume Seller's obligations for (i) Leasing Costs that are due and payable after Closing with respect to the Leases in force as of or prior to the Effective Date to the extent Purchaser receives a credit therefor pursuant to the prior sentence and (ii) Leasing Costs incurred with respect to Leases executed and Lease renewals and extensions exercised subsequent to the Effective Date. All rents received after the Closing Date shall be applied, first toward the rent for the month in which the Proration Date occurs, then to the rent then due and payable to Purchaser in connection with the applicable Tenant Lease or other document for which such payments are received, and then to any delinquent rents (or other tenant charges) owed to Seller in the inverse order of delinquency, with Seller's share thereof being promptly delivered to Seller. Purchaser will use commercially reasonable efforts to collect any rents applicable to the period prior to Closing, provided that Purchaser shall have no obligation to evict tenants, file suit or pursue litigation to collect such rents. Seller hereby waives the right to pursue any remedy for damages against any tenant owing delinquent rents and any other amounts to Seller.

(f) **Utilities.** The Parties shall use commercially reasonable efforts to obtain readings for all utilities as of the Proration Date. If readings cannot be obtained as of the Closing Date, the cost of such utilities shall be prorated between Seller and Purchaser by estimating such cost on the basis of the most recent bill for such service; provided, however, that after the Closing, the Parties shall re-prorate the amount for such utilities and pay any deficiency in the original Proration to the applicable Party promptly upon receipt of the actual bill for the relevant billing period. Seller shall receive a credit for all escrow accounts or deposits transferred to Purchaser or which remain on deposit for the benefit of Purchaser with respect to such utility contracts.

9.3 **Proration Schedule.** Seller shall prepare a proposed schedule (the "**Proration Schedule**") including the items listed above and any other items the parties determine necessary. Such Proration Schedule shall include all applicable income and expenses with regard to the Property. Seller and Purchaser will use all reasonable efforts to finalize and agree upon the Proration Schedule at least two (2) Business Days prior to Closing.

9.4 **Re-Prorations.** Any amounts that may become due under this Article 9 shall be paid at Closing as can best be determined. A post-closing reconciliation of prorated items shall be made within ninety (90) days after Closing and any amounts due at that time shall be promptly forwarded to the respective Party in a lump sum payment. The provisions of this Section 9.4 shall survive Closing.

9.5 **Cash.** All cash on hand, escrow and reserve accounts of Seller, accounts receivable and accounts payable, indebtedness or liabilities for the period prior to the Closing Date shall remain the property or responsibility, as applicable, of Seller. Seller shall be responsible for the payment of all expenses on account of services and supplies furnished to and for the benefit of the Assets through and including the day preceding the Closing Date and Purchaser shall be responsible for the payment of all expenses on account of services and supplies furnished to and for the benefit of the Assets from and including the Closing Date. The provisions of this Section 9.5 shall survive Closing.

## 10. **DEFAULT AND REMEDIES**

10.1 **Seller's Default.** If, at or any time prior to Closing, Seller fails to perform in any material respect any of its covenants or obligations under this Agreement (and, if such failure is other than a failure to deliver Seller's Closing Deliveries (for which there shall be no notice or cure

period), Seller fails to cure such condition failure within five (5) days after written notice of such failure is delivered by Purchaser to Seller) (a “**Seller’s Default**”), Purchaser may elect, as its sole and exclusive remedy, to (a) terminate this Agreement by providing written notice to Seller, in which case the Deposit shall be refunded to Purchaser in accordance with Section 3.2.4 and the Parties shall have no further rights or obligations under this Agreement, except those which expressly survive such termination, and Seller shall reimburse (which obligation shall survive such termination of this Agreement) Purchaser for Purchaser’s actual out-of-pocket costs, in any event not to [\*\*\*], incurred to third parties with respect to the investigation of the Property, the negotiation of this Agreement and Purchaser’s pursuit of the transactions contemplated herein, or (b) waive such default and proceed to Closing without any reduction in or setoff against the Purchase Price, or (c) obtain a court order for specific performance. IN NO EVENT SHALL SELLER’S DIRECT OR INDIRECT MEMBERS, PARTNERS, SHAREHOLDERS, OWNERS OR AFFILIATES, ANY OFFICER, DIRECTOR, EMPLOYEE OR AGENT OF THE FOREGOING, OR ANY AFFILIATE OR CONTROLLING PERSON THEREOF HAVE ANY LIABILITY FOR ANY CLAIM, CAUSE OF ACTION OR OTHER LIABILITY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE PROPERTY, WHETHER BASED ON CONTRACT, COMMON LAW, STATUTE, EQUITY OR OTHERWISE; PROVIDED, HOWEVER, THAT IN NO EVENT SHALL THE FOREGOING LIMIT GUARANTOR’S OBLIGATIONS PURSUANT TO THE GUARANTY.

10.2 **Purchaser’s Default.** If at any time following the expiration of the Inspection Period and prior to Closing, Purchaser fails to perform in any material respect any of its covenants or obligations under this Agreement (and, if such failure is other than a failure to deliver Purchaser’s Closing Deliveries (for which there shall be no notice or cure period), Purchaser fails to cure such condition failure within five (5) days after written notice of such failure is delivered by Seller to Purchaser) (a “**Purchaser’s Default**”), then Seller may elect, as its sole and exclusive remedy, to (a) terminate this Agreement by providing written notice to Purchaser, in which case the Deposit shall be disbursed to Seller as liquidated damages in accordance with Section 3.2.5, and the Parties shall have no further rights or obligations under this Agreement, except those which expressly survive such termination or (b) waive such default and proceed to Closing without any reduction in or setoff against the Purchase Price. IN NO EVENT SHALL PURCHASER’S DIRECT OR INDIRECT MEMBERS, PARTNERS, SHAREHOLDERS, OWNERS OR AFFILIATES, ANY OFFICER, DIRECTOR, EMPLOYEE OR AGENT OF THE FOREGOING, OR ANY AFFILIATE OR CONTROLLING PERSON THEREOF HAVE ANY LIABILITY FOR ANY CLAIM, CAUSE OF ACTION OR OTHER LIABILITY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE PROPERTY, WHETHER BASED ON CONTRACT, COMMON LAW, STATUTE, EQUITY OR OTHERWISE.

10.3 **Liquidated Damages.** The Parties acknowledge and agree that if this Agreement is terminated pursuant to Section 10.2, the damages that Seller would sustain as a result of such termination would be difficult if not impossible to ascertain. Accordingly, the Parties agree that Seller shall retain the Deposit as full and complete liquidated damages (and not as a penalty) as Seller’s sole and exclusive remedy for such termination; provided, however, that in addition to the Deposit, Seller shall retain all rights and remedies under this Agreement with respect to those obligations of Purchaser which expressly survive such termination.

## 11. RISK OF LOSS



11.1 **Casualty.** If at any time after the Effective Date and prior to Closing or earlier termination of this Agreement, the Assets or any portion thereof are damaged or destroyed by fire or any other casualty (a “**Casualty**”), Seller shall give written notice of each such Casualty to Purchaser promptly after the occurrence of such Casualty.

11.1.1 **Material Casualty.** If such Casualty caused the Assets and Property to be damaged or destroyed such that the cost of repair or replacement is reasonably likely to exceed [\*\*\*], Purchaser shall have the right to elect, by providing written notice to Seller within ten (10) days after Purchaser’s receipt of Seller’s written notice of such Casualty, to (a) terminate this Agreement in its entirety, in which case the Deposit shall be refunded to Purchaser in accordance with Section 3.2.4, and the Parties shall have no further rights or obligations under this Agreement, except those which expressly survive such termination, or (b) proceed to Closing, without terminating this Agreement, in which case the Seller shall (i) provide Purchaser with a credit against the Purchase Price in an amount equal to the applicable insurance deductible, less any amounts previously paid toward the deductible by Seller, and (ii) transfer and assign to Purchaser all of the Seller’s right, title and interest in and to all proceeds from all casualty and other applicable insurance policies maintained by Seller with respect to the Assets, except those proceeds specifically payable in connection with costs incurred by Seller for the period prior to the Closing, to the extent assignable and if such proceeds are not assignable, Purchaser shall receive a credit against the Purchase Price at Closing in an amount equal to the amount of such proceeds. If Purchaser fails to provide written notice of its election to Seller within such ten (10) day time period, then Purchaser shall be deemed to have elected to proceed to Closing pursuant to clause (b) of the preceding sentence. If the Closing is scheduled to occur within Purchaser’s ten (10) day election period, the Closing Date shall, upon Purchaser’s election, be postponed until the date which is five (5) Business Days after the expiration of such ten (10) day election period. In the event that Seller proceeds to restore the affected Assets prior to Closing, such work shall be subject to Purchaser’s approval, not to be unreasonably withheld, conditioned or delayed.

11.1.2 **Non Material Casualty.** In the event of any Casualty which is not described in Section 11.1.1, then Purchaser shall not have the right to terminate this Agreement, but shall proceed to Closing, in which case Seller shall (A) provide Purchaser with a credit against the Purchase Price (except if such Casualty is caused by Purchaser or Purchaser’s Inspectors) in an amount equal to the applicable insurance deductible, less any amounts previously paid toward the deductible by Seller, and (B) transfer and assign to Purchaser all of the Seller’s right, title and interest in and to all proceeds from all casualty and other applicable insurance policies maintained by Seller with respect to the Assets, except those proceeds specifically payable in connection with and allocable to costs incurred by Seller for the period prior to the Closing to the extent assignable and if such proceeds are not assignable, Purchaser shall receive a credit against the Purchase Price at Closing in an amount equal to the amount of such proceeds. In the event that Seller proceeds to restore the affected Assets prior to Closing, such work shall be subject to Purchaser’s approval, not to be unreasonably withheld, conditioned or delayed.

11.2 **Condemnation.** If, at any time after the Effective Date and prior to Closing or the earlier termination of this Agreement, any Governmental Authority commences any condemnation proceeding or other proceeding in eminent domain with respect to all or any portion of the Property (a "Condemnation"), Seller shall give written notice of such Condemnation to Purchaser promptly after Seller receives notice of such Condemnation, and if such Condemnation (a) is such that the cost of restoration or loss in value of the Assets is reasonably likely to exceed [\*\*\*], (b) causes the Property to violate zoning ordinances or regulations affecting the Property or lose its certificate of occupancy, (c) gives any tenant under its Tenant Lease the right to terminate any such Tenant Lease, or (d) results in a material adverse effect on access to or parking at the Property, then in each case Purchaser shall have the right to elect, by providing written notice to Seller within ten (10) days after Purchaser's receipt of Seller's written notice of such Condemnation, to (i) terminate this Agreement in its entirety, in which case the Deposit shall be refunded to Purchaser in accordance with Section 3.2.4, and the Parties shall have no further rights or obligations under this Agreement, except those which expressly survive such termination, or (ii) proceed to Closing, without terminating this Agreement, in which case Seller shall assign to Purchaser all of any such Seller's right, title and interest in all proceeds and awards from such Condemnation, less any amount expended in connection with restoration of the Property. If Purchaser fails to provide written notice of its election to Seller within such time period, then Purchaser shall be deemed to have elected to proceed to Closing pursuant to clause (ii) of the preceding sentence. If the Closing is scheduled to occur within Purchaser's ten (10) day election period, the Closing shall, upon Purchaser's election, be postponed until the date which is five (5) Business Days after the expiration of such ten (10) day election period. In the event of any Condemnation other than a Condemnation described in the first sentence of this Section 11.2, Purchaser shall not have the right to terminate this Agreement, but shall proceed to Closing, in which case Seller shall assign to Purchaser all of Seller's right, title and interest in all proceeds and awards from such Condemnation. In the event that Seller proceeds to restore the affected Assets prior to Closing, such work shall be subject to Purchaser's approval, not to be unreasonably withheld, conditioned or delayed.

## 12. SURVIVAL, INDEMNIFICATION AND RELEASE

12.1 **Survival.** The representations and warranties, covenants and obligations (including without limitations obligations of defense and indemnification) of Seller and Purchaser shall survive Closing or termination of this Agreement until the date which is [\*\*\*] after the Closing Date (the "Survival Period").

12.1.1 Limitations on Indemnity Obligations. The indemnification obligations of Seller and Purchaser set forth in Sections 12.2 and 12.3, respectively, shall be subject to the following conditions: (i) the Indemnitee first learns of the breach after Closing and files such action within the Survival Period, and (ii) neither Party shall be required to indemnify the applicable Indemnitees pursuant to clause (i) or (ii) of Section 12.2 or 12.3, as applicable, unless the damage to such Indemnitee on account of such breach (individually or when combined with damages from other breaches) equals or exceeds [\*\*\*] (the “**Basket**”). If the threshold set forth in the immediately preceding sentence is met, Seller shall be liable to indemnify Purchaser for the entire amount of Purchaser’s damages including the initial [\*\*\*]. Neither Party shall have any liability after Closing for the breach of a representation or warranty or covenant hereunder, of which breach the other Party hereto had Knowledge as of Closing. Notwithstanding any other provision of this Agreement, any agreement contemplated by this Agreement, or any rights which Purchaser might otherwise have at law, equity, or by statute, whether based on contract or some other claim, Purchaser agrees that any liability of Seller to Purchaser pursuant to clause (i) and (ii) of Section 12.2 will be limited to [\*\*\*] (the “**Cap**”). The provisions of this Section 12.1 shall survive the Closing. Any breach of a representation or warranty or covenant that occurs prior to Closing shall be governed by Article 10. Notwithstanding the foregoing, the Basket, Cap and Survival Period shall not apply to claims for any Indemnification Losses other than claims brought pursuant to clauses (i) or (ii) of Section 12.2 or 12.3 (other than breaches of covenants or obligations related to Retained Liabilities, Prorations and Seller’s warranty with respect to brokers in Section 5.1.20, to which the Basket, Cap and Survival Period shall not apply).

12.1.2 Negligence or Willful Misconduct of Indemnitee. Notwithstanding anything to the contrary in this Agreement, (i) a Purchaser Indemnitee shall not be entitled to defense or indemnification to the extent the applicable Indemnification Loss results from the gross negligence or willful misconduct of any Purchaser Indemnitee, and (ii) a Seller Indemnitee shall not be entitled to defense or indemnification to the extent the applicable Indemnification Loss results from the gross negligence or willful misconduct of any Seller Indemnitee.

12.1.3 Waiver of Certain Damages. Notwithstanding anything to the contrary in this Agreement or under Applicable Law, Seller (for itself and all Seller Indemnitees) and Purchaser (for itself and all Purchaser Indemnitees) hereby unconditionally and irrevocably waive and disclaim all rights to claim or seek any consequential, punitive, exemplary, statutory or treble damages and acknowledge and agree that the rights and remedies in this Agreement will be adequate in all circumstances for any claims the Parties (or any Indemnitee) might have with respect thereto.

12.2 **Indemnification by Seller.** Subject to the limitations set forth in this Article 12 and any other express provision of this Agreement, from and after Closing Seller shall indemnify, save, insure, pay, defend and hold harmless Purchaser's Indemnitees from and against any Indemnification Loss incurred by any Purchaser's Indemnitee to the extent resulting from (i) any breach of any representation or warranty of Seller in this Agreement, (ii) any breach by Seller of any of its covenants or obligation under this Agreement, and (iii) any Retained Liabilities.

12.3 **Indemnification by Purchaser.** Subject to the limitations set forth in this Article 12 and any other express provision of this Agreement, from and after Closing Purchaser shall indemnify, defend and hold harmless Seller's Indemnitees from and against any Indemnification Loss incurred by Seller's Indemnitee to the extent resulting from (i) any breach of any representation or warranty of Purchaser in this Agreement, (ii) any breach by Purchaser of any of its covenants or obligations under this Agreement, and (iii) any Assumed Liabilities.

12.4 **Indemnification Procedure. Notice of Indemnification Claim.** If any of Seller's Indemnitees or Purchaser's Indemnitees (as the case may be) (each, an "Indemnitee") is entitled to defense or indemnification under any other provision in this Agreement (each, an "Indemnification Claim"), the Party required to provide defense indemnification to such Indemnitee (the "Indemnitor") shall not be obligated to defend, indemnify and hold harmless such Indemnitee unless and until such Indemnitee provides written notice to such Indemnitor promptly after such Indemnitee has actual knowledge of any facts or circumstances on which such Indemnification Claim is based or a Third-Party Claim is made on which such Indemnification Claim is based, describing in reasonable detail such facts and circumstances or Third-Party Claim with respect to such Indemnification Claim.

12.4.1 **Resolution of Indemnification Claim Not Involving Third-Party Claim.** If the Indemnification Claim does not involve a Third-Party Claim and is disputed by the Indemnitor, the dispute shall be resolved by litigation or other means of alternative dispute resolution as the Parties may agree in writing.

12.4.2 **Resolution of Indemnification Claim Involving Third-Party Claim.** If the Indemnification Claim involves a Third-Party Claim, the Indemnitor shall have the right (but not the obligation) to assume the defense of such Third-Party Claim, at its cost and expense, and shall use good faith efforts consistent with prudent business judgment to defend such Third-Party Claim, provided that (i) the counsel for the Indemnitor who shall conduct the defense of the Third-Party Claim shall be reasonably satisfactory to the Indemnitee (unless selected by Indemnitor's insurance company, in which case Indemnitee shall have no such approval rights), (ii) the Indemnitee, at its cost and expense, may participate in, but shall not control, the defense of such Third-Party Claim, and (iii) the Indemnitor shall not enter into any settlement or other agreement which requires any performance by the Indemnitee, other than the payment of money which shall be paid by the Indemnitor. The Indemnitee shall not enter into any settlement agreement with respect to the Indemnification Claim, without the Indemnitor's prior written consent. If the Indemnitor elects not to assume the defense of such Third-Party Claim, the Indemnitee shall have the right to retain the defense of such Third-Party Claim and shall use good faith efforts consistent with prudent business judgment to defend such Third-Party Claim in an effective and cost-efficient manner.

12.4.3 Accrual of Indemnification Obligation. Notwithstanding anything to the contrary in this Agreement, the Indemnitee shall have no right to indemnification against the Indemnitor for any Indemnification Claim which (i) does not involve a Third-Party Claim but is disputed by Indemnitor until such time as such dispute is resolved by written agreement or by a final, non-appealable order of court of competent jurisdiction or such other means as the Parties may agree in writing, each in its sole discretion, or (ii) which involves a Third-Party Claim until such time as such Third-Party Claim is concluded, including any appeals with respect thereto in the case of a claim in litigation.

12.4.4 Exclusive Remedy for Indemnification Loss. Except for claims based on fraud, the indemnification provisions in this Article 12 shall be the sole and exclusive remedy of any Indemnitee with respect to any claim for Indemnification Loss arising from or in connection with this Agreement.

12.5 Guarantor Guaranty. Guarantor is an Affiliate of Seller and, as a result thereof, Guarantor receives a direct financial benefit from the transactions contemplated by this Agreement. In consideration of the foregoing benefit, the Purchase Price and other good and valuable consideration paid to Seller at Closing pursuant to this Agreement and as a further inducement for Purchaser to enter into this Agreement, Guarantor, hereby (i) absolutely, unconditionally and irrevocably guarantees the full and timely performance of the indemnification obligations, covenants and conditions of Seller pursuant to this Article 12 and Seller's obligations to reimburse Purchaser for reasonable, actual, third party out-of-pocket costs pursuant to Sections 2.4, 9.4, and 10.1 of this Agreement and (ii) agrees to execute a stand-alone guaranty in the form attached hereto as Exhibit 12.5 (the "Guaranty"). The provisions of this Section 12.5 shall expressly survive the Closing.

## 12.6 Acknowledgements Concerning Representations and Warranties.

12.6.1 Acknowledgment by Purchaser. To the extent that any representation or warranty of Seller made herein is, to Purchaser's Knowledge as of the Closing Date, inaccurate and Purchaser nonetheless elects to proceed with Closing, then (a) Purchaser shall not be able to seek indemnification for any damage arising from such inaccurate representation or warranty to the extent of Purchaser's Knowledge of such breach at Closing, (b) any such representation or warranty by Seller shall be deemed amended to the extent necessary to make it consistent with Purchaser's Knowledge at Closing, and (c) Purchaser shall be deemed to have waived its right to indemnification with respect to the breach of such representations or warranties to the extent of Purchaser's Knowledge at Closing.

12.6.2 Acknowledgment by Seller. To the extent that any representation or warranty of Purchaser made herein is, to Seller's Knowledge as of the Closing Date, inaccurate and Seller nonetheless elects to proceed with Closing, then (a) Seller shall not be able to seek indemnification for any damage arising from such inaccurate representation or warranty to the extent of Seller's Knowledge of such breach at Closing, (b) any such representation or warranty by Purchaser shall be

deemed amended to the extent necessary to make it consistent with Seller's Knowledge at Closing, and (c) Seller shall be deemed to have waived its right to indemnification with respect to the breach of such representations or warranties to the extent of Seller's Knowledge at Closing.

12.7 **Disclaimers by Seller.** Except as expressly set forth in the Seller's Documents, it is understood and agreed that Seller and Seller's agents or employees have not at any time made and are not now making, and they specifically disclaim, any warranties, representations or guaranties of any kind or character, express or implied, with respect to the Property and Assets, including, but not limited to, warranties, representations or guaranties as to (a) matters of title (other than Seller's special warranty of title to be contained in the Deed), (b) environmental matters relating to the Property, the Assets or any portion thereof, including, without limitation, the presence of Hazardous Materials in, on, under or in the vicinity of the Property or Assets, (c) geological conditions, including, without limitation, subsidence, subsurface conditions, water table, underground water reservoirs, limitations regarding the withdrawal of water, and geologic faults and the resulting damage of past and/or future faulting, (d) whether, and to the extent to which the Property or Assets or any portion thereof is affected by any stream (surface or underground), body of water, wetlands, flood prone area, flood plain, floodway or special flood hazard, (e) drainage, (f) soil conditions, including the existence of instability, past soil repairs, soil additions or conditions of soil fill, or susceptibility to landslides, or the sufficiency of any undershoring, (g) the presence of endangered species or any environmentally sensitive or protected areas, (h) zoning or building entitlements to which the Property or any portion thereof may be subject, (i) the availability of any utilities to the Assets or Property or any portion thereof including, without limitation, water, sewage, gas and electric, (j) usages of adjoining property, (k) access to the Assets or Property or any portion thereof, (l) the value, compliance with the plans and specifications, size, location, age, use, design, quality, description, suitability, structural integrity, operation, title to, or physical or financial condition of the Property or any portion thereof, or any income, expenses, charges, liens, encumbrances, rights or claims on or affecting or pertaining to the Assets, Property or any part thereof, (m) the condition or use of the Assets or Property or compliance of the Assets or Property with any or all past, present or future federal, state or local ordinances, rules, regulations or laws, building, fire or zoning ordinances, codes or other similar laws, (n) the existence or non-existence of underground storage tanks, surface impoundments, or landfills, (o) any other matter affecting the structural integrity of the Improvements or Property, (p) the potential for further development of the Assets or Property, (q) the merchantability of the Assets or Property or fitness of the Assets or Property for any particular purpose, (r) the truth, accuracy or completeness of any Seller Disclosure Materials or portion thereof produced or provided by any party other than Seller, (s) tax consequences, or (t) any other matter or thing with respect to the Assets or Property.

12.8 **Sale "As Is, Where Is"**. Purchaser acknowledges and agrees that upon Closing, Seller shall sell and convey to Purchaser and Purchaser shall accept the Assets "AS IS, WHERE IS, WITH ALL FAULTS," except to the extent expressly provided otherwise in Seller's Documents. Except as expressly set forth in Seller's Documents, Purchaser has not relied and will not rely on, and Seller has not made and is not liable for or bound by, any express or implied warranties, guarantees, statements, representations or information pertaining to the Assets or relating thereto (including specifically, without limitation, property information packages distributed with respect to the Assets) made or furnished by Seller, or any property manager, real



estate broker, agent or third party representing or purporting to represent Seller, to whomever made or given, directly or indirectly, orally or in writing. Purchaser represents that it is a knowledgeable, experienced and sophisticated purchaser of real estate and that, except as expressly set forth in Seller's Documents, it is relying solely on its own expertise and that of Purchaser's consultants in purchasing the Assets and shall make an independent verification of the accuracy of any documents and information provided by Seller. Purchaser will conduct such inspections and investigations of the Assets as Purchaser deems necessary, including, but not limited to, the physical and environmental conditions thereof, and shall rely upon same. By failing to terminate this Agreement prior to the expiration of the Inspection Period, Purchaser acknowledges that Seller has afforded Purchaser a full opportunity to conduct such investigations of the Assets as Purchaser deemed necessary to satisfy itself as to the condition of the Assets and the existence or non-existence or curative action to be taken with respect to any Hazardous Materials on or discharged from the Assets, and will rely solely upon same and not upon any information provided by or on behalf of Seller or its agents or employees with respect thereto, other than such representations, warranties and covenants of Seller as are expressly set forth in Seller's Documents. Upon Closing, except as otherwise expressly set forth in Seller's Documents, Purchaser shall assume the risk that adverse matters, including, but not limited to, adverse physical or construction defects or adverse environmental, health or safety conditions, may not have been revealed by Purchaser's inspections and investigations. Purchaser hereby represents and warrants to Seller that: (a) Purchaser is represented by legal counsel in connection with the transaction contemplated by this Agreement; and (b) Purchaser is purchasing the Property for business, commercial, investment or other similar purpose and not for use as Purchaser's residence. Purchaser waives any and all rights or remedies it may have or be entitled to, deriving from disparity in size or from any significant disparate bargaining position in relation to Seller.

12.9 **Seller Released from Liability.** Purchaser acknowledges that it will have the opportunity to inspect the Property and Assets during the Inspection Period, and during such period, observe its physical characteristics and existing conditions and the opportunity to conduct such investigation and study on and of the Property and adjacent areas as Purchaser deems necessary. Except for the Retained Liabilities and Seller's express representations, warranties and covenants contained in Seller's Documents including those representations and covenants which expressly survive closing, upon Closing Purchaser shall be deemed to FOREVER RELEASE AND DISCHARGE Seller from all responsibility and liability, including without limitation liabilities and responsibilities for the lessor's obligations under the Tenant Leases, relating to the physical, environmental or legal compliance status of the Assets or Property, whether arising before or after the Effective Date, and liabilities under the Comprehensive Environmental Response, Compensation and Liability Act Of 1980 (42 U.S.C. Sections 9601 et seq.), as amended ("**CERCLA**"), regarding the condition, valuation, salability or utility of the Assets or Property, or its suitability for any purpose whatsoever (including, but not limited to, with respect to the presence in the soil, air, structures and surface and subsurface waters, of Hazardous Materials or other materials or substances that have been or may in the future be determined to be toxic, hazardous, undesirable or subject to regulation and that may need to be specially treated, handled and/or removed from the Property under current or future federal, state and local laws, regulations or guidelines, and any structural and geologic conditions, subsurface soil and water conditions and solid and hazardous waste and Hazardous Materials on, under, adjacent to or otherwise affecting the Property). Except for the Retained Liabilities and Seller's express representations, warranties and covenants contained in Seller's Documents including those representations and covenants

which expressly survive closing, by Closing this transaction, Purchaser will be deemed to have WAIVED any and all objections and complaints (including, but not limited to, federal, state and local statutory and common law based actions, and any private right of action under any federal, state or local laws, regulations or guidelines to which the Property is or may be subject, including, but not limited to, CERCLA) concerning the physical characteristics and any existing conditions of the Property relating to the physical, environmental or legal compliance status of the Property, whether arising before or after the Effective Date (including, without limitation, any obligation of Seller to perform as lessor under the Tenant Leases to the extent such performance obligation arises after Closing (but regardless of whether the condition giving rise to such obligation arose before or after the Effective Date), subject to the terms of the Assignment and Assumption of Ground Lease and Tenant Leases to be executed at Closing). Except for the Retained Liabilities and Seller's express representations, warranties and covenants contained in this Agreement including those representations and covenants which expressly survive closing, by Closing this transaction, Purchaser further hereby assumes the risk of changes in any or all Applicable Laws relating to past, present and future conditions on the Property and the risk that adverse physical characteristics and conditions may not have been revealed by its investigation. Notwithstanding anything to the contrary in this Article 12, Purchaser does not waive, release or discharge, and reserves all rights and remedies with respect to, any claims, losses, damages or actions arising from or related to (a) fraud by Seller, and (b) Retained Liabilities, subject to the provisions of Section 12.1.

12.10 **Survival.** The terms and conditions of this Section 12 shall expressly survive the Closing. Purchaser acknowledges and agrees that the disclaimers and other agreements set forth herein are an integral part of this Agreement and that Seller would not have agreed to sell the Assets to Purchaser for the Purchase Price without the disclaimers and other agreements set forth above.



13. MISCELLANEOUS PROVISIONS

13.1 Notices.

13.1.1 Method of Delivery. Any notice pursuant to this Agreement shall be given in writing by (a) personal delivery, (b) reputable overnight delivery service with proof of delivery, (c) United States Mail, postage prepaid, registered or certified mail, return receipt requested, or (d) e-mail, sent to the intended addressee at the address set forth below, or to such other address or to the attention of such other Person as the addressee shall have designated by written notice sent in accordance herewith. Any notice so given shall be deemed to have been given upon receipt or refusal to accept delivery, or, in the case of e-mail, as of the date of the e-mail, provided that such e-mail is also sent to the intended addressee by means described in clauses (a), (b) or (c) above. Unless changed in accordance with the preceding sentence, the addresses for notices given pursuant to this Agreement shall be as follows:

If to Purchaser: c/o [\*\*\*]  
1920 Main Street, Suite 1200  
Irvine, CA 92614  
Attention: Glenn Preston  
Email: [gpreston@hcpi.com](mailto:gpreston@hcpi.com)

and to:

c/o [\*\*\*]  
1920 Main Street, Suite 1200  
Irvine, CA 92614  
Attention: Legal Department  
Email: [LegalDept@hcpi.com](mailto:LegalDept@hcpi.com)

with a copy to: Latham & Watkins LLP  
650 Town Center Drive  
20th Floor  
Costa Mesa, CA 92626-1925  
Attention: Hilary Shalla  
Telephone No.: 714.755.8122  
E-Mail: [Hilary.Shalla@lw.com](mailto:Hilary.Shalla@lw.com)

If to Seller: CHP II Partners, LP  
c/o CNL Healthcare Properties II, Inc.  
450 South Orange Avenue, 14th Floor  
Orlando, Florida 32801  
Attention: Tracey B. Bracco, Esq.  
Telephone No.: (407) 650-1000  
Facsimile No.: (407) 540-2576  
E-Mail: [tracey.bracco@cnl.com](mailto:tracey.bracco@cnl.com)

with a copy to: Lowndes, Drosdick, Doster, Kantor & Reed, P.A.  
215 North Eola Drive  
Orlando, Florida 32801  
Attention: John D. Ruffier, Esquire  
Telephone No.: (407) 418-6414  
E-Mail: john.ruffier@lowndes-law.com

13.1.2 Receipt of Notices. All Notices sent by a Party (or its counsel as contemplated below) under this Agreement shall be deemed to have been received by the Party to whom such Notice is sent upon (a) delivery to the address or e-mail address of the recipient Party, provided that such delivery is made prior to 5:00 p.m. (local time for the recipient Party) on a Business Day, otherwise the following Business Day, or (b) the attempted delivery of such Notice if (i) such recipient Party refuses delivery of such Notice, or (ii) such recipient Party is no longer at such address or e-mail address, and such recipient Party failed to provide the sending Party with its current address or e-mail address pursuant to Section 13.1.3.

13.1.3 Change of Address. The Parties and their respective counsel shall have the right to change their respective address or e-mail address for the purposes of this Section 13.1 by providing a Notice of such change in address or e-mail address as required under this Section 13.1.

13.1.4 Delivery by Party's Counsel. The Parties agree that the attorney for a Party shall have the authority to deliver Notices on such Party's behalf to the other Parties hereto.

13.2 Time is of the Essence. Time is of the essence in this Agreement; provided, however, that notwithstanding anything to the contrary in this Agreement, if the time period for the performance of any covenant or obligation, satisfaction of any condition or delivery of any Notice or item required under this Agreement shall expire on a day other than a Business Day, such time period shall be extended automatically to the next Business Day.

13.3 Assignment. Except as set forth in Section 3.5 hereof, neither Purchaser nor Seller shall assign this Agreement or any interest therein to any Person, without the prior written consent of the other Party which consent may be withheld in the other Party's sole discretion, except however, Purchaser shall have the right to assign this Agreement to or designate any wholly-owned Subsidiary or Affiliate of Purchaser to acquire title to the Assets by providing written notice to Seller no later than three (3) Business Days prior to Closing.

13.4 Successors and Assigns. This Agreement shall be binding upon the Parties hereto and their respective heirs and permitted successors, and assigns, each of whom shall be entitled to enforce performance and observance of this Agreement, to the same extent as if such heirs, successors, and assigns, were parties, hereto.

13.5 Third Party Beneficiaries. This Agreement shall not confer any rights or remedies on any Person other than (i) the Parties and their respective successors and permitted assigns, and (ii) any Indemnitee to the extent such Indemnitee is expressly provided any right of defense or indemnification in this Agreement.

13.6 **Rules of Construction.** The following rules shall apply to the construction and interpretation of this Agreement:

13.6.1 Singular words shall connote the plural as well as the singular, and plural words shall connote the singular as well as the plural, and the masculine shall include the feminine and the neuter, as the context may require.

13.6.2 All references in this Agreement to particular articles, sections, subsections or clauses (whether in upper or lower case) are references to articles, sections, subsections or clauses of this Agreement. All references in this Agreement to particular exhibits or schedules (whether in upper or lower case) are references to the exhibits and schedules attached to this Agreement, unless otherwise expressly stated or clearly apparent from the context of such reference.

13.6.3 The headings in this Agreement are solely for convenience of reference and shall not constitute a part of this Agreement nor shall they affect its meaning, construction or effect.

13.6.4 Each Party and its counsel have reviewed and revised (or requested revisions of) this Agreement and have participated in the preparation of this Agreement, and therefore any rules of construction requiring that ambiguities are to be resolved against the Party which drafted the Agreement or any exhibits hereto shall not be applicable in the construction and interpretation of this Agreement or any exhibits hereto.

13.6.5 The terms “sole discretion” and “absolute discretion” with respect to any determination to be made a Party under this Agreement shall mean the sole and absolute discretion of such Party, without regard to any standard of reasonableness or other standard by which the determination of such Party might be challenged.

13.7 **Severability.** If any provision of this Agreement is ultimately determined to be invalid or unenforceable, such provision shall be deemed limited by construction in scope and effect to the minimum extent necessary to render the same valid and enforceable, and, in the event no such limiting construction is possible, such invalid or unenforceable provision shall be deemed severed from the Agreement without affecting the validity of any other provision hereof if the essential provisions of this Agreement for each party remain valid, binding and enforceable.

13.8 **Governing Law, Jurisdiction and Venue.** This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Kansas. Purchaser and Seller agree to exclusively submit to the jurisdiction of Kansas in connection with any claims or controversy arising out of this Agreement and that venue for such actions shall exclusively be in Johnson County, Kansas. Seller (for itself and all Seller’s Indemnitees) and Purchaser (for itself and all Purchaser’s Indemnitees) hereby submit to jurisdiction and consent to venue in such courts, and waive any defense based on *forum non conveniens*, provided that any Party may seek injunctive relief or specific performance with respect to any of the Assets in the courts of the State in which such Assets are situated and may incorporate a claim against Seller of such Assets with respect to any claim for injunctive relief or specific performance.

13.9 **WAIVER OF JURY TRIAL.** THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE, TO THE MAXIMUM EXTENT



PERMITTED BY APPLICABLE LAWS, ANY RIGHT THAT EITHER PARTY OR THEIR HEIRS, PERSONAL REPRESENTATIVES, SUCCESSORS OR ASSIGNS MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER DOCUMENTS EXECUTED IN CONNECTION HEREWITH, OR IN RESPECT OF ANY COURSE OF CONDUCT, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF ANY PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR EACH OF THE PARTIES TO ENTER INTO THIS AGREEMENT.

13.10 **Attorneys' Fees.** In connection with any disputes or actions arising out of the transactions contemplated by this Agreement, or the breach, enforcement or interpretation of this Agreement, the substantially prevailing party shall be entitled to recover, from the party not substantially prevailing, all reasonable costs and attorney, paralegal and expert fees incurred by the substantially prevailing party before trial, at trial, at retrial, on appeal, at all hearings and rehearings, and in all administrative, bankruptcy and reorganization proceedings.

13.11 **Incorporation of Recitals Exhibits, and Schedules.** The recitals to this Agreement, and all exhibits and schedules referred to in this Agreement are incorporated herein by such reference and made a part of this Agreement. Any matter disclosed in any schedule to this Agreement shall be deemed to be incorporated in all other schedules to this Agreement.

13.12 **No Other Agreements.** This Agreement and the agreements to be executed and delivered in connection therewith set forth the entire understanding and agreement of the Parties hereto and shall supersede any other agreements and understandings (written or oral) between the Parties on or prior to the Effective Date with respect to the transactions described in this Agreement.

13.13 **Further Actions.** Each of the Parties covenants and agrees to do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, any and all such further acts, instruments, papers and documents as may be reasonably necessary to carry out and effectuate the intent and purposes of this Agreement.

13.14 **No Waiver.** No delay or omission to exercise any right or power accruing prior to or upon any breach, omission, or failure of performance hereunder shall impair any such right or power, or shall be construed to be a waiver thereof, and any such right or power may be exercised from time to time and as often as may be deemed expedient. In the event of any breach of any provision contained in this Agreement, thereafter waived by another Party, such waiver shall be limited to the particular waiving Party and to the particular breach in question and no other. No waiver or release of any term or provision of this Agreement shall be established by conduct, custom, or course of dealing, but solely by a document in writing duly authorized and executed by the waiving or releasing Party.

13.15 **Modifications.** No amendment or modification to any terms or provisions of this Agreement, waiver of any covenant, obligation, breach or default under this Agreement or termination of this Agreement, shall be valid unless in writing and executed and delivered by each of the Parties.

13.16 **Counterpart and Electronic Execution.** A Party may deliver executed signature pages to this Agreement by e-mail pdf file to any other Party, which pdf shall be deemed to be an original executed signature page. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which counterparts together shall constitute one agreement with the same effect as if the Parties had signed the same signature page.

13.17 **Required Disclosures.** Notwithstanding anything in this Agreement to the contrary, in order to avoid any potential application of Section 1.6011-4(b)(3) of the Treasury Regulations, Purchaser and Seller (and each employee, representative, or other agent of Purchaser and Seller) may disclose to any and all Persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to Purchaser or Seller relating to such tax treatment and tax structure. For purposes hereof, “tax structure” means any fact that may be relevant to understanding the federal income tax treatment of the transaction.

13.18 **No Personal Liability.** Nothing contained in this Agreement shall be construed to create or impose any liabilities or obligations and no such liabilities or obligations shall be imposed on any of the shareholders, beneficial owners, direct or indirect, officers, directors, trustees, employees or agents of Seller or Purchaser or their respective Affiliates for the payment or performance of the obligations or liabilities of Seller or Purchaser provided, however, that the foregoing shall not limit Guarantor’s obligations under the Guaranty.

13.19 **Good Faith Efforts.** The Parties agree to use commercially reasonable, good-faith efforts to effectuate the transactions contemplated by this Agreement.

13.20 **Post-Execution Disclosures.** Purchaser agrees that Seller may update any schedule to this Agreement or any representation or warranty contained in this Agreement (except for the Seller’s representations and warranties contained in Sections 5.1.1, 5.1.2, 5.1.3, 5.1.11, 5.1.12, 5.1.18, 5.1.20, 5.1.21, 5.1.24 and 5.1.27) promptly (but in any event within five (5) Business Days) after any change in condition or state of facts which would render any such schedule, representation or warranty incomplete or inaccurate, to the extent that (i) such schedule, representation or warranty needs to be amended, supplemented, or provided to maintain the truth or accuracy of the applicable representation or warranty or the information disclosed therein, and (ii) Seller did not have Seller’s Knowledge as of the Effective Date of the matter being disclosed in such amendment, supplement, or new schedule. In the event that Seller updates any schedule, representation or warranty during the period commencing on the date which is two (2) Business Days prior to the expiration of the Inspection Period and ending upon the expiration of the Inspection Period, the Inspection Period shall be extended for two (2) Business Days. If Seller updates any schedule, representation or warranty from and after the expiration of the Inspection Period, Purchaser shall have the right to terminate this Agreement on or before the date that is two (2) Business Days after the date Purchaser receives such update of the schedule, representation or warranty and such termination shall be treated for all purposes as a termination by Purchaser prior to the expiration of the Inspection Period.

13.21 **No Recordation.** Without the prior written consent of both Seller and Purchaser, there shall be no recordation of either this Agreement or any memorandum hereof, or any affidavit pertaining hereto, and any such recordation of this Agreement or memorandum or affidavit by a Party without the prior written consent of the other Party shall constitute a default hereunder by recording Party, whereupon the non-defaulting Party shall have the remedies set forth in Article 10 hereof. In addition to any such remedies, the defaulting Party shall be obligated to execute an instrument in recordable form releasing this Agreement or memorandum or affidavit, and the Parties obligations pursuant to this Section 13.21 shall survive any termination of this Agreement as a surviving obligation.

13.22 **Discharge of Obligations.** Following Closing, each Party shall be deemed to be in full performance and discharge of every representation and warranty made by the Parties herein and every agreement and obligation on the part of either Party to be performed pursuant to the provisions of this Agreement, except those which are herein specifically stated to survive Closing. Notwithstanding the foregoing, the foregoing shall in no event limit either Party's right to bring a claim following Closing on account of a breach of this Agreement of which such Party did not have Knowledge at Closing pursuant to the provisions of Section 12.1 above.

**[Remainder of page intentionally left blank;  
Signatures on following pages]**

**IN WITNESS WHEREOF**, each Party has caused this Agreement to be executed and delivered in its name by a duly authorized officer as of the date first set forth above.

**SELLER:**

**CHP II OVERLAND PARK KS MOB OWNER, LLC**, a  
Delaware limited liability company

By: /S/ John F. Starr  
Name: John F. Starr  
Title: Senior Vice President

**[Remainder of page intentionally left blank;  
Signatures continue on following page]**

Seller Signature Page

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**Purchaser:**

**HCP MEDICAL OFFICE BUILDINGS, LLC**, a Delaware  
limited liability company

By: /s/ Adam G. Mabry

Name: Adam G. Mabry

Title: Senior Vice President

Purchaser Signature Page

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The undersigned hereby joins in the execution of this Agreement for the purposes of acknowledging and accepting its obligations as Escrow Agent hereunder:

**ESCROW AGENT:**

**FIDELITY NATIONAL TITLE INSURANCE  
COMPANY**

By: /s/ Stephanie Weiss  
Name: Stephanie Weiss  
Title: Sr Commercial Escrow Officer

Escrow Agent Signature Page

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**EXHIBIT A**  
**PROPERTY**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit A

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**EXHIBIT 4.2.5**

**FORM OF ASSIGNMENT AND ASSUMPTION OF GROUND LEASE**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit 4.2.5

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**EXHIBIT 8.3.1**  
**SELLER'S CLOSING CERTIFICATE FORM**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit 8.3.1

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**EXHIBIT 8.3.2**  
**DEED FORM**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit 8.3.2

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EXHIBIT 8.3.3  
BILL OF SALE FORM

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit 8.3.3

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**EXHIBIT 8.3.4**  
**ASSIGNMENT AND ASSUMPTION OF TENANT LEASES FORM**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit 8.3.4

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**EXHIBIT 8.3.5**  
**ASSIGNMENT AND ASSUMPTION OF FACILITY CONTRACTS AND LICENSES AND PERMITS**  
**FORM**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit 8.3.5

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**EXHIBIT 8.3.6**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit 12.5

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**EXHIBIT 8.4.3**  
**PURCHASER'S CLOSING CERTIFICATE FORM**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit 12.5

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**EXHIBIT 12.5**  
**FORM OF GUARANTY**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Exhibit 12.5

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SCHEDULE 2.2.4  
PERSONAL PROPERTY

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Schedule 2.2.4

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**SCHEDULE 2.2.5**  
**TENANT LEASES**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Schedule 2.2.5

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**SCHEDULE 2.2.7**  
**FACILITY CONTRACTS**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Schedule 2.2.7

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**SCHEDULE 5.1.6**  
**LITIGATION**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

Schedule 5.1.6

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**SCHEDULE 5.1.8**  
**LICENSES AND PERMITS**

Omitted pursuant to Regulation S-K, Item 601(a)(5).

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
OF CNL HEALTHCARE PROPERTIES II, INC.  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen H. Mauldin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CNL Healthcare Properties II, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: May 9, 2019

By: /s/ Stephen H. Mauldin

STEPHEN H. MAULDIN  
Chief Executive Officer and President  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
OF CNL HEALTHCARE PROPERTIES II, INC.  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ixchell C. Duarte, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CNL Healthcare Properties II, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: May 9, 2019

By: /s/ Ixchell C. Duarte

IXCHELL C. DUARTE

Chief Financial Officer, Senior Vice President and  
Treasurer

(Principal Financial Officer)

**CERTIFICATION**  
**PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO**  
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of CNL Healthcare Properties II, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2019, as filed with the United States Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen H. Mauldin, Chief Executive Officer and Ixchell C. Duarte, Chief Financial Officer and Treasurer of the Company, each certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2019

By: /s/ Stephen H. Mauldin

Stephen H. Mauldin  
Chief Executive Officer and President

Date: May 9, 2019

By: /s/ Ixchell C. Duarte

Ixchell C. Duarte  
Chief Financial Officer, Senior Vice President and Treasurer

**Document and Entity  
Information - shares**

**3 Months Ended  
Mar. 31, 2019**

**May 07, 2019**

**[Document And Entity Information \[Abstract\]](#)**

<u><a href="#">Document Type</a></u>	10-Q	
<u><a href="#">Amendment Flag</a></u>	false	
<u><a href="#">Document Period End Date</a></u>	Mar. 31, 2019	
<u><a href="#">Document Fiscal Year Focus</a></u>	2019	
<u><a href="#">Document Fiscal Period Focus</a></u>	Q1	
<u><a href="#">Trading Symbol</a></u>	CHPII	
<u><a href="#">Entity Registrant Name</a></u>	CNL Healthcare Properties II, Inc.	
<u><a href="#">Entity Central Index Key</a></u>	0001648383	
<u><a href="#">Current Fiscal Year End Date</a></u>	--12-31	
<u><a href="#">Entity Filer Category</a></u>	Non-accelerated Filer	
<u><a href="#">Entity Small Business</a></u>	true	
<u><a href="#">Entity Emerging Growth Company</a></u>	true	
<u><a href="#">Entity Ex Transition Period</a></u>	true	
<u><a href="#">Entity Common Stock, Shares Outstanding</a></u>		4,899,139

**CONDENSED  
CONSOLIDATED  
BALANCE SHEETS  
(UNAUDITED) - USD (\$)**

	<b>Mar. 31, 2019</b>	<b>Dec. 31, 2018</b>
<b>ASSETS</b>		
<u>Real estate investment properties, net</u>	\$ 42,606,568	\$ 42,969,180
<u>Assets held for sale, net</u>	14,172,336	14,202,202
<u>Cash</u>	7,617,179	8,003,576
<u>Intangibles, net</u>	1,240,867	1,497,809
<u>Other assets</u>	289,453	382,637
<u>Restricted cash</u>	290,368	233,971
<u>Total assets</u>	66,216,771	67,289,375
<b>Liabilities:</b>		
<u>Mortgage loans, net</u>	18,679,824	18,665,013
<u>Liabilities associated with assets held for sale</u>	6,210,165	6,247,187
<u>Accounts payable and accrued liabilities</u>	647,106	497,081
<u>Other liabilities</u>	146,759	128,957
<u>Due to related parties</u>	129,278	85,902
<u>Total liabilities</u>	25,813,132	25,624,140
<u>Commitments and contingencies (Note 10)</u>		
<b>Stockholders' equity:</b>		
<u>Preferred stock, \$0.01 par value per share, 10,000,000 shares authorized; none issued or outstanding</u>		
<u>Capital in excess of par value</u>	48,039,220	48,039,220
<u>Accumulated loss</u>	(4,020,283)	(3,464,160)
<u>Accumulated distributions</u>	(3,664,293)	(2,958,820)
<u>Total stockholders' equity</u>	40,403,639	41,665,235
<u>Total liabilities and stockholders' equity</u>	66,216,771	67,289,375
<u>Class A Common Stock</u>		
<b>Stockholders' equity:</b>		
<u>Common stock value</u>	48,995	48,995
<u>Total stockholders' equity</u>	\$ 48,995	\$ 48,995

**CONDENSED  
CONSOLIDATED  
BALANCE SHEETS**      **Mar. 31, 2019 Dec. 31, 2018**  
**(UNAUDITED)**

**(Parenthetical) - \$ / shares**

<u>Preferred stock, par value</u>	\$ 0.01	\$ 0.01
<u>Preferred stock, shares authorized</u>	10,000,000	10,000,000
<u>Preferred stock, shares issued</u>	0	0
<u>Preferred stock, shares outstanding</u>	0	0
<u>Class A Common Stock</u>		
<u>Common stock, par value</u>	\$ 0.01	\$ 0.01
<u>Common stock, shares authorized</u>	1,200,000,000	1,200,000,000
<u>Common stock, shares issued</u>	4,899,139	4,899,139
<u>Common stock, shares outstanding</u>	4,899,139	4,899,139
<u>Class T Common Stock</u>		
<u>Common stock, par value</u>	\$ 0.01	\$ 0.01
<u>Common stock, shares authorized</u>	700,000,000	700,000,000
<u>Common stock, shares issued</u>	0	0
<u>Common stock, shares outstanding</u>	0	0
<u>Class I Common Stock</u>		
<u>Common stock, par value</u>	\$ 0.01	\$ 0.01
<u>Common stock, shares authorized</u>	100,000,000	100,000,000
<u>Common stock, shares issued</u>	0	0
<u>Common stock, shares outstanding</u>	0	0



CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) - USD (\$)	3 Months Ended	
	Mar. 31, 2019	Mar. 31, 2018
<b>Revenues:</b>		
<a href="#">Resident fees and services</a>	\$ 2,198,350	\$ 1,124,525
<a href="#">Type of Revenue [Extensible List]</a>	us-gaap:HealthCareResidentServiceMember	us-gaap:HealthCareResidentServiceMember
<a href="#">Total revenues</a>	\$ 2,198,350	\$ 1,124,525
<b>Operating expenses:</b>		
<a href="#">Property operating expenses</a>	1,392,468	617,148
<a href="#">General and administrative expenses</a>	403,247	319,233
<a href="#">Acquisition fees and expenses</a>		818
<a href="#">Property management fees</a>	\$ 109,747	\$ 73,962
<a href="#">Type of Cost, Good or Service [Extensible List]</a>	us-gaap:ManagementServiceMember	us-gaap:ManagementServiceMember
<a href="#">Depreciation and amortization</a>	\$ 670,181	\$ 323,724
<a href="#">Total operating expenses</a>	2,575,643	1,334,885
<a href="#">Operating loss</a>	(377,293)	(210,360)
<b>Other income (expense):</b>		
<a href="#">Interest and other income</a>	6,225	22
<a href="#">Interest expense and loan cost amortization</a>	(257,569)	(181,084)
<a href="#">Total other expense</a>	(251,344)	(181,062)
<a href="#">Loss before income taxes</a>	(628,637)	(391,422)
<a href="#">Income tax expense</a>	(30,533)	(31,356)
<a href="#">Loss from continuing operations</a>	(659,170)	(422,778)
<a href="#">Income from discontinued operations</a>	103,047	32,540
<a href="#">Net loss attributable to common stockholders</a>	(556,123)	(390,238)
<a href="#">Class A Common Stock</a>		
<b>Other income (expense):</b>		
<a href="#">Net loss attributable to common stockholders</a>	\$ (556,123)	\$ (95,926)
<a href="#">Net loss per share of common stock outstanding (basic and diluted)</a>	\$ (0.11)	\$ (0.12)
<a href="#">Weighted average number of common shares outstanding (basic and diluted)</a>	4,899,139	825,185

<u>Distributions declared per common share</u>	\$ 0.1440	\$ 0.1440
<u>Class T Common Stock</u>		
<b><u>Other income (expense):</u></b>		
<u>Net loss attributable to common stockholders</u>		\$ (269,815)
<u>Net loss per share of common stock outstanding (basic and diluted)</u>		\$ (0.12)
<u>Weighted average number of common shares outstanding (basic and diluted)</u>		2,321,014
<u>Distributions declared per common share</u>		\$ 0.1178
<u>Class I Common Stock</u>		
<b><u>Other income (expense):</u></b>		
<u>Net loss attributable to common stockholders</u>		\$ (24,497)
<u>Net loss per share of common stock outstanding (basic and diluted)</u>		\$ (0.12)
<u>Weighted average number of common shares outstanding (basic and diluted)</u>		210,726
<u>Distributions declared per common share</u>		\$ 0.1312

**CONDENSED  
CONSOLIDATED  
STATEMENTS OF  
STOCKHOLDERS'  
EQUITY (UNAUDITED) -  
USD (\$)**

	Total	Capital in Excess of Par Value	Accumulated Loss	Accumulated Distributions	Class A Common Stock	Class T Common Stock	Class I Common Stock
<u>Beginning Balance at Dec. 31, 2017</u>	\$ 26,509,932	\$ 28,984,932	\$ (1,658,977)	\$ (846,200)	\$ 8,080	\$ 20,492	\$ 1,605
<u>Beginning Balance (in shares) at Dec. 31, 2017</u>					808,011	2,049,223	160,490
<u>Subscriptions received for common stock, including distribution reinvestments</u>	\$ 7,187,473	7,180,587			\$ 290	\$ 5,672	\$ 924
<u>Subscriptions received for common stock, including distribution reinvestments (in shares)</u>	700,000				28,955	567,249	92,413
<u>Stock dividends issued</u>		(97)			\$ 24	\$ 67	\$ 6
<u>Stock dividends issued (in shares)</u>					2,444	6,662	586
<u>Redemptions of common stock</u>	\$ (25,382)	(25,357)				\$ (25)	
<u>Redemptions of common stock, shares</u>						(2,358)	
<u>Stock issuance and offering costs</u>	(590,975)	(590,975)					
<u>Net loss</u>	(390,238)		(390,238)				
<u>Cash distributions declared</u>	(402,305)			(402,305)			
<u>Ending Balance at Mar. 31, 2018</u>	32,288,505	35,549,090	(2,049,215)	(1,248,505)	\$ 8,394	\$ 26,206	\$ 2,535
<u>Ending Balance (in shares) at Mar. 31, 2018</u>					839,410	2,620,776	253,489
<u>Beginning Balance at Dec. 31, 2018</u>	\$ 41,665,235	48,039,220	(3,464,160)	(2,958,820)	\$ 48,995		
<u>Beginning Balance (in shares) at Dec. 31, 2018</u>					4,899,139		0
<u>Subscriptions received for common stock, including distribution reinvestments (in shares)</u>	0						
<u>Net loss</u>	\$ (556,123)		(556,123)				
<u>Cash distributions declared</u>	(705,473)			(705,473)			
<u>Ending Balance at Mar. 31, 2019</u>	\$ 40,403,639	\$ 48,039,220	\$ (4,020,283)	\$ (3,664,293)	\$ 48,995		
<u>Ending Balance (in shares) at Mar. 31, 2019</u>					4,899,139		0

**CONDENSED  
CONSOLIDATED  
STATEMENTS OF CASH  
FLOWS (UNAUDITED) -  
USD (\$)**

**3 Months Ended**

**Mar. 31, 2019 Mar. 31, 2018**

**Operating activities:**

<u>Net cash flow provided by (used in) operating activities – continuing operations</u>	\$ 319,688	\$ (23,713)
<u>Net cash flow provided by operating activities – discontinued operations</u>	106,413	180,603
<u>Net cash flows provided by operating activities</u>	426,101	156,890

**Investing activities:**

<u>Capital expenditures</u>	(50,628)	(3,719)
<u>Net cash used in investing activities – continuing operations</u>	(50,628)	(3,719)
<u>Net cash used in investing activities – discontinued operations</u>		(6,911)
<u>Net cash used in investing activities</u>	(50,628)	(10,630)

**Financing activities:**

<u>Subscriptions received for common stock through primary offering</u>		6,962,029
<u>Payment of underwriting compensation</u>		(383,228)
<u>Payment of cash distributions, net of distribution reinvestments</u>	(705,473)	(176,860)
<u>Redemptions of common stock</u>	0	(25,382)
<u>Payment of loan costs</u>		(10,397)
<u>Net cash flows (used in) provided by financing activities</u>	(705,473)	6,366,162
<u>Net (decrease) increase in cash and restricted cash</u>	(330,000)	6,512,422
<u>Cash and restricted cash at beginning of period, including assets held for sale</u>	8,237,547	12,421,919
<u>Cash and restricted cash at end of period, including assets held for sale</u>	\$ 7,907,547	18,934,341

**Amounts incurred but not paid (including amounts due to related parties):**

<u>Selling commissions and Dealer Manager fees</u>		2,809
<u>Annual distribution and stockholder servicing fee</u>		\$ 1,031,613

## Organization

**3 Months Ended  
Mar. 31, 2019**

[Organization Consolidation  
And Presentation Of  
Financial Statements  
\[Abstract\]  
Organization](#)

### 1. Organization

CNL Healthcare Properties II, Inc. (“Company”) is a Maryland corporation that incorporated on July 10, 2015 and elected to be taxed as a real estate investment trust (“REIT”) for United States (“U.S.”) federal income tax purposes beginning with the year ended December 31, 2017. The Company is sponsored by CNL Financial Group, LLC (“Sponsor” or “CNL”) and is externally managed and advised by CHP II Advisors, LLC (“Advisor”), an affiliate of CNL. The Advisor provides advisory services to the Company relating to substantially all aspects of its investments and operations, including real estate acquisitions and dispositions, asset management and other operational matters.

On March 2, 2016, pursuant to a registration statement on Form S-11 under the Securities Act of 1933, the Company commenced its initial public offering of up to \$1.75 billion (“Primary Offering”), in any combination, of Class A, Class T and Class I shares of common stock on a “best efforts” basis, which meant that CNL Securities Corp. (“Dealer Manager”), an affiliate of the Sponsor, used its best efforts but was not required to sell any specific amount of shares. The Company also offered up to \$250 million, in any combination, of Class A, Class T and Class I shares pursuant to its distribution reinvestment plan (“Reinvestment Plan” and, together with the Primary Offering, the “Offering”). The Company has contributed the net proceeds from its Offering to CHP II Partners, LP (“Operating Partnership”) in exchange for partnership interests. The Company owns substantially all of its assets either directly or indirectly through the Operating Partnership in which the Company is the sole limited partner and its wholly-owned subsidiary, CHP II GP, LLC, is the sole general partner. The Operating Partnership owns assets through: (1) a wholly-owned taxable REIT subsidiary (“TRS”), CHP II TRS Holding, Inc. (“TRS Holdings”) and (2) property owner subsidiaries, which are single purpose entities.

On August 31, 2018, the Company’s board of directors approved the termination of its Offering and the suspension of its Reinvestment Plan, effective October 1, 2018. The Company also suspended its share redemption plan (“Redemption Plan”) and discontinued its stock dividends concurrently. In October 2018, the Company deregistered the unsold shares of its common stock under its previous registration statement on Form S-11. Through the close of its Offering, the Company had received aggregate proceeds of approximately \$51.2 million (4.9 million shares), including approximately \$1.2 million (0.1 million shares) of proceeds pursuant to the Reinvestment Plan. In 2018, the Company announced it had formed a special committee consisting solely of its independent directors (“Special Committee”) to consider possible strategic alternatives available to the Company, including, without limitation, (i) an orderly disposition of the Company’s assets or one or more of the Company’s asset classes and the distribution of the net sale proceeds thereof to the stockholders of the Company and (ii) a potential business combination or other transaction with an unrelated third-party or affiliated party of the Company’s Sponsor. In January 2019, the Special Committee engaged SunTrust Robinson Humphrey, Inc., an investment banker, to act as a financial advisor to the aforementioned Special Committee and, subsequently, the Company committed to a plan to sell its medical office building (“MOB”), Mid America Surgery Institute (“Mid America Surgery”).

In March 2019, the Company entered into an asset purchase agreement (“Sale Agreement”) with HCP Medical Office Buildings, LLC related to the sale of Mid America Surgery for a gross sales price of \$15.4 million (“MOB Sale”), subject to certain pro-rations and other

adjustments as described in the Sale Agreement. The anticipated net sales proceeds of the MOB Sale are expected to exceed the net carrying value of Mid America Surgery. The Company completed the MOB Sale in May 2019; refer to Note 12. “Subsequent Events” for additional information.

In March 2019, in connection with the exploration of strategic alternatives, the Company’s board of directors suspended monthly cash distributions to stockholders effective April 1, 2019. Accordingly, the Company’s board of directors does not currently intend to declare any regular distributions after the effective date of the suspension, though special distributions may be made from time to time from net sales proceeds received from the sale of properties. In addition, in March 2019, the Company’s board of directors and its Advisor agreed to terminate the Expense Support Agreement effective April 1, 2019; refer to Note 8. “Related Party Arrangements” for additional information.

As of March 31, 2019, the Company owned three properties consisting of two seniors housing communities and one MOB, which has been classified as held for sale as further described in Note 6. “Assets and Associated Liabilities Held For Sale and Discontinued Operations.” The Company has leased its two seniors housing properties to single member limited liability companies wholly-owned by TRS Holdings, a subsidiary of the Company. TRS Holdings has engaged independent third-party managers under management agreements to operate the properties as permitted under the REIT Investment Diversification and Empowerment Act of 2007 (“RIDEA”) structures; whereas, its MOB has been leased on a net or modified gross basis to third-party tenants.

## Summary of Significant Accounting Policies

3 Months Ended  
Mar. 31, 2019

### [Accounting Policies](#)

#### [\[Abstract\]](#)

### [Summary of Significant Accounting Policies](#)

#### 2. Summary of Significant Accounting Policies

*Basis of Presentation and Consolidation* — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles in the U.S. (“GAAP”). The unaudited condensed consolidated financial statements reflect all normal recurring adjustments, which, in the opinion of management, are necessary for the fair statement of the Company’s operating results for the interim period presented. Operating results for the three months ended March 31, 2019 may not be indicative of the results that may be expected for the year ending December 31, 2019. Amounts as of December 31, 2018 included in the unaudited condensed consolidated financial statements have been derived from audited consolidated financial statements as of that date but do not include all disclosures required by GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, the Operating Partnership and its other subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

*Assets Held For Sale, net and Discontinued Operations* — The Company determines to classify a property as held for sale once management has the authority to approve and commits to a plan to sell the property, the property is available for immediate sale, there is an active program to locate a buyer, the sale of the property is probable and the transfer of the property is expected to occur within one year. Upon the determination to classify a property as held for sale, the Company ceases recording further depreciation and amortization relating to the associated assets and those assets are measured at the lower of its carrying amount or fair value less disposition costs and are presented separately in the consolidated balance sheets for all periods presented. In addition, the Company classifies assets held for sale as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the Company’s operations and financial results. For any disposal(s) qualifying as discontinued operations, the Company allocates interest expense and loan cost amortization that directly relates to any mortgage loan(s) collateralized by properties classified as discontinued operations.

*Reclassifications* – Certain amounts in the prior year’s condensed consolidated balance sheet, statement of operations and statement of cash flows have been reclassified to conform to the current year’s presentation, primarily related to the classification of the Company’s MOB property as held for sale and discontinued operations, with no effect on the other previously reported consolidated financial statements.

*Use of Estimates* — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the Company’s condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

*Adopted Accounting Pronouncements* — In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-02, “Leases (Topic 842): Accounting for Leases,” which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The ASU requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The ASU further

modifies lessors' classification criteria for leases and the accounting for sales-type and direct financing leases. The ASU also requires qualitative and quantitative disclosures designed to give financial statement users additional information on the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements," which includes a practical expedient for lessors that allows them to elect to not separate lease and non-lease components in a contract for the purpose of revenue recognition and disclosure if certain criteria are met. The Company elected the practical expedient and applied the guidance to all of the leases that qualified under the established criteria. In December 2018, the FASB issued ASU 2018-20, "Leases (Topic 842): Narrow-Scope Improvements for Lessors," which addressed challenges encountered in determining certain lessor costs paid by the lessee directly to third parties by allowing lessors to exclude these costs from its variable lease payments. This amendment did not have a material impact on the Company's financial statements and related disclosures as it conformed Accounting Standard Codification ("ASC") 842 to the Company's historical accounting under ASC 840. In March 2019, the FASB issued ASU 2019-01, "Leases (Topic 842): Codification Improvements," which clarified the transition guidance related to interim disclosure requirements in the year of adoption. All of the ASC 842 ASUs are effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018.

## 2. Summary of Significant Accounting Policies (continued)

The Company adopted these ASUs on January 1, 2019 using a modified retrospective approach, the adoption of these ASUs did not have a material impact on the Company's consolidated results of operations or cash flows. However, the adoption of these ASUs did impact the Company's consolidated financial position for arrangements such as ground or other leases in which the Company is the lessee. More specifically, the adoption of ASC 842 resulted in the Company recording operating lease assets and liabilities on January 1, 2019. The following table provides additional details by financial statement line item of the adjusted presentation in the Company's consolidated financial position:

	As Presented December 31, 2018	Effect of ASC 842 Adoption	As Adjusted January 1, 2019
Other assets	\$ 382,637	\$ 32,500	\$ 415,137
Total assets	\$ 67,289,375	\$ 32,500	\$ 67,321,875
Other liabilities	\$ (128,957)	\$(32,500)	\$ (161,457)
Total liabilities	\$(25,624,140)	\$(32,500)	\$(25,656,640)

In addition, the Company reclassified approximately \$1.5 million of below-market ground lease intangibles related to the Company's MOB, Mid America Surgery, to operating lease assets as a result of adopting these ASUs on January 1, 2019. However, as further described in Note 6. "Assets and Associated Liabilities Held For Sale and Discontinued Operations," Mid America Surgery was subsequently classified as held for sale and, therefore, there was no impact to assets held for sale, net as of March 31, 2019 since both intangibles and operating lease assets are grouped in a single financial statement line item.

In June 2018, the FASB issued ASU 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which expands the scope to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payments. The amendments also clarify that this ASU does not apply to share-based payments used to provide financing to the issuer or awards granted in conjunction with selling of goods or services to customers as a part of a contract accounted for under Revenue from Contracts with Customers (Topic 606). The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company adopted this ASU prospectively on January



1, 2019; the adoption of which did not have a material impact on the Company's consolidated results of operations or cash flows.

## Revenue

**3 Months Ended  
Mar. 31, 2019**

### Revenue From Contract With Customer [Abstract]

#### Revenue

#### 3. Revenue

The following table presents disaggregated revenue related to the Company's resident fees and services during the three months ended March 31, 2019 and 2018:

<b>Type of Investment</b>	<b>Number of Units</b>		<b>Revenues</b>		<b>Percentage of Revenues</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<i>Resident fees and services:</i>						
Assisted living	125	63	\$1,520,053	\$ 818,006	69.1%	72.8%
Memory care	50	20	654,492	292,786	29.8%	26.0%
Other revenues	—	—	23,805	13,733	1.1%	1.2%
	<u>175</u>	<u>83</u>	<u>\$2,198,350</u>	<u>\$1,124,525</u>	<u>100.0%</u>	<u>100.0%</u>

## Real Estate Assets, net

**3 Months Ended  
Mar. 31, 2019**

[Real Estate \[Abstract\]](#)

[Real Estate Assets, net](#)

#### 4. Real Estate Assets, net

The gross carrying amount and accumulated depreciation of the Company's real estate assets as of March 31, 2019 and December 31, 2018, excluding assets held for sale, are as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Land and land improvements	\$ 4,075,733	\$ 4,075,733
Building and building improvements	38,700,052	38,700,052
Furniture, fixtures and equipment	1,923,587	1,872,959
Less: accumulated depreciation	(2,092,804)	(1,679,564)
Real estate investment properties, net	<u>\$42,606,568</u>	<u>\$42,969,180</u>

Depreciation expense on the Company's real estate investment properties, net was approximately \$0.4 million and \$0.2 million for the three months ended March 31, 2019 and 2018, respectively.

## Intangibles, net

**3 Months Ended  
Mar. 31, 2019**

### Goodwill And Intangible Assets Disclosure [Abstract]

#### Intangibles, net

#### 5. Intangibles, net

The gross carrying amount and accumulated amortization of the Company's intangibles as of March 31, 2019 and December 31, 2018, excluding assets held for sale, are as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
In-place resident agreement intangibles	\$ 2,569,419	\$ 2,569,419
Less: accumulated amortization	(1,328,552)	(1,071,610)
Intangible assets, net	<u>\$ 1,240,867</u>	<u>\$ 1,497,809</u>

For the three months ended March 31, 2019 and 2018, amortization on the Company's intangibles was approximately \$0.3 million and \$0.1 million, respectively, all of which was included in depreciation and amortization.

**Assets and Associated  
Liabilities Held For Sale and  
Discontinued Operations**

**3 Months Ended**

**Mar. 31, 2019**

[Real Estate Liabilities](#)

[Associated With Assets Held  
For Development And Sale](#)

[\[Abstract\]](#)

[Assets and Associated](#)

[Liabilities Held For Sale and  
Discontinued Operations](#)

6. Assets and Associated Liabilities Held For Sale and Discontinued Operations

In March 2019, the Company entered into a Sale Agreement with HCP Medical Office Buildings, LLC related to the MOB Sale. As of March 31, 2019, as part of executing on strategic alternatives, the Company had committed to a plan to sell its MOB, Mid America Surgery, and classified the property as held for sale. The Company believes the sale of Mid America Surgery would cause a strategic shift in the Company's operations and, therefore, has classified the corresponding revenues and expenses for its MOB property as discontinued operations.

As of March 31, 2019 and December 31, 2018, the amounts classified as assets held for sale and the liabilities associated with those assets held for sale consisted of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Real estate investment properties, net	\$ 10,579,020	\$ 10,603,833
Intangibles, net	1,962,515	3,485,818
Operating lease asset, net	1,501,024	—
Other assets	129,777	112,551
Assets held for sale, net	<u>\$ 14,172,336</u>	<u>\$ 14,202,202</u>
Mortgage loan, net	\$ 5,541,058	\$ 5,532,346
Accounts payable and accrued liabilities	343,725	391,735
Other liabilities	325,382	323,106
Liabilities associated with assets held for sale	<u>\$ 6,210,165</u>	<u>\$ 6,247,187</u>

The following table is a summary of the Company's income from discontinued operations for the three months ended March 31, 2019 and 2018:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenues:		
Rental income and related revenues	\$ 342,272	\$ 408,816
Operating expenses:		
Property operating expenses	111,685	171,233
General and administrative	559	451
Property management fees	7,928	10,050
Depreciation and amortization	43,793	130,694
Total operating expenses	163,965	312,428
Operating income	178,307	96,388
Other expense:		
Interest expense and loan cost amortization	(75,260)	(63,848)
Total other expense	(75,260)	(63,848)
Income before income taxes	103,047	32,540
Income tax expense	—	—
Income from discontinued operations	<u>\$ 103,047</u>	<u>\$ 32,540</u>

The Company completed the MOB Sale in May 2019; refer to Note 12. “Subsequent Events” for additional information.

## Indebtedness

**3 Months Ended  
Mar. 31, 2019**

[Debt Disclosure \[Abstract\]](#)  
[Indebtedness](#)

7. Indebtedness

The Company had mortgage loans, excluding indebtedness associated with assets held for sale, of approximately \$18.7 million as of March 31, 2019 and December 31, 2018. The fair market value of the Company's mortgage loans, excluding assets held for sale, was approximately \$18.9 million as of March 31, 2019 and December 31, 2018, which is based on then-current rates and spreads the Company would expect to obtain for similar borrowings. Since this methodology includes inputs that are less observable by the public and are not necessarily reflected in active markets, the measurement of the estimated fair values is categorized as Level 3 on the three-level valuation hierarchy.

## Related Party Arrangements

3 Months Ended

Mar. 31, 2019

### [Related Party Transactions](#)

#### [\[Abstract\]](#)

### [Related Party Arrangements](#)

#### 8. [Related Party Arrangements](#)

The Company is externally advised and has no direct employees. All of the Company's executive officers are executive officers of the board of managers, of the Advisor. In connection with services provided to the Company, affiliates are entitled to the following:

**Dealer Manager** — Through the termination of the Offering in October 2018, the Dealer Manager received a combined selling commission and dealer manager fee of up to 8.5% of the sale price for each Class A share and up to 4.75% of the sale price for each Class T share in the Primary Offering, all or a portion of which could be reallocated to participating broker dealers. In addition, for Class T shares sold in the Primary Offering, the Dealer Manager could choose the respective amounts of the commission and dealer manager fee, provided that the selling commission did not exceed 3.0% of the gross proceeds from the completed sale of such Class T shares.

The Company paid a distribution and stockholder servicing fee, subject to certain underwriting compensation limits, with respect to Class T and Class I shares sold in the Primary Offering in an annual amount equal to 1% and 0.50%, respectively, of the then-current offering price per Class T or Class I share.

The Company recorded the annual distribution and stockholder servicing fees as a reduction to capital in excess of par value and the related liability in an amount equal to the maximum fees owed in relation to the Class T and Class I shares on the share sale date. The liability was relieved over time, as the fees were paid to the Dealer Manager. In connection with the close of the offering effective October 1, 2018, certain underwriting compensation limits were met and, effective October 31, 2018, each Class T share automatically converted into a Class A share pursuant to the terms of the Company's charter. The Class T and Class I shares converted into Class A shares on a one-for-one basis because the then-current estimated net asset value ("NAV") per share of \$10.06 was the same for all share classes. Effective October 31, 2018, Class T and Class I shares were no longer subject to class specific expenses upon conversion into Class A shares. The Company's obligation to pay the remaining distribution and stockholder servicing fees liability of approximately \$1.4 million to the Dealer Manager ceased effective October 31, 2018 upon the conversion of the Class T and Class I shares into Class A Shares.

**CNL Capital Markets, LLC** — The Company will pay CNL Capital Markets, LLC, an affiliate of CNL, an annual fee payable based on the average number of total investor accounts that are open during the term of the capital markets service agreement to which certain administrative services are provided to the Company. These services may include, but are not limited to, the coordination and coordination of the transfer agent's activities, client services and administrative call center activities, financial advisor and correspondence services, material distribution services and various reporting and troubleshooting activities.

**Advisor** — Pursuant to the Company's advisory agreement, dated as of March 2, 2016, the Company paid the Advisor asset management fees in an amount equal to 0.80% per annum of average invested assets ("AUM Fee"). In March 2019, the Company's advisory agreement was amended and restated to eliminate acquisition fees and dispositions fees as well as to reduce the AUM Fee to 0.40% per annum of average invested assets. The reduced AUM Fee is further subject and subordinate to an agreed upon hurdle relating to the total operating expenses (as described in the amended and restated advisory agreement) of the Company, though to the extent any portion of the AUM Fee is not paid as a result of total operating expenses exceeding the prescribed limits, it may be recovered by the Advisor if certain performance thresholds are subsequently met. The Company's board of directors approved renewing the amended and restated advisory agreement through March 2020.

#### 8. [Related Party Arrangements \(continued\)](#)

The Advisor, its affiliates and related parties also are entitled to reimbursement of certain operating expenses in connection with the provision of services to the Company, including personnel costs, subject to the limitation that the Company will not reimburse the Advisor for any amount by which operating expenses exceed the greater of 2% of its average invested assets or 25% of its net income for any consecutive fiscal quarters ("Expense Year") unless approved by the independent directors. For the Expense Year ended March 31, 2019, the Company's total operating expenses were in excess of this limitation by approximately \$28,000. As of March 31, 2019, the Company had received cumulative approvals from its independent directors for total operating expenses in excess of this limitation of approximately \$0.9 million. The Company's independent directors determined that the higher relationship of operating expenses to average invested assets was justified based on unattained capital raise expectations, which limited the number of investments, and the cost of operating the company.

For each of the three months ended March 31, 2019 and 2018, the Company paid cash distributions of approximately \$38,000 to the Advisor related to the Class A common stock held by the Advisor. In addition, for the three months ended March 31, 2018, the Company paid cash stock dividends of approximately 7,400 shares to the Advisor. There were no stock dividends for the three months ended March 31, 2019 as the Company discontinued its stock dividends in October 2018.

Pursuant to an expense support arrangement, the Advisor agreed to accept payment in restricted stock in lieu of cash for services rendered in the event that the Company does not achieve established distribution coverage targets ("Expense Support Agreement"). Pursuant to the Expense Support Agreement, for services rendered and in consideration of the expense support provided under this arrangement, the Company issued, following the determination date, a number of shares of restricted stock equal to the quotient of the expense support amount provided by the Company for the preceding year divided by the board of directors' most recent determination of NAV per share of the Class A common stock, on the terms and conditions and subject to the restrictions set forth in the Expense Support Agreement. The restricted stock is subject to forfeiture and forfeited to the extent that shareholders do not receive a Priority Return on their Invested Capital (as such terms are defined in the Expense Support Agreement).



Company's prospectus), excluding for the purposes of calculating this threshold any shares of restricted stock owned by the Company as of March 31, 2019, the Company's board of directors and the Advisor agreed to terminate the Expense Support Agreement effective as of March 31, 2019.

The following fees for services rendered have been or are expected to be settled in the form of restricted stock pursuant to the Expense Support Agreement for the three months ended March 31, 2019 and 2018 and cumulatively as of March 31, 2019:

	Three Months Ended		As of
	March 31,		March 31,
	2019	2018	2019
Fees for services rendered:			
Asset management fees	\$ 99,417	\$ 70,800	\$ 578,171
Advisor personnel expenses (1)	127,950	126,629	1,058,676
Total fees for services rendered	\$ 227,367	\$ 197,429	\$ 1,636,847
Then-current NAV	\$ 9.92	\$ 10.06	\$ 9.92
Restricted stock shares (2)	22,920	19,625	164,210
Cash distributions on restricted stock (3)	\$ 8,113	\$ —	\$ 32,452

**FOOTNOTES:**

- (1) Amounts consist of personnel and related overhead costs of the Advisor or its affiliates (which, in general, are those expenses incurred by the Company's administration on an on-going basis) that are reimbursable by the Company.
  - (2) Represents restricted stock shares issued or expected to be issued to the Advisor as of March 31, 2019 pursuant to the Expense Support Agreement. No fair value was assigned to the restricted stock shares as the shares do not vest until a liquidity event is completed and certain market conditions are achieved. In addition, the restricted stock shares will be treated as unissued for financial reporting purposes until the vesting criteria are met.
  - (3) The cash distributions on Restricted Stock shares issued have been recognized as compensation expense as declared and accrued in the general and administrative expenses in the accompanying condensed consolidated statements of operations.
8. Related Party Arrangements (continued)

The fees payable through the termination of the Offering in October 2018 to the Dealer Manager for the three months ended March 31, 2019 and 2018, and related amounts unpaid as of March 31, 2019 and December 31, 2018 are as follows:

	Three Months Ended		Unpaid amounts as of	
	March 31,		March 31,	December 31,
	2019	2018	2019	2018
Selling commissions (2)	\$ —	\$ 131,841	\$ —	\$ —
Dealer manager fees (2)	—	165,756	—	—
Distribution and stockholder servicing fees (2)	—	293,378	—	—
	\$ —	\$ 590,975	\$ —	\$ —

The expenses incurred by and reimbursable to the Company's related parties, including amounts included in income from operations, for the three months ended March 31, 2019 and 2018, and related amounts unpaid as of March 31, 2019 and December 31, 2018 are as follows:

	Three Months Ended		Unpaid amounts as of	
	March 31,		March 31,	December 31,
	2019	2018	2019	2018
Reimbursable expenses:				
Operating expenses (3)	\$ 230,823	\$ 274,844	\$ 129,278	\$ —
Acquisition fees and expenses	—	901	—	—
	230,823	275,745	129,278	—
Asset management fees (4)	99,417	70,800	—	—
	\$ 330,240	\$ 346,545	\$ 129,278	\$ —

**FOOTNOTES:**

- (1) Amounts are recorded as due to related parties in the accompanying condensed consolidated balance sheets.
- (2) Amounts are recorded as stock issuance and offering costs in the accompanying condensed consolidated statements of operations and equity.
- (3) Amounts are recorded as general and administrative expenses in the accompanying condensed consolidated statements of operations unless such amounts represent prepaid expenses, which are capitalized in the accompanying condensed consolidated balance sheets. For each of the three months ended March 31, 2019 and 2018, approximately \$0.1 million of personnel expenses

of the Advisor have been or are expected to be settled in accordance with the terms of the Expense Support Agreement and general and administrative expenses were reduced by approximately \$0.1 million for each of the three months ended March 31, 2019 and 2018.

- (4) For each of the three months ended March 31, 2019 and 2018, the Company incurred asset management fees of approximately \$0.1 million, all of which have been or are expected to be settled in accordance with the terms of the Expense Support Agreement and such asset management fees were reduced by approximately \$0.1 million.

## Equity

**3 Months Ended  
Mar. 31, 2019**

[Equity \[Abstract\]](#)

[Equity](#)

### 9. Equity

**Subscription Proceeds** — In October 2018, in light of the Company’s decision to terminate its Offering, the Company suspended the Reinvestment Plan and the Redemption Plan. As such, there were no subscriptions proceeds received for the three months ended March 31, 2019. For the three months ended March 31, 2018, the Company received subscription proceeds of approximately \$7.0 million (0.7 million shares) and \$0.2 million (0.02 million shares) through its Offering and Reinvestment Plan, respectively.

**Distributions** — In October 2018, in light of the Company’s decision to terminate its Offering, the Company suspended the Reinvestment Plan and discontinued the issuance of stock dividends concurrently. For the three months ended March 31, 2019 and 2018, the Company declared cash distributions of approximately \$0.7 million and \$0.4 million, respectively, of which approximately \$0.7 million and \$0.2 million, respectively, were paid in cash to stockholders. None of the cash distributions were reinvested during three months ended March 31, 2019 due to the suspension of the Reinvestment Plan. For the three months ended March 31, 2018, approximately \$0.2 million was reinvested pursuant to the Reinvestment Plan.

In March 2019, in connection with the Company’s strategic alternatives discussed in Note 1. “Organization,” the Company’s board of directors suspended monthly cash distributions to stockholders effective April 1, 2019.

**Redemptions** — In October 2018, in light of the Company’s decision to terminate its Offering, the Company suspended the Reinvestment Plan and the Redemption Plan. As such, there were no requests for the redemption of common stock during the three months ended March 31, 2019. During the three months ended March 31, 2018, the Company received requests for the redemption of common stock of approximately \$25,000, all of which were approved for redemption at an average price of \$10 per share.

**Commitments and  
Contingencies**

**3 Months Ended  
Mar. 31, 2019**

**[Commitments And  
Contingencies Disclosure](#)**

**[\[Abstract\]](#)**

**[Commitments and  
Contingencies](#)**

10. Commitments and Contingencies

From time to time, the Company may be a party to legal proceedings in the ordinary course of, or incidental to the normal course of, its business, including proceedings to enforce its contractual or statutory rights. While the Company cannot predict the outcome of these legal proceedings with certainty, based upon currently available information, the Company does not believe the final outcome of any pending or threatened legal proceeding will have a material adverse effect on its results of operations or financial condition.

## Income Taxes

**3 Months Ended  
Mar. 31, 2019**

### [Income Tax Disclosure](#)

#### [\[Abstract\]](#)

#### [Income Taxes](#)

##### 11. Income Taxes

The accompanying condensed consolidated financial statements include an interim tax provision for the three months ended March 31, 2019 and 2018. The components of income tax expense for the three months ended March 31, 2019 and 2018 are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Current:</b>		
Federal	\$ —	\$ (25,250)
State	—	(5,150)
Total current expense	—	(30,400)
<b>Deferred:</b>		
Federal	(25,300)	(593)
State	(5,233)	(363)
Total deferred expense	(30,533)	(956)
Income tax expense	<u>\$ (30,533)</u>	<u>\$ (31,356)</u>

##### 11. Income Taxes (continued)

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets as of March 31, 2019 and December 31, 2018 are as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Carryforwards of net operating loss	\$ 85,010	\$ —
Prepaid rent	35,768	30,533
Valuation allowance	(120,778)	—
Deferred tax assets, net	<u>\$ —</u>	<u>\$ 30,533</u>

The recording of a valuation allowance relates primarily to a change in judgment about the Company's ability to realize deferred tax assets in future years, due to its current and foreseeable operations.

A reconciliation of the income tax expense for the three months ended March 31, 2019 and 2018 computed at the statutory federal tax rate on income (loss) before income taxes is as follows:

	<b>Three Months Ended March 31,</b>			
	<b>2019</b>		<b>2018</b>	
Tax benefit computed at federal statutory rate	\$ 132,014	21.0%	\$ 82,199	21.0%
Impact of REIT election	(126,781)	(20.2)%	(108,042)	(27.6)%
State income tax expense	(5,233)	(0.8)%	(5,513)	(1.4)%

Impact of change in deferred tax asset	90,245	14.4%	—	—%
Impact of change in valuation allowance	(120,778)	(19.2)%	—	—%
Income tax expense	<u>\$ (30,533)</u>	<u>(4.8)%</u>	<u>\$ (31,356)</u>	<u>(8.0)%</u>

The Company analyzed its material tax positions and determined that it has not taken any uncertain tax positions. The tax years 2016 and forward remain subject to examination by taxing authorities throughout the United States.

## Subsequent Events

**3 Months Ended  
Mar. 31, 2019**

[Subsequent Events](#)

[\[Abstract\]](#)

[Subsequent Events](#)

### 12. Subsequent Events

In May 2019, the Company completed the MOB Sale and received net sales proceeds of approximately \$15.4 million, which were used to pay off the Mid America Surgery loan of approximately \$5.6 million. The net sales proceeds exceeded the net carrying value of the property comprising the MOB Sale. The remaining proceeds were used to strategically pay down debt secured by one of the Company's two remaining seniors housing properties.

## Summary of Significant Accounting Policies (Policies)

**3 Months Ended  
Mar. 31, 2019**

### [Accounting Policies](#)

#### [\[Abstract\]](#)

#### [Basis of Presentation and Consolidation](#)

*Basis of Presentation and Consolidation* — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles in the U.S. (“GAAP”). The unaudited condensed consolidated financial statements reflect all normal recurring adjustments, which, in the opinion of management, are necessary for the fair statement of the Company’s operating results for the interim period presented. Operating results for the three months ended March 31, 2019 may not be indicative of the results that may be expected for the year ending December 31, 2019. Amounts as of December 31, 2018 included in the unaudited condensed consolidated financial statements have been derived from audited consolidated financial statements as of that date but do not include all disclosures required by GAAP. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, the Operating Partnership and its other subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

#### [Assets Held For Sale, net and Discontinued Operations](#)

*Assets Held For Sale, net and Discontinued Operations* — The Company determines to classify a property as held for sale once management has the authority to approve and commits to a plan to sell the property, the property is available for immediate sale, there is an active program to locate a buyer, the sale of the property is probable and the transfer of the property is expected to occur within one year. Upon the determination to classify a property as held for sale, the Company ceases recording further depreciation and amortization relating to the associated assets and those assets are measured at the lower of its carrying amount or fair value less disposition costs and are presented separately in the consolidated balance sheets for all periods presented. In addition, the Company classifies assets held for sale as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on the Company’s operations and financial results. For any disposal(s) qualifying as discontinued operations, the Company allocates interest expense and loan cost amortization that directly relates to any mortgage loan(s) collateralized by properties classified as discontinued operations.

#### [Reclassifications](#)

*Reclassifications* – Certain amounts in the prior year’s condensed consolidated balance sheet, statement of operations and statement of cash flows have been reclassified to conform to the current year’s presentation, primarily related to the classification of the Company’s MOB property as held for sale and discontinued operations, with no effect on the other previously reported consolidated financial statements.

#### [Use of Estimates](#)

*Use of Estimates* — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the Company’s condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

#### [Adopted Accounting Pronouncements](#)

*Adopted Accounting Pronouncements* — In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-02, “Leases (Topic 842): Accounting for Leases,” which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The ASU requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. The ASU further modifies lessors’ classification criteria for leases and the accounting for sales-type and direct financing leases. The ASU also requires qualitative and quantitative disclosures designed to



give financial statement users additional information on the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” which includes a practical expedient for lessors that allows them to elect to not separate lease and non-lease components in a contract for the purpose of revenue recognition and disclosure if certain criteria are met. The Company elected the practical expedient and applied the guidance to all of the leases that qualified under the established criteria. In December 2018, the FASB issued ASU 2018-20, “Leases (Topic 842): Narrow-Scope Improvements for Lessors,” which addressed challenges encountered in determining certain lessor costs paid by the lessee directly to third parties by allowing lessors to exclude these costs from its variable lease payments. This amendment did not have a material impact on the Company’s financial statements and related disclosures as it conformed Accounting Standard Codification (“ASC”) 842 to the Company’s historical accounting under ASC 840. In March 2019, the FASB issued ASU 2019-01, “Leases (Topic 842): Codification Improvements,” which clarified the transition guidance related to interim disclosure requirements in the year of adoption. All of the ASC 842 ASUs are effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018.

2. Summary of Significant Accounting Policies (continued)

The Company adopted these ASUs on January 1, 2019 using a modified retrospective approach, the adoption of these ASUs did not have a material impact on the Company’s consolidated results of operations or cash flows. However, the adoption of these ASUs did impact the Company’s consolidated financial position for arrangements such as ground or other leases in which the Company is the lessee. More specifically, the adoption of ASC 842 resulted in the Company recording operating lease assets and liabilities on January 1, 2019. The following table provides additional details by financial statement line item of the adjusted presentation in the Company’s consolidated financial position:

	As Presented December 31, 2018	Effect of ASC 842 Adoption	As Adjusted January 1, 2019
Other assets	\$ 382,637	\$ 32,500	\$ 415,137
Total assets	\$ 67,289,375	\$ 32,500	\$ 67,321,875
Other liabilities	\$ (128,957)	\$(32,500)	\$ (161,457)
Total liabilities	\$(25,624,140)	\$(32,500)	\$(25,656,640)

In addition, the Company reclassified approximately \$1.5 million of below-market ground lease intangibles related to the Company’s MOB, Mid America Surgery, to operating lease assets as a result of adopting these ASUs on January 1, 2019. However, as further described in Note 6. “Assets and Associated Liabilities Held For Sale and Discontinued Operations,” Mid America Surgery was subsequently classified as held for sale and, therefore, there was no impact to assets held for sale, net as of March 31, 2019 since both intangibles and operating lease assets are grouped in a single financial statement line item.

In June 2018, the FASB issued ASU 2018-07, “Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,” which expands the scope to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payments. The amendments also clarify that this ASU does not apply to share-based payments used to provide financing to the issuer or awards granted in conjunction with selling of goods or services to customers as a part of a contract accounted for under Revenue from Contracts with Customers (Topic 606). The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2018. The Company adopted this ASU prospectively on January 1, 2019; the adoption of which did not have a material impact on the Company’s consolidated results of operations or cash flows.

**Summary of Significant  
Accounting Policies (Tables)**

**3 Months Ended  
Mar. 31, 2019**

[ASC 842](#)

[New Accounting Pronouncements Or  
Change In Accounting Principle  
\[Line Items\]](#)

[Summary of Additional Details by  
Financial Statement Line Item Adjusted](#)

The following table provides additional details by financial statement line item of the adjusted presentation in the Company's consolidated financial position:

	As Presented December 31, 2018	Effect of ASC 842 Adoption	As Adjusted January 1, 2019
Other assets	\$ 382,637	\$ 32,500	\$ 415,137
Total assets	\$ 67,289,375	\$ 32,500	\$ 67,321,875
Other liabilities	\$ (128,957)	\$(32,500)	\$ (161,457)
Total liabilities	\$(25,624,140)	\$(32,500)	\$(25,656,640)

## Revenue (Tables)

**3 Months Ended  
Mar. 31, 2019**

[Revenue From Contract With  
Customer \[Abstract\]](#)

[Schedule of Disaggregated Revenue  
for Resident Fees and Services](#)

The following table presents disaggregated revenue related to the Company's resident fees and services during the three months ended March 31, 2019 and 2018:

Type of Investment	Number of Units		Revenues		Percentage of Revenues	
	2019	2018	2019	2018	2019	2018
<i>Resident fees and services:</i>						
Assisted living	125	63	\$1,520,053	\$ 818,006	69.1%	72.8%
Memory care	50	20	654,492	292,786	29.8%	26.0%
Other revenues	—	—	23,805	13,733	1.1%	1.2%
	<u>175</u>	<u>83</u>	<u>\$2,198,350</u>	<u>\$1,124,525</u>	<u>100.0%</u>	<u>100.0%</u>

**Real Estate Assets, net  
(Tables)**

**3 Months Ended  
Mar. 31, 2019**

[Real Estate \[Abstract\]](#)  
[Schedule of Real Estate Assets](#)

The gross carrying amount and accumulated depreciation of the Company's real estate assets as of March 31, 2019 and December 31, 2018, excluding assets held for sale, are as follows:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Land and land improvements	\$ 4,075,733	\$ 4,075,733
Building and building improvements	38,700,052	38,700,052
Furniture, fixtures and equipment	1,923,587	1,872,959
Less: accumulated depreciation	<u>(2,092,804)</u>	<u>(1,679,564)</u>
Real estate investment properties, net	<u>\$42,606,568</u>	<u>\$42,969,180</u>

## Intangibles, net (Tables)

**3 Months Ended**  
**Mar. 31, 2019**

### [Goodwill And Intangible Assets Disclosure](#) [\[Abstract\]](#)

### [Schedule of Gross Carrying Amount and](#) [Accumulated Amortization of Intangibles](#) [Excluding Assets Held for Sale](#)

The gross carrying amount and accumulated amortization of the Company's intangibles as of March 31, 2019 and December 31, 2018, excluding assets held for sale, are as follows:

	<b>March 31,</b>	<b>December</b>
	<b>2019</b>	<b>31,</b>
		<b>2018</b>
In-place resident agreement intangibles	\$ 2,569,419	\$ 2,569,419
Less: accumulated amortization	(1,328,552)	(1,071,610)
Intangible assets, net	<u>\$ 1,240,867</u>	<u>\$ 1,497,809</u>

**Assets and Associated  
Liabilities Held For Sale and  
Discontinued Operations  
(Tables)**

**3 Months Ended**

**Mar. 31, 2019**

[Real Estate Liabilities Associated With  
Assets Held For Development And Sale  
\[Abstract\]](#)

[Schedule of Assets Classified as Held for  
Sale and Liabilities Associated with Those  
Assets Held for Sale](#)

As of March 31, 2019 and December 31, 2018, the amounts classified as assets held for sale and the liabilities associated with those assets held for sale consisted of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Real estate investment properties, net	\$10,579,020	\$ 10,603,833
Intangibles, net	1,962,515	3,485,818
Operating lease asset, net	1,501,024	—
Other assets	129,777	112,551
Assets held for sale, net	<u>\$14,172,336</u>	<u>\$ 14,202,202</u>
Mortgage loan, net	\$ 5,541,058	\$ 5,532,346
Accounts payable and accrued liabilities	343,725	391,735
Other liabilities	325,382	323,106
Liabilities associated with assets held for sale	<u>\$ 6,210,165</u>	<u>\$ 6,247,187</u>

[Schedule of Disposal Groups Including  
Discontinued Operations Income Statement](#)

The following table is a summary of the Company's income from discontinued operations for the three months ended March 31, 2019 and 2018:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenues:		
Rental income and related revenues	\$ 342,272	\$ 408,816
Operating expenses:		
Property operating expenses	111,685	171,233
General and administrative	559	451
Property management fees	7,928	10,050
Depreciation and amortization	43,793	130,694
Total operating expenses	163,965	312,428
Operating income	178,307	96,388
Other expense:		
Interest expense and loan cost amortization	(75,260)	(63,848)
Total other expense	(75,260)	(63,848)
Income before income taxes	103,047	32,540
Income tax expense	—	—
Income from discontinued operations	<u>\$ 103,047</u>	<u>\$ 32,540</u>

## Related Party Arrangements (Tables)

### [Related Party Arrangement, Fees and Expenses Incurred By, Reimbursable, Settled and Paid](#)

## 3 Months Ended Mar. 31, 2019

The expenses incurred by and reimbursable to the Company's related parties, including amounts included in income from operations, for the three months ended March 31, 2019 and 2018, and related amounts unpaid as of March 31, 2019 and December 31, 2018 are as follows:

	Three Months Ended March 31,		Unpaid amounts as of March 31, 2019	
	2019	2018	2019	December 31, 2018
Reimbursable expenses:				
Operating expenses (3)	\$ 230,823	\$ 274,844	\$ 129,278	\$ —
Acquisition fees and expenses	—	901	—	—
	230,823	275,745	129,278	—
Asset management fees (4)	99,417	70,800	—	—
	<u>\$ 330,240</u>	<u>\$ 346,545</u>	<u>\$ 129,278</u>	<u>\$ —</u>

#### FOOTNOTES:

- (1) Amounts are recorded as due to related parties in the accompanying condensed consolidated balance sheets.
- (2) Amounts are recorded as stock issuance and offering costs in the accompanying condensed consolidated statements of stockholders' equity.
- (3) Amounts are recorded as general and administrative expenses in the accompanying condensed consolidated statements of operations, unless such amounts represent prepaid expenses, which are capitalized in the accompanying condensed consolidated balance sheets. For each of the three months ended March 31, 2019 and 2018, approximately \$0.1 million of personnel expenses of the Advisor have been or are expected to be settled in accordance with the terms of the Expense Support Agreement and such general and administrative expenses were reduced by approximately \$0.1 million for each of the three months ended March 31, 2019 and 2018.
- (4) For each of the three months ended March 31, 2019 and 2018, the Company incurred asset management fees of approximately \$0.1 million, all of which have been or are expected to be settled in accordance with the terms of the Expense Support Agreement and such asset management fees were reduced by approximately \$0.1 million.

### [Dealer Manager](#)

### [Related Party Arrangement, Fees and Expenses Incurred By, Reimbursable, Settled and Paid](#)

#### 8. [Related Party Arrangements \(continued\)](#)

The fees payable through the termination of the Offering in October 2018 to the Dealer Manager for the three months ended March 31, 2019 and 2018, and related amounts unpaid as of March 31, 2019 and December 31, 2018 are as follows:

	Three Months Ended March 31,		Unpaid amounts as of March 31, 2019	
	2019	2018	2019	December 31, 2018
Selling commissions (2)	\$ —	\$ 131,841	\$ —	\$ —
Dealer manager fees (2)	—	165,756	—	—
Distribution and stockholder servicing fees (2)	—	293,378	—	—
	<u>\$ —</u>	<u>\$ 590,975</u>	<u>\$ —</u>	<u>\$ —</u>

### [Expense Support Agreement Related Party Arrangement, Fees and Expenses Incurred By, Reimbursable, Settled and Paid](#)

The following fees for services rendered have been or are expected to be settled in the form of restricted stock pursuant to the Expense Support Agreement for the three months ended March 31, 2019 and 2018 and cumulatively as of March 31, 2019:

	Three Months Ended March 31,		As of March 31,
	2019	2018	2019
Fees for services rendered:			
Asset management fees	\$ 99,417	\$ 70,800	\$ 578,171
Advisor personnel expenses (1)	127,950	126,629	1,058,676
Total fees for services rendered	<u>\$ 227,367</u>	<u>\$ 197,429</u>	<u>\$ 1,636,847</u>
Then-current NAV	<u>\$ 9.92</u>	<u>\$ 10.06</u>	<u>\$ 9.92</u>
Restricted stock shares (2)	<u>22,920</u>	<u>19,625</u>	<u>164,210</u>
Cash distributions on restricted stock (3)	<u>\$ 8,113</u>	<u>\$ —</u>	<u>\$ 32,452</u>

#### FOOTNOTES:

- (1) Amounts consist of personnel and related overhead costs of the Advisor or its affiliates (which, in general, are those expenses incurred by the Advisor for the Company's administration on an on-going basis) that are reimbursable by the Company.
- (2) Represents restricted stock shares issued or expected to be issued to the Advisor as of March 31, 2019 pursuant to the Expense Reimbursement Agreement. No fair value was assigned to the restricted stock shares as the shares do not vest until a liquidity event is completed and certain market conditions are achieved. In addition, the restricted stock shares will be treated as unissued for financial reporting purposes until the vesting criteria are met.
- (3) The cash distributions on Restricted Stock shares issued have been recognized as compensation expense as declared and paid to the Advisor for general and administrative expenses in the accompanying condensed consolidated statements of operations.



## Income Taxes (Tables)

**3 Months Ended  
Mar. 31, 2019**

### [Income Tax Disclosure](#)

#### [\[Abstract\]](#)

#### [Components of Income Tax Expense](#)

The components of income tax expense for the three months ended March 31, 2019 and 2018 are as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Current:</b>		
Federal	\$ —	\$ (25,250)
State	—	(5,150)
<b>Total current expense</b>	<b>—</b>	<b>(30,400)</b>
<b>Deferred:</b>		
Federal	(25,300)	(593)
State	(5,233)	(363)
<b>Total deferred expense</b>	<b>(30,533)</b>	<b>(956)</b>
<b>Income tax expense</b>	<b>\$ (30,533)</b>	<b>\$ (31,356)</b>

#### [Significant Components of Deferred Tax Assets](#)

Significant components of the Company's deferred tax assets as of March 31, 2019 and December 31, 2018 are as follows:

	<b>December</b>	
	<b>March 31, 2019</b>	<b>31, 2018</b>
Carryforwards of net operating loss	\$ 85,010	\$ —
Prepaid rent	35,768	30,533
Valuation allowance	(120,778)	—
<b>Deferred tax assets, net</b>	<b>\$ —</b>	<b>\$ 30,533</b>

#### [Reconciliation of Income Tax Expense](#)

A reconciliation of the income tax expense for the three months ended March 31, 2019 and 2018 computed at the statutory federal tax rate on income (loss) before income taxes is as follows:

	<b>Three Months Ended March 31,</b>			
	<b>2019</b>		<b>2018</b>	
Tax benefit computed at federal statutory rate	\$ 132,014	21.0%	\$ 82,199	21.0%
Impact of REIT election	(126,781)	(20.2)%	(108,042)	(27.6)%
State income tax expense	(5,233)	(0.8)%	(5,513)	(1.4)%
Impact of change in deferred tax asset	90,245	14.4%	—	—%
Impact of change in valuation allowance	(120,778)	(19.2)%	—	—%
<b>Income tax expense</b>	<b>\$ (30,533)</b>	<b>(4.8)%</b>	<b>\$ (31,356)</b>	<b>(8.0)%</b>

Organization - Additional Information (Details)	1 Months Ended	3 Months Ended		Mar. 02, 2016 USD (\$)
	Mar. 31, 2019 USD (\$) Property	Mar. 31, 2019 USD (\$) Property shares	Mar. 31, 2018 USD (\$) shares	
<b><u>Organization Consolidation And Presentation Of Financial Statements Disclosure [Line Items]</u></b>				
<u>Aggregate offering proceeds</u>			\$ 6,962,029	
<u>Common stock, shares sold   shares</u>		0	700,000	
<u>Number of properties owned   Property Seniors Housing Communities</u>	3	3		
<b><u>Organization Consolidation And Presentation Of Financial Statements Disclosure [Line Items]</u></b>				
<u>Number of properties owned   Property MOB</u>	2	2		
<b><u>Organization Consolidation And Presentation Of Financial Statements Disclosure [Line Items]</u></b>				
<u>Number of properties owned   Property Expense Support Agreement</u>	1	1		
<b><u>Organization Consolidation And Presentation Of Financial Statements Disclosure [Line Items]</u></b>				
<u>Agreement effective termination date</u>	Apr. 01, 2019			
<u>Medical Office Building, Mid America Surgery Institute   Discontinued Operations, Held-for-sale   Sale Agreement   HCP Medical Office Buildings, LLC</u>				
<b><u>Organization Consolidation And Presentation Of Financial Statements Disclosure [Line Items]</u></b>				
<u>Gross sales price of properties</u>	\$ 15,400,000			
<u>Initial Public Offering</u>				
<b><u>Organization Consolidation And Presentation Of Financial Statements Disclosure [Line Items]</u></b>				
<u>Common stock, value authorized</u>				\$ 1,750,000,000
<u>Aggregate offering proceeds</u>		\$ 51,200,000		
<u>Common stock, shares sold   shares Reinvestment Plan</u>		4,900,000		
<b><u>Organization Consolidation And Presentation Of Financial Statements Disclosure [Line Items]</u></b>				
<u>Common stock, value authorized</u>				\$ 250,000,000

Aggregate offering proceeds

\$

1,200,000

Common stock, shares sold | shares

100,000

**Summary of Significant  
Accounting Policies -  
Summary of Additional  
Details by Financial  
Statement Line Item  
Adjusted (Details) - USD (\$)**

**Mar. 31,  
2019      Jan. 01,  
2019      Dec. 31,  
2018**

**New Accounting Pronouncements Or Change In Accounting  
Principle [Line Items]**

<u>Other assets</u>	\$ 289,453	\$ 382,637
<u>Total assets</u>	66,216,771	67,289,375
<u>Other liabilities</u>	(146,759)	(128,957)
<u>Total liabilities</u>	\$	\$
	(25,813,132)	(25,624,140)

ASC 842

**New Accounting Pronouncements Or Change In Accounting  
Principle [Line Items]**

<u>Other assets</u>		\$ 415,137
<u>Total assets</u>		67,321,875
<u>Other liabilities</u>		(161,457)
<u>Total liabilities</u>		(25,656,640)

ASC 842 | Effect of ASC 842 Adoption

**New Accounting Pronouncements Or Change In Accounting  
Principle [Line Items]**

<u>Other assets</u>		32,500
<u>Total assets</u>		32,500
<u>Other liabilities</u>		(32,500)
<u>Total liabilities</u>		\$ (32,500)

**Summary of Significant  
Accounting Policies -  
Additional Information  
(Details)  
\$ in Millions**

**Jan. 01, 2019  
USD (\$)**

[Below-Market Ground Lease | ASC 842](#)

[Summary Of Significant Accounting Policies \[Line Items\]](#)

[Reclassification to operating lease assets](#)

\$ 1.5

**Revenue - Schedule of  
Disaggregated Revenue for  
Resident Fees and Services  
(Details)**

**3 Months Ended  
Mar. 31, 2019    Mar. 31, 2018  
USD (\$)            USD (\$)             
ResidentialUnit ResidentialUnit**

**Disaggregation Of Revenue [Line Items]**

<u>Resident fees and services: Number of Units   ResidentialUnit</u>	175	83
<u>Resident fees and services: Revenues</u>	\$ 2,198,350	\$ 1,124,525
<u>Resident fees and services: Percentage of Revenues</u>	100.00%	100.00%

Assisted Living

**Disaggregation Of Revenue [Line Items]**

<u>Resident fees and services: Number of Units   ResidentialUnit</u>	125	63
<u>Resident fees and services: Revenues</u>	\$ 1,520,053	\$ 818,006
<u>Resident fees and services: Percentage of Revenues</u>	69.10%	72.80%

Memory Care

**Disaggregation Of Revenue [Line Items]**

<u>Resident fees and services: Number of Units   ResidentialUnit</u>	50	20
<u>Resident fees and services: Revenues</u>	\$ 654,492	\$ 292,786
<u>Resident fees and services: Percentage of Revenues</u>	29.80%	26.00%

Other Revenues

**Disaggregation Of Revenue [Line Items]**

<u>Resident fees and services: Revenues</u>	\$ 23,805	\$ 13,733
<u>Resident fees and services: Percentage of Revenues</u>	1.10%	1.20%

**Real Estate Assets, net -  
Schedule of Real Estate  
Assets (Details) - USD (\$)**

**Mar. 31, 2019 Dec. 31, 2018**

**Real Estate [Abstract]**

<u>Land and land improvements</u>	\$ 4,075,733	\$ 4,075,733
<u>Building and building improvements</u>	38,700,052	38,700,052
<u>Furniture, fixtures and equipment</u>	1,923,587	1,872,959
<u>Less: accumulated depreciation</u>	(2,092,804)	(1,679,564)
<u>Real estate investment properties, net</u>	\$ 42,606,568	\$ 42,969,180

**Real Estate Assets, net -  
Additional Information  
(Details) - USD (\$)  
\$ in Millions**

**3 Months Ended**

**Mar. 31, 2019 Mar. 31, 2018**

Real Estate Investment Properties

Real Estate Properties [Line Items]

<u>Depreciation expense</u>	\$ 0.4	\$ 0.2
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**Intangibles, net - Schedule of  
Gross Carrying Amount and  
Accumulated Amortization  
of Intangibles Excluding  
Assets Held for Sale (Details)  
- USD (\$)**

**Mar. 31, 2019 Dec. 31, 2018**

**Goodwill And Intangible Assets Disclosure [Abstract]**

<u>In-place resident agreement intangibles</u>	\$ 2,569,419	\$ 2,569,419
<u>Less: accumulated amortization</u>	(1,328,552)	(1,071,610)
<u>Intangible assets, net</u>	\$ 1,240,867	\$ 1,497,809

**Intangibles, net - Additional  
Information (Details) - USD  
( $\$$ )  
\$ in Millions**

**3 Months Ended  
Mar. 31, 2019 Mar. 31, 2018**

Depreciation And Amortization

**Finite Lived Intangible Assets And Liabilities [Line Items]**

<u>Amortization expense on intangible assets</u>	\$ 0.3	\$ 0.1
--	--------	--------

**Assets and Associated  
Liabilities Held for Sale and  
Discontinued Operations -  
Schedule of Assets Classified  
as Held for Sale and  
Liabilities Associated with  
Those Assets Held for Sale  
(Details) - USD (\$)**

**Long Lived Assets Held For Sale [Line Items]**

	<b>Mar. 31, 2019</b>	<b>Dec. 31, 2018</b>
<u>Assets held for sale, net</u>	\$ 14,172,336	\$ 14,202,202
<u>Liabilities associated with assets held for sale</u>	6,210,165	6,247,187
<u>Medical Office Building, Mid America Surgery Institute   Discontinued Operations, Held-for-sale</u>		
<b><u>Long Lived Assets Held For Sale [Line Items]</u></b>		
<u>Real estate investment properties, net</u>	10,579,020	10,603,833
<u>Intangibles, net</u>	1,962,515	3,485,818
<u>Operating lease asset, net</u>	1,501,024	
<u>Other assets</u>	129,777	112,551
<u>Assets held for sale, net</u>	14,172,336	14,202,202
<u>Mortgage loan, net</u>	5,541,058	5,532,346
<u>Accounts payable and accrued liabilities</u>	343,725	391,735
<u>Other liabilities</u>	325,382	323,106
<u>Liabilities associated with assets held for sale</u>	\$ 6,210,165	\$ 6,247,187

**Assets and Associated  
Liabilities Held For Sale  
And Discontinued  
Operations - Schedule of  
Disposal Groups Including  
Discontinued Operations  
Income Statement (Details) -  
USD (\$)**

**3 Months Ended**

**Mar. 31,  
2019      Mar. 31,  
2018**

**Other expense:**

Income from discontinued operations \$ 103,047    \$ 32,540

Medical Office Building, Mid America Surgery Institute | Discontinued Operations,  
Held-for-sale

**Revenues:**

Rental income and related revenues 342,272      408,816

**Operating expenses:**

Property operating expenses 111,685      171,233

General and administrative 559            451

Property management fees 7,928          10,050

Depreciation and amortization 43,793        130,694

Total operating expenses 163,965       312,428

Operating income 178,307       96,388

**Other expense:**

Interest expense and loan cost amortization (75,260)      (63,848)

Total other expense (75,260)      (63,848)

Income before income taxes 103,047       32,540

Income from discontinued operations \$ 103,047    \$ 32,540

**Indebtedness - Additional  
Information (Details) - USD**

**Mar. 31, 2019 Dec. 31, 2018**

**(\$)**

**\$ in Millions**

**Debt Instrument [Line Items]**

Mortgage loans, excluding indebtedness associated with assets held for sale \$ 18.7 \$ 18.7

Level 3

**Debt Instrument [Line Items]**

Mortgage loans excluding assets held for sale, fair market value \$ 18.9 \$ 18.9

	1 Months Ended		3 Months Ended	
	Mar. 31, 2019	Oct. 31, 2018	Mar. 31, 2019	Mar. 31, 2018
Related Party Arrangements - Additional Information (Details)	USD (\$)	USD (\$)	USD (\$) Quarter \$ / shares shares	USD (\$) Quarter \$ / shares shares
<b>Related Party Transaction</b>				
<b>[Line Items]</b>				
<a href="#">Conversion of stock, description</a>			The Class T and Class I shares converted into Class A shares on a one-for-one basis because the then-current estimated net asset value (“NAV”) per share of \$10.06 was the same for all share classes.	
<a href="#">Then-current estimated NAV per share   \$ / shares</a>			\$ 10.06	
<a href="#">Distribution and stockholder servicing fees liability</a>	\$ 1,400,000		\$ 1,400,000	
<a href="#">Percentage of AUM fee equal to advisor asset management fees, paid</a>			0.80%	
<a href="#">Reduction in AUM fee percentage of average invested assets</a>				0.40%
<a href="#">Operating expenses reimbursement percentage of average invested assets</a>			2.00%	
<a href="#">Operating expenses reimbursement percentage of net income</a>			25.00%	
<a href="#">No. of consecutive fiscal quarters of net income calculation for operating expenses reimbursement   Quarter</a>			4	
<a href="#">Operating expenses in excess of limitation</a>			\$ 28,000	
<a href="#">Operating expenses in excess of limitation approved</a>			900,000	
<a href="#">Cash distributions paid</a>			\$ 705,473	\$ 176,860
<a href="#">Expense Support Agreement</a>				

**Related Party Transaction****[Line Items]**Then-current estimated NAV  
per share | \$ / shares

\$ 9.92

\$ 10.06

Agreement effective  
termination dateApr. 01,  
2019Advisor**Related Party Transaction****[Line Items]**Stock dividends issued (in  
shares) | shares

0

7,400

Class A Common Stock**Related Party Transaction****[Line Items]**Stock dividends issued (in  
shares) | shares

2,444

Class A Common Stock |Advisor**Related Party Transaction****[Line Items]**Cash distributions paid

\$ 38,000

\$  
38,000Class T Common Stock**Related Party Transaction****[Line Items]**Distribution and stockholder  
servicing fee

1.00%

Stock dividends issued (in  
shares) | shares

6,662

Class I Common Stock**Related Party Transaction****[Line Items]**Distribution and stockholder  
servicing fee

0.50%

Stock dividends issued (in  
shares) | shares

586

Maximum | Class A Common  
Stock**Related Party Transaction****[Line Items]**Selling commission and dealer  
manager fee

8.50%

Maximum | Class T Common  
Stock**Related Party Transaction****[Line Items]**

<u>Selling commission and dealer manager fee</u>	4.75%
<u>Selling commission</u>	3.00%



**Related Party Arrangements  
- Summary of Fees for  
Services Rendered Expected  
to be Settled in Restricted  
Stock (Details) - USD (\$)**

**3 Months Ended**

**Mar. 31, 2019**

**Mar. 31, 2018**

**Fees for services rendered:**

<u>Asset management fees</u>	[1] \$ 99,417	\$ 70,800
<u>Then-current NAV</u>	\$ 10.06	

Expense Support Agreement

**Fees for services rendered:**

<u>Asset management fees</u>	\$ 578,171	
------------------------------	------------	--

<u>Advisor personnel expenses</u>	[2] 1,058,676	
-----------------------------------	---------------	--

<u>Total fees for services rendered</u>	1,636,847	
---	-----------	--

<u>Asset management fees</u>	99,417	70,800
------------------------------	--------	--------

<u>Advisor personnel expenses</u>	[2] 127,950	126,629
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<u>Total fees for services rendered</u>	\$ 227,367	\$ 197,429
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<u>Then-current NAV</u>	\$ 9.92	
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<u>Then-current NAV</u>	\$ 9.92	\$ 10.06
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Expense Support Agreement | Restricted Stock

**Fees for services rendered:**

<u>Restricted stock shares</u>	[3] 164,210	
--------------------------------	-------------	--

<u>Cash distributions on restricted stock</u>	[4] \$ 32,452	
---	---------------	--

<u>Restricted stock shares</u>	[3] 22,920	19,625
--------------------------------	------------	--------

<u>Cash distributions on restricted stock</u>	[4] \$ 8,113	
---	--------------	--

[1] For each of the three months ended March 31, 2019 and 2018, the Company incurred asset management fees of approximately \$0.1 million, all of which have been or are expected to be settled in accordance with the terms of the Expense Support Agreement and as such asset management fees were reduced by approximately \$0.1 million.

[2] Amounts consist of personnel and related overhead costs of the Advisor or its affiliates (which, in general, are those expenses relating to the Company's administration on an on-going basis) that are reimbursable by the Company.

[3] Represents restricted stock shares issued or expected to be issued to the Advisor as of March 31, 2019 pursuant to the Expense Support Agreement. No fair value was assigned to the restricted stock shares as the shares do not vest until a liquidity event is consummated and certain market conditions are achieved. In addition, the restricted stock shares will be treated as unissued for financial reporting purposes until the vesting criteria are met.

[4] The cash distributions on Restricted Stock shares issued have been recognized as compensation expense as declared and included in general and administrative expenses in the accompanying condensed consolidated statements of operations.

**Related Party Arrangements**      **3 Months Ended**  
**- Summary of Fees for**  
**Services Rendered Expected**  
**to be Settled in Restricted**  
**Stock (Parenthetical)**      **Mar. 31, 2019**  
**(Details)**      **USD (\$)**

[Related Party Transactions \[Abstract\]](#)

[Restricted stock fair value](#)      \$ 0

**Related Party Arrangements  
- Fees and Expenses  
Incurred and Reimbursable  
to Affiliates and Related  
Parties (Details) - USD (\$)**

**3 Months Ended**

**Mar. 31, 2019    Mar. 31, 2018    Dec. 31, 2018**

**Related Party Transaction [Line Items]**

<u>Distribution and stockholder servicing fees</u>			\$ 1,031,613	
<u>Acquisition fees and expenses</u>			818	
<u>Total reimbursable expenses</u>		\$ 230,823	275,745	
<u>Asset management fees</u>	[1]	99,417	70,800	
<u>Total reimbursable expenses, net</u>		330,240	346,545	
<u>Operating expenses, Unpaid amount</u>	[2],[3]	129,278		\$ 85,902
<u>Total reimbursable expenses due</u>	[2]	129,278		85,902
<u>Related parties, Unpaid amount</u>	[2]	129,278		\$ 85,902

Reimbursable Expense

**Related Party Transaction [Line Items]**

<u>Operating expenses</u>	[3]	\$ 230,823	274,844	
<u>Acquisition fees and expenses</u>			901	

Dealer Manager

**Related Party Transaction [Line Items]**

<u>Selling commissions</u>	[4]		131,841	
<u>Dealer manager fees</u>	[4]		165,756	
<u>Distribution and stockholder servicing fees</u>	[4]		293,378	
<u>Total offering expenses</u>			\$ 590,975	

[1] For each of the three months ended March 31, 2019 and 2018, the Company incurred asset management fees of approximately \$0.1 million, all of which have been or are expected to be settled in accordance with the terms of the Expense Support Agreement and as such asset management fees were reduced by approximately \$0.1 million.

[2] Amounts are recorded as due to related parties in the accompanying condensed consolidated balance sheets.

[3] Amounts are recorded as general and administrative expenses in the accompanying condensed consolidated statements of operations unless such amounts represent prepaid expenses, which are capitalized in the accompanying condensed consolidated balance sheets. For each of the three months ended March 31, 2019 and 2018, approximately \$0.1 million of personnel expenses of affiliates of the Advisor have been or are expected to be settled in accordance with the terms of the Expense Support Agreement and as such our general and administrative expenses were reduced by approximately \$0.1 million for each of the three months ended March 31, 2019 and 2018.

[4] Amounts are recorded as stock issuance and offering costs in the accompanying condensed consolidated statements of stockholders' equity.

**Related Party Arrangements  
- Fees and Expenses  
Incurred and Reimbursable  
to Affiliates and Related  
Parties (Parenthetical)  
(Details) - Expense Support  
Agreement - USD (\$)  
\$ in Millions**

**3 Months Ended**

**Mar. 31, 2019 Mar. 31, 2018**

**Related Party Transaction [Line Items]**

<u>Advisor personnel expenses</u>	\$ 0.1	\$ 0.1
<u>Reduction in general and administrative expenses</u>	0.1	0.1
<u>Asset management fees</u>	0.1	\$ 0.1
<u>Reduction in asset management fees</u>	\$ 0.1	

**Equity - Additional  
Information (Details) - USD  
(\$)**

**3 Months Ended  
Mar. 31, 2019 Mar. 31, 2018**

**[Stockholders Equity Note \[Abstract\]](#)**

<u><a href="#">Subscription proceeds pursuant to the Reinvestment Plan</a></u>	\$ 0	\$ 200,000
<u><a href="#">Subscription proceeds pursuant to the Reinvestment Plan, shares</a></u>	0	20,000
<u><a href="#">Proceeds from public offering</a></u>	\$ 0	\$ 7,000,000
<u><a href="#">Common stock, shares sold</a></u>	0	700,000
<u><a href="#">Cash distributions declared</a></u>	\$ 705,473	\$ 402,305
<u><a href="#">Cash distributions paid</a></u>	705,473	176,860
<u><a href="#">Redemptions of common stock</a></u>	\$ 0	\$ 25,382
<u><a href="#">Redemption of common stock, per share</a></u>		\$ 10

**Income Taxes - Components**                      **3 Months Ended**  
**of Income Tax Expense**                      **Mar. 31, 2019 Mar. 31, 2018**  
**(Details) - USD (\$)**

**Current:**

<u>Federal</u>		\$ (25,250)
<u>State</u>		(5,150)
<u>Total current expense</u>		(30,400)

**Deferred:**

<u>Federal</u>	\$ (25,300)	(593)
<u>State</u>	(5,233)	(363)
<u>Total deferred expense</u>	(30,533)	(956)
<u>Income tax expense</u>	\$ (30,533)	\$ (31,356)

**Income Taxes - Significant  
Components of Deferred Tax Assets (Details) - USD (\$)**

**Mar. 31, 2019 Dec. 31, 2018**

**[Income Tax Disclosure \[Abstract\]](#)**

<u>Carryforwards of net operating loss</u>	\$ 85,010	
<u>Prepaid rent</u>	35,768	\$ 30,533
<u>Valuation allowance</u>	\$ (120,778)	
<u>Deferred tax assets, net</u>		\$ 30,533

**Income Taxes -  
Reconciliation of Income Tax  
Expense (Details) - USD (\$)**

**3 Months Ended  
Mar. 31, 2019 Mar. 31, 2018**

**Income Tax Disclosure [Abstract]**

<u>Tax benefit computed at federal statutory rate</u>	\$ 132,014	\$ 82,199
<u>Impact of REIT election</u>	(126,781)	(108,042)
<u>State income tax expense</u>	(5,233)	(5,513)
<u>Impact of change in deferred tax asset</u>	90,245	
<u>Impact of change in valuation allowance</u>	(120,778)	
<u>Income tax expense</u>	\$ (30,533)	\$ (31,356)
<u>Tax benefit computed at federal statutory rate</u>	21.00%	21.00%
<u>Impact of REIT election</u>	(20.20%)	(27.60%)
<u>State income tax expense</u>	(0.80%)	(1.40%)
<u>Impact of change in deferred tax asset</u>	14.40%	
<u>Impact of change in valuation allowance</u>	(19.20%)	
<u>Income tax expense</u>	(4.80%)	(8.00%)



**Subsequent Events -  
Additional Information  
(Detail)  
\$ in Millions**

**May 10,  
2019  
USD (\$)  
Property**      **Mar. 31,  
2019  
Property**

**Subsequent Event [Line Items]**

Number of properties owned | Property

3

Subsequent Event

**Subsequent Event [Line Items]**

Repayment of debt | \$

\$ 5.6

Subsequent Event | Seniors Housing Properties

**Subsequent Event [Line Items]**

Number of properties owned | Property

2

Medical Office Building, Mid America Surgery Institute | Subsequent Event |  
Discontinued Operations, Held-for-sale

**Subsequent Event [Line Items]**

Net sales proceeds | \$

\$ 15.4