Aviv Healthcare Properties Limited Partnership and Subsidiaries

Consolidated Balance Sheets

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Cash and cash equivalents	**$ 10,504,302**	$ 13,028,474
Deferred rent receivable	**29,427,858**	30,660,773
Tenant receivables, net	**1,699,085**	1,168,842
Rental properties and financing leases, at cost:		
Land	**78,754,371**	76,466,020
Buildings and improvements	**641,556,663**	615,806,273
Assets under direct financing leases	**10,814,648**	10,777,184
	731,125,682	703,049,477
Less accumulated depreciation	**(80,747,512)**	(75,948,944)
Net rental properties	**650,378,170**	627,100,533
Deferred finance costs, net	**13,057,896**	9,957,636
Loan receivables, net	**30,726,794**	36,610,638
Other assets	**11,196,114**	12,872,323
Total assets	**$ 746,990,219**	$ 731,399,219
Liabilities and equity		
Accounts payable and accrued expenses	**$ 7,047,687**	$ 6,012,809
Tenant security and escrow deposits	**14,132,190**	13,658,384
Other liabilities	**24,165,578**	25,996,492
Mortgage and other notes payable	**454,623,647**	440,575,916
Total liabilities	**499,969,102**	486,243,601
Equity:		
Partners' equity	**242,418,051**	241,061,186
Accumulated other comprehensive income	**4,603,066**	4,094,432
Total equity	**247,021,117**	245,155,618
Total liabilities and equity	**$ 746,990,219**	$ 731,399,219

See accompanying notes to consolidated financial statements

Aviv Healthcare Properties Limited Partnership and Subsidiaries

Consolidated Statements of Operations

	Three Months Ended March 31, 2011	2010
	(unaudited)	
Revenues		
Rental income	**$ 19,690,091**	$ 21,150,335
Tenant recoveries	**1,688,996**	1,529,054
Interest on loans to lessees - capital expenditures	**406,697**	450,668
Interest on loans to lessees - working capital and capital lease	**925,412**	680,530
Total revenues	**22,711,196**	23,810,587
Expenses		
Rent and other operating expenses	**201,664**	169,330
General and administrative	**3,468,576**	1,424,248
Real estate taxes	**1,689,094**	1,605,430
Depreciation	**4,798,568**	4,361,901
Total expenses	**10,157,902**	7,560,909
Operating income	**12,553,294**	16,249,678
Other income and expenses:		
Interest and other income	**5,615**	63,298
Interest expense	**(7,556,185)**	(5,865,316)
Change in fair value of derivatives	**-**	1,320,721
Amortization of deferred financing costs	**(678,995)**	(139,295)
Loss on extinguishment of debt	**(3,143,008)**	–
Total other income and expenses	**(11,372,573)**	(4,620,592)
Net income	**1,180,721**	11,629,086
Distributions and accretion on Class E Preferred Units	**-**	(3,998,770)
Net income allocable to noncontrolling interests	**-**	(79,617)
Net income allocable to common units	**$ 1,180,721**	$ 7,550,699
Net income allocable to common units	**$ 1,180,721**	
Unrealized gain on derivative instruments	**508,634**	
Total comprehensive income allocable to common units	**$ 1,689,355**	

See accompanying notes to consolidated financial statements

Aviv Healthcare Properties Limited Partnership and Subsidiaries

Consolidated Statement of Changes in Equity

Three Months Ended March 31, 2011 (unaudited)

	Partners' Equity	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2011	$ 241,061,186	$ 4,094,432	$ 245,155,618
Non-cash stock-based compensation	586,445	-	586,445
Distributions to partners	(10,410,301)	-	(10,410,301)
Capital contributions	10,000,000	-	10,000,000
Unrealized gain on derivative instruments	-	508,634	508,634
Net income	1,180,721	-	1,180,721
Balance at March 31, 2011	$ 242,418,051	$ 4,603,066	$ 247,021,117

See accompanying notes to consolidated financial statements

Aviv Healthcare Properties Limited Partnership and Subsidiaries

Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2011	2010
	(unaudited)	
Operating activities		
Net income	**$ 1,180,721**	$ 11,629,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**4,798,568**	4,361,901
Amortization	**678,995**	139,295
Change in fair value of derivatives	**–**	(1,320,721)
Deferred rental expense (income), net	**1,165,922**	(95,393)
Rental income from intangible amortization, net	**(362,196)**	(1,770,665)
Non-cash stock-based compensation	**586,445**	101,500
Non-cash loss on extinguishment of debt	**3,143,008**	–
Reserve for uncollectible loan receivables	**157,317**	–
Changes in assets and liabilities:		
Tenant receivables	**(530,243)**	(709,641)
Other assets	**2,023,699**	(99,672)
Accounts payable and accrued expenses	**669,320**	353,346
Tenant security deposits and other liabilities	**158,206**	1,424,730
Net cash provided by operating activities	**13,669,762**	14,013,766
Investing activities		
Purchase of rental properties	**(24,825,776)**	–
Capital improvements and other developments	**(3,250,430)**	(2,151,823)
Loan receivables received from (funded to) others, net	**5,726,527**	(5,604,469)
Net cash used in investing activities	**(22,349,679)**	(7,756,292)
Financing activities		
Borrowings of debt	**210,200,000**	-
Repayment of debt	**(196,152,269)**	(2,563,125)
Payment of financing costs	**(6,556,704)**	–
Capital contributions	**10,000,000**	–
Cash distributions to partners	**(11,335,282)**	(11,075,273)
Net cash provided by (used in) financing activities	**6,155,745**	(13,638,398)
Net decrease in cash and cash equivalents	**(2,524,172)**	(7,380,924)
Cash and cash equivalents:		
Beginning of period	**13,028,474**	15,542,507
End of period	**$ 10,504,302**	$ 8,161,583
Supplemental cash flow information		
Cash paid for interest	**$ 6,093,599**	$ 5,967,777
Supplemental disclosure of noncash activity		
Accrued distributions payable to partners	**$ 10,410,301**	$ 5,124,590
Earn-out accrual and addition to rental properties	**$ -**	$ 8,120,656
Write-off of deferred rent receivable	**$ 3,026,968**	$ 2,233,768
Write-off of in-place lease intangibles, net	**$ –**	$ 1,224,594
Write-off of deferred finance costs, net	**$ 3,143,008**	$ –

See accompanying notes to consolidated financial statements

1. Description of Operations and Formation

Aviv Healthcare Properties Limited Partnership, a Delaware limited partnership, and Subsidiaries (the Partnership) was formed in 2005 and directly or indirectly owned or leased 187 properties, principally skilled nursing facilities, across the United States at March 31, 2011. The Partnership generates the majority of its revenues by entering into long-term triple-net leases with qualified local, regional, and national operators. In addition to the base rent, leases provide for tenants to pay the Partnership an ongoing escrow for real estate taxes. Furthermore, all operating and maintenance costs of the buildings are the responsibility of the tenants. Substantially all depreciation expense reflected in the consolidated statements of operations relates to the ownership of senior living properties. The Partnership manages its business as a single business segment as defined in Accounting Standards Codification (ASC) 280, *Segment Reporting.*

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

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

1. Description of Operations and Formation (continued)

All of the business, assets and operations will continue to be held by the Operating Partnership and its subsidiaries. The Company's equity interest in the Surviving Partnership will be linked to future investments in the Company, such that future equity issuances by the Company (pursuant to the Stockholders Agreement, the Company's management incentive plan or otherwise as agreed between the parties) will result in a corresponding increase in the Company's equity interest in the Surviving Partnership. The Company is authorized to issue two million shares of common stock (par value ($0.01) and 1,000 shares of preferred stock (par value $1,000). At March 31, 2011, there are 235,897 shares of common stock and 125 shares of preferred stock outstanding.

As a result of the common control of the Company (which was newly formed) and the Partnership, the Merger, for accounting purposes, did not result in any adjustment to the historical carrying value of the assets or liabilities of the Partnership. The Company was funded in September 2010 with approximately $235 million from its stockholders, and such amounts, net of costs, was contributed to the Partnership in September 2010 in exchange for Class G Units in the Partnership. An additional $10 million was contributed by the Company's stockholders on January 25, 2011. For the period ended March 31, 2011, the Company owned 54.4% of the Partnership.

2. Summary of Significant Accounting Policies

Estimates

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Partnership, the Surviving Partnership, the Operating Partnership, and all controlled subsidiaries and joint ventures. The Partnership considers itself to control an entity if it is

2. Summary of Significant Accounting Policies (continued)

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

Quarterly Reporting

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

Rental Properties

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

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

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

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

	Three Months Ended March 31,	
	2011	**2010**
Rental income	$20,493,817	$19,284,277
Deferred rental (expense) income, net	(1,165,922)	95,393
Rental income from intangible amortization	362,196	1,770,665
Total rental income	$19,690,091	$21,150,335

During the three months ended March 31, 2011 and 2010, deferred rental revenue includes a write-off (expense) of deferred rent receivable of $3,026,968 and $2,233,768, respectively, due to the early termination of leases and replacement of operators.

Lease Accounting

The Partnership, as lessor, makes a determination with respect to each of its leases whether they should be accounted for as operating leases or direct financing leases. The classification criteria is based on estimates regarding the fair value of the leased facilities, minimum lease payments, effective cost of funds, the economic life of the facilities, the

existence of a bargain purchase option, and certain other terms in the lease agreements. Payments received under operating leases are accounted for in the statement of operations as rental income for actual rent collected plus or minus a straight-line adjustment for estimated

2. Summary of Significant Accounting Policies (continued)

minimum lease escalators. Assets subject to operating leases are reported as rental properties in the consolidated balance sheets. For facilities leased as direct financing arrangements, an asset equal to the Partnership's net initial investment is established on the balance sheet titled assets under direct financing leases. Payments received under the financing lease are bifurcated between interest income and principal amortization to achieve a consistent yield over the stated lease term using the interest method. Principal amortization (accretion) is reflected as an adjustment to the asset subject to a financing lease. Such accretion was \$37,465 and \$38,540 for the three months ended March 31, 2011 and 2010, respectively.

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

Loan Receivables

Loan receivables consist of capital improvement loans to tenants and working capital loans to operators. Loan receivables are carried at their principal amount outstanding. Management periodically evaluates outstanding loans and notes receivable for collectability. When management identifies potential loan impairment indicators, such as nonpayment under the loan documents, impairment of the underlying collateral, financial difficulty of the operator, or other circumstances that may impair full execution of the loan documents, and management believes it is probable that all amounts will not be collected under the contractual terms of the loan, the loan is written down to the present value of the expected future cash flows. As of March 31, 2011 and December 31, 2010, loan receivable reserves amounted to \$907,317 and \$750,000, respectively. No other circumstances exist that would suggest that additional reserves are necessary at the balance sheet dates.

Stock-Based Compensation

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

2. Summary of Significant Accounting Policies (continued)

Partnership for awards granted under the Plan. The Plan's non-cash stock-based compensation expense by the Partnership through March 31, 2011 is summarized in Footnote 9.

Fair Value of Financial Instruments

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

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

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

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

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

Cash and cash equivalents and derivative financial instruments are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Partnership's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Partnership had outstanding mortgage and other notes payable obligations with a carrying value of approximately $454.6 million and $440.6 million as of March 31, 2011 and December 31, 2010, respectively. The fair values of debt as of March 31, 2011 and December 31, 2010 approximate carrying value based upon interest rates available to the Partnership on similar borrowings.

2. Summary of Significant Accounting Policies (continued)

Derivative Instruments

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

Income Taxes

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

Business Combinations

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

2. Summary of Significant Accounting Policies (continued)

Reclassifications

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

3. Rental Property Activity

The Partnership had the following rental property activity during the three months ended March 31, 2011 as described below:

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

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

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

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

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

4. Loan Receivables

The following summarizes the Partnership's loan receivables at:

	March 31, 2011	December 31, 2010
Beginning balance, January 1, 2011 and 2010, respectively	**$ 36,610,638**	$ 28,970,129
New capital improvement loans issued	**66,338**	1,415,579
Working capital and other loans issued	**613,858**	14,705,259
Reserve for uncollectible loans	**(157,317)**	(750,000)
Loan amortization and repayments	**(6,406,723)**	(7,730,329)
	$ 30,726,794	$ 36,610,638

The Partnership's reserve for uncollectible loan receivables balances at March 31, 2011 and December 31, 2010 was $907,317 and $750,000, respectively. The activity for the three months ended March 31, 2011 consisted of additional reserves of $157,317.

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

Interest income earned on loan receivables for the three months ended March 31, 2011 and 2010 was $978,514 and $782,306, respectively.

5. Deferred Finance Costs

The following summarizes the Partnership's deferred finance costs at:

	March 31, 2011	December 31, 2010
Gross amount	**$13,965,324**	$10,567,931
Accumulated amortization	**(907,428)**	(610,295)
Net	**$13,057,896**	$ 9,957,636

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

During the three months ended March 31, 2011, the Partnership wrote-off deferred financing costs of $3,524,869 with $381,861 accumulated amortization associated with the Mortgage (see Footnote 7) pay down for a net recognition as loss on extinguishment of debt of $3,143,008.

6. In-Place Lease Intangibles

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

	March 31, 2011		**December 31, 2010**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Gross amount	**$ 8,393,488**	**$25,798,147**	$ 8,393,488	$25,798,147
Accumulated amortization	**(3,210,236)**	**(14,573,030)**	(3,049,093)	(14,049,691)
Net	**$5,183,252**	**$11,225,117**	$ 5,344,395	$11,748,456

Amortization expense for the in-place lease intangible assets for the three months ended March 31, 2011 and 2010 was $161,143 and $243,721, respectively. Accretion for the in-place lease intangible liabilities for the three months ended March 31, 2011 and 2010 was $523,339 and $789,792, respectively.

As of March 31, 2010, the Partnership wrote-off in-place lease intangible assets of $2,678,000 with accumulated amortization of $1,316,232, and in-place lease intangible liabilities of

6. In-Place Lease Intangibles (continued)

$4,660,000 with accumulated accretion of $2,073,638, for a net recognition of $1,224,594 in rental income from intangible amortization. These write-offs were in connection with properties that had been transitioned to new operators.

7. Mortgage and Other Notes Payable

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

	March 31, 2011	December 31, 2010
Mortgage (interest rates of 5.75% on March 31, 2011 and December 31, 2010, respectively)	**$ 235,350,523**	$ 402,794,111
Acquisition Credit Line (interest rates of 5.75% on March 31, 2011 and December 31, 2010, respectively)	—	28,677,230
Revolver (interest rate of 6.25% on March 31, 2011)	**10,200,000**	—
Construction loan (interest rates of 5.95% on March 31, 2011 and December 31, 2010, respectively)	**1,312,339**	1,312,339
Acquisition loans (interest rates of 6.00% on March 31, 2011 and December 31, 2010, respectively)	**7,760,785**	7,792,236
Senior Notes (interest rate of 7.75%, on March 31, 2011	**200,000,000**	—
Total	**$ 454,623,647**	$ 440,575,916

Senior Notes

On February 4, 2011, Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation (the Issuers) issued $200 million of Senior Notes (the Senior Notes). The Company is a guarantor of the Issuers Senior Notes. The Senior Notes are unsecured senior obligations of the Issuers and will mature on February 15, 2019. The Senior Notes bear interest at a rate of 7.750% per annum, payable semiannually to holders of record at the close of business on the February 1 or the August 1 immediately preceding the interest payment date on February 15 and August 15 of each year, commencing August 15, 2011. The Partnership used the proceeds, amongst other things, to pay down approximately $165.9 million on the Mortgage and the balance of $28.7 million on the Acquisition Credit Line.

7. Mortgage and Other Notes Payable (continued)

Revolver

In conjunction with the Senior Notes issuance on February 4, 2011, the Partnership, under Aviv Financing IV, LLC, acquired a $25 million revolver with Bank of America (the Revolver). On each payment date, the Partnership shall pay interest only in arrears on any outstanding principal balance of the Revolver. Interest rates are based upon the base rate (3.25% at March 31, 2011) plus the applicable percentage based on the consolidated

leverage ratio (3.00% at March 31, 2011). The base rate is the rate announced by Bank of America as the "prime rate". Additionally, an unused fee equal to 0.5% per annum of the daily unused balance on the Revolver is due monthly. The Revolver commitment terminates in February 2014.

8. Partnership Equity and Incentive Program

Distributions to the Partnership's partners are summarized as follows for the three months ended March 31:

	Class A	Class B	Class C	Class D	Class E	Class F	Class G
2011	**$ 2,066,628**	**$ 849,812**	**$ 1,274,719**	$ –	$ –	**$ 553,761**	**$ 5,665,381**
2010	$ 3,390,685	$ 1,897,169	$ 2,845,753	$ –	$ 1,849,315	$ 1,092,350	$ –

Weighted-average Units outstanding are summarized as follows for the three months ended March 31:

	Class A	Class B	Class C	Class D	Class E	Class F	Class G
2011	**13,467,223**	**4,523,145**	**2**	**8,050**	–	**2,684,900**	**233,551**
2010	13,467,223	4,523,145	2	7,714	7,500,000	5,369,800	–

8. Partnership Equity and Incentive Program (continued)

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

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

The Partnership's equity balance that is presented on the consolidated balance sheets is split between the general partner and limited partners in the amounts of $226,854,796 and $15,563,255 at March 31, 2011, respectively. The Partnership's equity balance that is presented on the consolidated balance sheets is split between the general partner and limited partners in the amounts of $221,578,430 and $19,482,756 at December 31, 2010, respectively.

9. Option Awards

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

The following table represents the time based option awards activity for the three months ended March 31, 2011.

	March 31, 2011
Outstanding at beginning of period	21,866
Granted	456
Exercised	-
Cancelled/Forfeited	-
Outstanding at end of period	22,322
Options exercisable at end of period	-
Weighted average fair value of options granted	$ 149.09
Weighted average remaining contractual life	9.48

The following table represents the time based option awards outstanding for at March 31, 2011 as well as other Plan data:

Range of exercise prices	**Outstanding**	**Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**
$1,000 – $1,124	22,322	9.48	$1,004

9. Option Awards (continued)

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

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

The Partnership recorded non-cash compensation expenses of $299,468 for the three months ended March 31, 2011, related to the time based stock options accounted for as equity awards, as a component of general and administrative expenses in the consolidated statements of operations.

At March 31, 2011, the total compensation cost related to outstanding, non-vested time based equity option awards that are expected to be recognized as compensation cost in the future aggregates to approximately $1,804,000.

For the period ended December 31,	**Options**
2011	$791,093
2012	591,886
2013	309,028
2014	112,338
2015	48
Total	$1,804,393

Dividend equivalent rights associated with the Plan amounted to $535,728 for the three months ended March 31, 2011, and are included in general and administrative expense in the consolidated statements of operations. These dividend rights will be paid in four installments as the option vests.

10. Related Parties

Related party receivables and payables represent amounts due from/to various affiliates of the Partnership, including advances to members of the Partnership, amounts due to certain acquired companies and limited liability companies for transactions occurring prior to the formation of the Partnership, and various advances to entities controlled by affiliates of the Partnership's management. An officer of the Company received a loan and such loan had a balance of $311,748 at March 31, 2011, which was paid off in full subsequent to that date.

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

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

10. Related Parties (continued)

multiples of comparably sized publicly traded healthcare REITs. The ultimate Class F Unit valuation was subject to a true-up formula at the time of a Liquidity Event, as defined in the Partnership Agreement.

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

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

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

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

10. Related Parties (continued)

As of March 31, 2011 and December 31, 2010, the Partnership has a due to related party payable to the Company for distributions to be made by the Company to the stockholders of $5,669,876 and $6,092,936, respectively.

11. Derivatives

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

At March 31, 2011, the Partnership is party to two interest rate swaps, with identical terms for $100 million each. They were purchased to fix the variable interest rate on the denoted notional amount under the Mortgage which was obtained in September, 2010, and qualify for hedge accounting. For presentational purposes they are shown as one derivative due to the identical nature of their economic terms.

Total notional amount	$200,000,000
Fixed rates	6.49% (1.99% effective swap base rate plus 4.5% spread per credit agreement)
Floor rate	1.25%
Effective date	November 9, 2010
Termination date	September 17, 2015
Asset balance at March 31, 2011 (included in other assets)	$4,603,066
Liability balance at March 31, 2011 (included in other liabilities)	$ -

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

For the three months ended March 31, 2011 and 2010, the Partnership recognized $0 and $1,320,721 of net income, respectively, in the consolidated statements of operations related to

the change in the fair value of these interest rate swap agreements, where the Partnership did not elect to apply hedge accounting. Such instruments that did not elect to apply hedge accounting were settled at the Merger date.

The following table provides the Partnership's derivative assets and liabilities carried at fair value as measured on a recurring basis as of March 31, 2011 (dollars in thousands):

	Total Carrying Value at March 31, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative assets	$ 4,603	$	$ 4,603	$
Derivative liabilities	-	-	-	-
	$ 4,603	$	$ 4,603	$

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

12. Commitments and Contingencies

The Partnership has a contractual arrangement with a tenant to reimburse quality assurance fees levied by the California Department of Health Care Services from August 1, 2005 through July 31, 2008. The Partnership is obligated to reimburse the fees to the tenant if and when the state withholds these fees from the tenant's Medi-Cal reimbursements associated with 5 facilities that were formerly leased to Trinity Health Systems. The total possible obligation for these fees is $1,655,286, of which approximately $1.0M has been paid to date. For the three months ended March 31, 2011, and 2010, the Partnership's indemnity expense for these fees was $0 and $183,000, respectively, which equaled the actual amount paid during the period.

12. Commitments and Contingencies (continued)

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

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

13. Concentration of Credit Risk

As of March 31, 2011, the Partnership's portfolio of investments consisted of 187 healthcare facilities, located in 25 states and operated by 31 third party operators. At March 31, 2011, approximately 50.7% (measured as a percentage of total assets) were leased by five private operators: Evergreen Healthcare (13.6%), Daybreak Healthcare (12.4%), Sun Mar Healthcare (9.1%), Hi-Care Management (8.0%), and Convacare Management (7.6%). No other operator represents more than 6.3% of our total assets. The five states in which the Partnership had its highest concentration of total assets were California (19.4%), Texas (16.3%), Missouri (9.5%), Arkansas (8.1%), and New Mexico (5.9%) at March 31, 2011.

For the three months ended March 31, 2011, the Partnership's rental income from operations totaled approximately \$19.7 million, of which approximately \$3.0 million was from Evergreen Healthcare (15.1%), \$2.4 million was from Sun Mar Healthcare (12.1%), \$2.3 million was from Daybreak Venture (11.8%), \$1.7 million was from Cathedral Rock Corporation (8.9%), and \$1.6 million was from ConvaCare Management (8.3%). No other operator generated more than 6.0% of the Partnership's rental income from operations for the three months ended March 31, 2011.

14. Subsequent Events

On April 5, 2011, the Partnership issued \$100 million in Senior Notes at 7.75%. The proceeds from this bond issuance were used to pay down \$35.7 million of the Mortgage and the remaining proceeds were received as cash.

On April 28, 2011 Aviv Financing II acquired three properties in Ohio from an unrelated third party for a purchase price of $9,250,000. The Partnership financed this purchase with cash.

On April 29, 2011 Aviv Financing II acquired six properties in Texas, Kansas, and Missouri from unrelated third parties for a purchase price of $17,570,000. The Partnership financed this purchase with cash.

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

On May 3, 2011, Aviv Financing II acquired a property in Connecticut from an unrelated third party for a purchase price of $12,000,000. The Partnership financed this purchase with cash.

The Partnership has evaluated events subsequent to March 31, 2011 through May 18, 2011, and determined that no events other than those noted above would require changes to the consolidated financial statements or additional disclosure.

15. Condensed Consolidating Information

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