

AVIV REIT, INC.
Form 10-K
February 20, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

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 333-173824-103 (Aviv REIT, Inc.)

Commission file number 333-173824 (Aviv Healthcare Properties Limited Partnership)

AVIV REIT, INC.

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

(Exact Name of Registrant as Specified in Its Charter)

Maryland (Aviv REIT, Inc.)

27-3200673 (Aviv REIT, Inc.)

Delaware (Aviv Healthcare Properties Limited Partnership)

35-2249166 (Aviv Healthcare Properties Limited Partnership)

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

303 W. Madison Street, Suite 2400

Chicago, Illinois

60606

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (312) 855-0930

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

Title of Class	Name of Exchange upon Which Registered
Common Stock, \$0.01 par value per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Registration S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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

Large Accelerated Filer " Accelerated Filer "

Non-Accelerated Filer x (Do not check if a smaller reporting company) Smaller reporting company "

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

The aggregate market value of common stock of Aviv REIT, Inc. held by non-affiliates as of June 28, 2013 was \$383,902,200. The aggregate market value of units of beneficial interest (OP units) in Aviv Healthcare Properties Limited Partnership held by non-affiliates as of June 28, 2013 was \$116,813,347.

As of February 18, 2014, Aviv REIT, Inc. had 37,732,238 shares of common stock outstanding, \$0.01 par value per share. As of February 18, 2014, Aviv Healthcare Properties Limited Partnership had 11,525,205 OP units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain parts of Aviv REIT, Inc. s proxy statement for the 2014 Annual Meeting of Stockholders (to be filed not later than 120 days after the end of its fiscal year) are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

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EXPLANATORY NOTE

This combined Annual Report on Form 10-K is being filed by Aviv REIT, Inc., or AVIV, and Aviv Healthcare Properties Limited Partnership, or the Partnership. Unless the context requires otherwise or except as otherwise noted, as used herein the words we, the Company, us and our refer to AVIV and AVIV's controlled subsidiaries and the Partnership and the Partnership's controlled subsidiaries collectively, as the operations of the two aforementioned entities are materially comparable for the periods presented.

We are an emerging growth company as defined by the Jumpstart Our Business Startups Act of 2012, or JOBS Act, and, as such, we have elected to comply with certain reduced public company reporting requirements for this report.

AVIV is a real estate investment trust, or REIT, and the general partner of the Partnership. The Partnership's capital is comprised of units of beneficial interest, or OP units. As of December 31, 2013, AVIV owned 76.4% of the economic interest in the Partnership, with the remaining interest being owned by investors. Investors may redeem their OP units for cash or, at the election of AVIV, for shares of AVIV's common stock, on a one-for-one basis. As the sole general partner of the Partnership, AVIV has exclusive control of the Partnership's day-to-day management.

The Company believes combining the Annual Reports on Form 10-K of AVIV and the Partnership into this single report provides the following benefits:

enhances investors' understanding of AVIV and the Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;

eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure in this report applies to both AVIV and the Partnership; and

creates time and cost efficiencies through the preparation of one combined report instead of two separate reports. Management operates AVIV and the Partnership as one business. The management of AVIV consists of the same employees as the management of the Partnership.

The Company believes it is important for investors to understand the few differences between AVIV and the Partnership in the context of how AVIV and the Partnership operate as a consolidated company. AVIV is a REIT, whose only material asset is its ownership of OP units of the Partnership. As a result, AVIV does not conduct business itself, other than acting as the sole general partner of the Partnership, issuing public equity from time to time and guaranteeing unsecured debt of the Partnership. AVIV has not issued any indebtedness, but has guaranteed all of the unsecured debt of the Partnership. The Partnership indirectly holds all the real estate assets of the Company. Except for net proceeds from public equity issuances by AVIV, which are contributed to the Partnership in exchange for OP units, the Partnership generates all remaining capital required by the Company's business. These sources include the Partnership's operations, its direct or indirect incurrence of indebtedness, and the issuance of OP units.

As general partner with control of the Partnership, AVIV consolidates the Partnership for financial reporting purposes. The presentation of stockholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of AVIV and those of the Partnership. The Partnership's capital consists of OP units that are owned by AVIV and other investors. AVIV's stockholders' equity consists of common stock, additional paid in capital

and retained earnings (accumulated deficit). The OP units held by the limited partners in the Partnership are presented as noncontrolling interests-operating partnership in AVIV's consolidated financial statements. There was no difference between the assets and liabilities of AVIV and the Partnership as of December 31, 2013. Net income is the same for AVIV and the Partnership.

In order to highlight the few differences between AVIV and the Partnership, there are sections in this report that discuss AVIV and the Partnership separately, including separate financial statements and controls and procedures sections. In the sections that combine disclosure for AVIV and the Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Partnership is generally the entity that enters into contracts, holds assets and issues debt, we believe that reference to the Company in this context is appropriate because the business is one enterprise and the Company operates the business through the Partnership.

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AVIV REIT, INC. / AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

PRESENTATION OF PORTFOLIO METRICS

In addition to information regarding our financial performance, we present certain metrics in this report regarding the performance of our operators. These metrics include EBITDARM coverage, EBITDAR coverage, EBITDAR margin, portfolio occupancy and quality mix, which are derived as follows:

EBITDARM coverage represents EBITDARM, which we define as earnings before interest, taxes, depreciation, amortization, rent expense and management fees allocated by the operator to one of its affiliates, of our operators for the applicable period, divided by the rent paid to us by our operators during such period.

EBITDAR coverage represents EBITDAR, which we define as earnings before interest, taxes, depreciation, amortization and rent expense, of our operators for the applicable period, divided by the rent paid to us by our operators during such period. Assumes a management fee of 4%.

EBITDAR margin of an operator represents the operator's EBITDAR for the applicable period divided by the operator's total revenue for the applicable period.

Portfolio occupancy represents the average daily number of beds at our properties that are occupied during the applicable period divided by the total number of beds at our properties that are available for use during the applicable period.

Quality mix represents total revenue of our operators from all payor sources, excluding Medicaid revenues, divided by the total revenue of our operators for the applicable period.

These metrics are not derived from our financial statements but are operating statistics that we derive from reports that we receive from our operators pursuant to our triple-net leases. As a result, our portfolio metrics typically lag our own financial statements by approximately one quarter. In order to determine our portfolio metrics for the period presented, the metrics are stated only with respect to properties owned by us and operated by the same operator for the portion of the period we owned the properties and excludes assets held for sale, properties under construction and, with certain exceptions for shorter periods, properties within 24 months of completion of construction. Accordingly, EBITDARM and EBITDAR coverage, EBITDAR margin, portfolio occupancy and quality mix for the twelve months ended September 30, 2013 included 240 of the 263 properties in our portfolio as of September 30, 2013.

When we refer to the contractual rent of our portfolio, we are referring to the total monthly rent due under all of our triple-net leases as of the date specified, calculated based on the first full month following the specified date.

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PART I

Item 1. BUSINESS
Our Company

AVIV is a self-administered real estate investment trust, or REIT, specializing in the ownership and triple-net leasing of post-acute and long-term care skilled nursing facilities, or SNFs. We have been in the business of investing in SNFs for over 30 years, including through our predecessors. Our management team has extensive knowledge of and a track record investing in SNFs and other healthcare real estate. We believe that we own one of the largest and highest-quality portfolios of post-acute and long-term care SNFs in the United States. We generate our cash rental stream by triple-net leasing our properties to third-party operators who have responsibility for the operation of the facilities, including for all operating costs and expenses related to the property, maintenance and repair obligations and other required capital expenditures. Our leases typically include rent escalation provisions designed to provide us with organic growth in our rental stream. As of December 31, 2013, our portfolio consisted of 282 properties in 29 states leased to 38 tenants who represent many of the largest and most experienced operators in the industry.

We believe we can continue to achieve attractive returns for our investors by combining a steadily growing rental stream from our existing properties with growth through acquisitions in a large and fragmented industry. In the last five years, we have acquired 135 properties with 27 tenants in 65 separate transactions ranging in size from less than \$1 million to \$73 million, for a total of \$636.2 million, returning a 16% compound annual growth rate, or CAGR, over that period. We have established a track record of working with market-leading operators to support their growth plans through acquisitions. Our experience, reputation and relationships in the SNF industry allow us to acquire properties to which many other investors do not have access. As a result, we have been successful acquiring high-quality properties at valuations that achieve attractive lease yields and strong rent coverage for our diversified portfolio.

We have built a high-quality and strategically diversified portfolio of tenants and properties with approximately \$151.8 million of contractual rent for the twelve months ending December 31, 2014 based on leases in place as of December 31, 2013. We also receive income from secured loan receivables and an asset under a direct financing lease, which together had a book value of \$52.9 million as of December 31, 2013. Our leases provide us with long-term cash rental streams, with a weighted-average remaining lease term of approximately 7.8 years as of December 31, 2013 and 20.2% of our rent expiring over the next five years. We are able to proactively manage lease expirations by extending our leases in connection with acquisitions, reinvestment projects and other opportunities. We believe our rental stream is secure because our EBITDARM and EBITDAR portfolio coverage ratios were 2.0x and 1.6x, respectively, for the twelve months ended September 30, 2013. We believe these measures are strong indications of our tenants' ability to comfortably pay the rent and other amounts due under our leases. In addition, our properties have strong occupancy and quality mix, with portfolio occupancy and quality mix of 79.2% and 47.3%, respectively, for the three months ended September 30, 2013. See *Presentation of Portfolio Metrics* for additional information regarding our coverage ratios and other portfolio metrics.

Our Competitive Strengths

We believe the following strengths serve as the foundation for our business:

Established Healthcare REIT with Expertise Investing in SNFs. We specialize in triple-net leasing post-acute and long-term care SNFs to large and experienced operators. We own one of the largest portfolios of SNFs in the United

States and have been investing in SNFs for over 30 years. As of December 31, 2013, 236 of our 282 properties were SNFs, representing 85.7% of our contractual rent. We have extensive experience and expertise regarding the management of our portfolio, which we believe is critical to our success. Our network of market-leading SNF operators has created a pipeline of growth opportunities.

Strategically Diversified Portfolio of High-Quality Properties. We have a diversified portfolio of properties located in 29 states that are triple-net leased on a long-term basis to 38 tenants. We focus on strategically limiting our concentration of properties with tenants and states, with no single tenant representing more than 14.0% of our contractual rent and no state representing more than 17.5% of our contractual rent as of December 31, 2013. We have a strategically balanced portfolio of Medicare and Medicaid revenue which comes from many different reimbursement systems including from the federal government and 28 states. We believe that our diversification helps us generate a stable and steadily growing rental stream. We also pursue a strategy of leasing properties to multiple tenants in each of our markets and multiple properties for each of our tenants, which helps us expand our expertise and relationships in a given market, while also helping us mitigate risk. We focus on continually enhancing the quality of our properties and have established a reinvestment program designed to give our high-quality properties a competitive advantage in their markets. These investments include interior enhancements designed to drive revenues for our operators and exterior enhancements designed to attract residents from the community and key referral sources. We have invested a significant amount of capital in recent years in our existing properties, for which we receive incremental rent, with returns consistent with those we achieve for new acquisitions. We expect this to be a consistent and growing part of our business.

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Strong Relationships with Large and Experienced Operators. We have developed strong relationships with many of the largest and most experienced operators in the United States. We have made a long-term commitment to working with operators in a cooperative and supportive manner. Our top ten tenants, which represent 70.8% of our contractual rent as of December 31, 2013, operate an average of 92 properties and have an average relationship with us of ten years. These operators possess the experience, scale and other characteristics that are key factors in driving profitability for them and our properties. Our tenants have strong EBITDAR margins and coverages, of 15.7% and 1.6x, respectively, for our properties, for the twelve months ended September 30, 2013. We cultivate long-term relationships with our tenants and other market-leading operators. Our strong relationships with these tenants lead to a significant pipeline of attractive investment opportunities, with approximately 48.5% of our \$636.2 million of acquisitions over the last five years completed with existing tenants. We believe we will continue to generate a significant pipeline of investment opportunities as a result of our relationships.

Well-Structured Triple-Net Leases with Strong Coverage. We have strong rent coverage, which is an indication of our tenants' ability to comfortably pay the rent due under our leases. Our EBITDARM and EBITDAR coverage ratios for the twelve months ended September 30, 2013 were 2.0x and 1.6x, respectively. We believe our coverages achieve the proper balance between maintaining our profitability and providing comfort that our tenants will be able to pay the rent and other amounts due under our leases. Under our triple-net leases, our tenants are responsible for all operating costs and expenses related to the property, including maintenance and repair obligations and other required capital expenditures. This structure helps insulate us from variability in operator cashflows. We support our ability to generate attractive returns on a long-term basis by structuring our leases with a variety of complementary provisions. For instance, our leases typically have initial terms of 10 years and include annual rent escalators of approximately 2% compounded per annum.

These escalator provisions help us achieve a steadily growing cash rental stream. We regularly enter into lease extensions during the term of the lease in connection with additional acquisitions, reinvestment projects and other opportunities that arise from our close tenant relationships. Our lease structures also provide us with key credit support for our rents, with 99% of our contractual rent supported by personal and/or corporate guarantees and 86% supported by master leases or leases with cross-default provisions as of December 31, 2013. Our leases also typically require security deposits of several months' rent.

Platform Built for Growth with Proven Investment Track Record. We employ 28 people across the organization and are committed to maintaining a growth-oriented infrastructure. We have 11 professionals focused on sourcing, underwriting and executing transactions. Our acquisition team has enabled us to grow our total assets at December 31, 2013 by 100% over the last five years. We have also developed an experienced asset management team of eight professionals that oversees our properties, preserves our assets and identifies other investments in our existing portfolio that help grow our rental stream. We are disciplined and selective about the investments we make. Our underwriting process includes a thorough assessment of the experience and credit profile of each operator, the quality of the real estate and the demographics of the market in which the property is located. The experience of our management team and our strong working relationships with our tenants have enabled us to invest \$126.1 million over the last five years in existing properties and strategic new construction projects, for which we receive incremental rent. We are disciplined and make investments with attractive returns that create long-term value.

Experienced Management Team with Significant Tenure. Craig M. Bernfield, our Chairman and Chief Executive Officer, has built the Company for over 25 years. Our President and Chief Operating Officer, Steven J. Insoft, has been with us for nine years and has more than 20 years of experience as an operator, investor and developer of SNFs and assisted living facilities, or ALFs. Our Chief Financial Officer, Mark L. Wetzel, joined the Company in 2013 with over 25 years of real estate, capital markets and operating experience, including significant public and private REIT experience as a chief financial officer and senior executive. Our other key senior executives and professionals have

significant tenure and experience, averaging 10 years with the Company and 23 years in their areas of expertise. Our entire management team has specialized knowledge that is critical to the operation and growth of our business.

Our Growth Strategies

The SNF industry is large and fragmented and we believe that market conditions are favorable for investing in post-acute and long-term care SNFs and for consolidation in the industry. According to the American Health Care Association, the SNF market comprises 15,700 facilities and 1.7 million beds and, according to National Investment Center for Senior Housing & Care Industry, or NIC, there are over 2,500 SNF operators in the United States. We estimate that approximately 88% of SNFs are privately owned, and in our experience these owners regularly seek liquidity through the sale of their properties and sale-leaseback transactions. These transactions are attractive to us because they offer conservative property valuations and an alignment of interests with the seller since they continue to operate the property after the acquisition is completed. We have an extensive network of relationships with SNF operators and owners and an experienced team of professionals that specialize in SNFs. We believe our reputation and knowledge will provide us with a significant competitive advantage to further consolidate the ownership of post-acute and long-term care SNF properties.

The primary elements of our growth strategy are to:

Continue to Source Investments from Existing Relationships. Our tenants represent many of the largest and most experienced operators of SNFs in the United States. These market-leading operators have a demonstrated desire, as well as the resources and ability, to grow, and our strong relationships with these operators lead directly to acquisition and other investment opportunities.

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These operators own many of the facilities they operate which gives us a significant opportunity to grow our portfolio through sale-leaseback transactions. These transactions are attractive to the operators because they provide liquidity to grow their businesses. Approximately 48.5% of our \$636.2 million of acquisitions over the last five years were completed with existing tenants. We believe we can continue to expand our relationships with our tenants, who collectively operate over 1,300 properties throughout the United States. As a result, we believe we will continue to identify attractive acquisition, sale-leaseback, reinvestment, new construction and other investment opportunities in our operators' existing markets, as well as new markets.

Identify Additional Operator Relationships. We seek to expand our portfolio by capitalizing on the network of relationships with market-leading operators we have built in the SNF industry over the past 30 years. We focus on operator relationships that meet our investment criteria, and we believe our experience in the industry helps us to identify these high-quality operators. This strategy has resulted in approximately 51.5% of our acquisitions over the last five years being completed with 14 new tenants who now operate 69 of our properties. Our reputation in the industry has allowed us to generate a significant pipeline of attractive opportunities to grow our portfolio with some of the largest and most experienced operators in the United States.

Generate Additional Rent Through Ongoing Property Reinvestment Program. We are committed to owning and acquiring high-quality properties. We have developed a programmatic approach to reinvesting in our properties to maintain and enhance their quality over the long-term, to help our operators achieve a competitive advantage in their markets and to generate an attractive return on our invested capital. These investments include interior enhancements such as therapy gyms and specialty care units designed to drive revenues for our operators, and exterior enhancements, such as lighting, signage and architectural features, designed to attract residents from the community and key referral sources. We are able to identify and complete a significant volume of these investments, through which we are able to generate additional rents at returns consistent with those we achieve with new acquisitions and help our tenants enhance their profitability. In connection with these investments, we obtain lease extensions, which drive our long-term rental stream. We also maintain a pipeline of new construction projects, with established operator relationships, to grow our portfolio with state-of-the-art properties.

Further Enhance Our Franchise and Position as an Industry Leader. We are committed to further developing our reputation and franchise in the SNF industry. We frequently sponsor and speak at industry conferences and similar events and focus on opportunities to prominently align ourselves with other leaders in the post-acute and long-term care SNF and healthcare real estate industry. Mr. Bernfield, our Chairman and Chief Executive Officer, serves on the board of directors, and we are one of five Premier Partners, of NIC, one of our industry's leading organizations. We also host an annual conference for our operators to share best practices and ideas, which generates additional investment opportunities for us. As a result of our efforts, there is significant awareness of the Aviv franchise in the SNF industry, which results in SNF owners and operators approaching us with a significant pipeline of attractive investment opportunities.

Strategically Pursue Opportunities to Invest in Complementary Healthcare Properties. We intend to continue to capitalize on our management team's extensive knowledge of healthcare properties, as well as our strong relationships with our tenants, to supplement our core strategy of acquiring and investing in post-acute and long-term care SNFs. We opportunistically acquire complementary healthcare properties, such as assisted living facilities, or ALFs, and independent living facilities, or ILFs, which collectively represented 10.6% of our contractual rents as of December 31, 2013. In addition, we have also acquired long-term acute-care hospital and traumatic brain injury facilities, which collectively represented 3.7% of our contractual rents as of December 31, 2013, with experienced operators that meet our criteria for quality and experience and we believe have the ability and desire to grow with us. We believe the acquisition of these properties on a strategic basis helps us continue to generate attractive returns, diversify our existing portfolio and further expand and strengthen our industry relationships.

Our Portfolio

As of December 31, 2013, our portfolio consisted of 282 properties, comprised of 236 skilled nursing facilities, 26 assisted living facilities, 14 traumatic brain injury facilities, two long-term acute care hospitals, one neuro hospital, one independent living facility, one medical office building, and one land parcel for development, with approximately 22,700 beds in 29 states triple-net leased to 38 operators. Our portfolio consisted of 277 owned properties (including three properties under development), three properties that we lease and sublease to a third-party operator, one property in which we hold a leasehold security interest from a third-party operator and one new construction property in which we hold a security interest. Our EBITDARM and EBITDAR coverage ratios for the twelve months ended September 30, 2013 were 2.0x and 1.6x, respectively, and our operators' EBITDAR margins at our properties averaged 16%. For the twelve months ended September 30, 2013, our portfolio occupancy was 79.2% and our quality mix was 47.3%.

We lease our properties to a diversified group of 38 operators with no single operator representing more than 14.0% of our contractual rent as of December 31, 2013. We monitor the credit quality of our operators on an ongoing basis. For example, on a quarterly basis, we review the financial statements of our properties, paying special attention to trends in key metrics, liquidity measures and health surveys. Our review and analysis is accompanied by a formal quarterly conference call with each operator's key personnel in order to provide better insight into the current state of operations. Furthermore, we perform an onsite inspection of each of our properties on an annual or biennial basis, after which we make recommendations regarding building improvements and reinvestment opportunities to our operators.

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The following table sets forth information about our properties as of December 31, 2013:

Operator Diversification

Operator (1)	Number of properties	Number of Operating beds	Percentage of Contractual Rent
Daybreak	52	3,999	14.0%
Saber	30	2,559	13.5%
EmpRes	17	1,404	8.4%
Preferred Care	17	1,617	7.1%
Maplewood	7	477	6.9%
Top Five	123	10,056	49.9%
Sun Mar	13	1,345	6.0%
Fundamental	12	1,296	4.9%
Diversicare	6	944	3.8%
Deseret	18	893	3.3%
Genesis	10	881	2.9%
Prestige Care	9	588	2.9%
Peregrine	4	661	2.7%
Reliance	4	460	2.2%
Bridgemark	7	789	2.2%
CareMeridian	15	162	1.9%
Cardinal Care	2	164	1.7%
Trillium	8	467	1.4%
Physicians Hospital Group	3	70	1.3%
New Beginnings	3	313	1.2%
HI-Care	3	278	1.1%
Trinity HealthCare	4	385	1.1%
Markleysburg	3	259	1.0%
Better Senior Living	3	310	0.9%
Ridgecrest	2	175	0.8%
Covenant Care	2	224	0.8%
Hope Healthcare	4	380	0.8%
Heyde	3	203	0.7%
JK&L	2	104	0.7%
Lion	1	162	0.6%
Safe Haven	2	124	0.6%
UltraCare	3	136	0.5%
Transitions	1	135	0.5%
NuCare	1	94	0.5%
Homestead	6	348	0.5%
Orion	1	93	0.3%
LTP Generations	2	96	0.2%
Health Dimensions	1	90	0.1%
ConvaCare	1	51	0.0%

Total	282	22,736	100.0%
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(1) Throughout this report, we refer to operators by their commonly-known trade names; however, each operator may operate through a variety of legal entities, some or all of which may not be under common ownership and properties may not be subject to master leases or cross-defaulted.

We have a geographically diversified portfolio of properties located in 29 states with no state representing more than 17.5% of our contractual rent as of December 31, 2013.

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The following table sets forth information about our properties as of December 31, 2013:

State Diversification

State	Number of properties	Number of Operating beds	Percentage of Contractual Rent (1)
Texas	62	5,197	17.5%
Ohio	27	2,743	14.0%
California	36	2,279	12.8%
Connecticut	6	407	6.3%
Pennsylvania	10	1,134	5.5%
Top Five	141	11,760	56.1%
Missouri	15	1,238	4.8%
Arkansas	11	1,102	3.9%
Illinois	11	1,169	3.6%
New Mexico	9	782	3.4%
Washington	10	590	3.1%
Kansas	16	840	2.9%
Florida	9	708	2.9%
Massachusetts	8	682	2.2%
Arizona	4	400	2.0%
Indiana	4	242	1.9%
Oregon	6	394	1.9%
Idaho	5	408	1.9%
Wisconsin	5	387	1.4%
Nevada	3	241	1.4%
Kentucky	2	261	1.4%
Iowa	7	347	1.1%
Oklahoma	5	326	1.0%
Nebraska	2	242	0.8%
Minnesota	3	155	0.6%
Virginia	1	97	0.5%
Montana	2	110	0.4%
Michigan	1	93	0.4%
Tennessee	1	102	0.3%
Utah	1	60	0.2%
Total	282	22,736	100.0%

- (1) In the case where the facilities master lease includes more than one state, rent was allocated proportionally by number of beds.

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The following table sets forth information regarding the expiration dates of our leases as of December 31, 2013:

Year	Number of Properties with Leases Expiring	Percent of Total Rent
2014	1	0.2%
2015	8	2.2%
2016	6	2.2%
2017	16	3.8%
2018	28	11.8%
2019	4	1.3%
2020	22	8.2%
2021	86	25.4%
2022	44	17.1%
2023	29	10.8%
Thereafter:	37	17.0%
Total(1)	281	100%

(1) Does not include one closed facility that is held for sale.

Our Industry

The healthcare REIT industry represents a subset of the broader REIT market dedicated to owning and triple-net leasing healthcare real estate assets, including SNFs, senior housing communities, hospitals and medical office buildings. There are currently thirteen publicly-traded healthcare REITs representing an aggregate public market capitalization of approximately \$109 billion based on publicly available data as of December 31, 2013. Most of these companies specialize in other healthcare properties or are larger diversified companies that are less focused on investing in post-acute and long-term care SNFs. The SNF real estate industry is large and fragmented and we believe there is a significant consolidation opportunity. There are approximately 15,700 facilities and 1.7 million beds, according to the American Health Care Association, and over 2,500 SNF operators according to the NIC. We estimate that approximately 88% of SNFs are privately-owned.

We believe that the dynamics within the SNF industry create an opportunity for attractive returns. The SNF industry is expected to benefit from current and projected near-term demographic, economic and regulatory trends driving demand for post-acute and long-term care services provided by SNFs. The demand for SNFs is need-based. For instance, SNFs provide care to both residents recovering from an illness or surgery who may have been discharged from a hospital and need rehabilitation or restorative care, and long-term residents who need daily skilled nursing and assistance with numerous activities of daily living. SNFs provide comprehensive delivery of care to these residents at a lower cost than higher acuity healthcare facilities. The SNF industry is insulated from competition by significant barriers to entry, which limits the supply of additional SNFs.

Furthermore, governmental programs are now designed for managed care organizations and acute care hospitals to focus on cost savings, which is expected to generate increased utilization for SNFs.

SNFs receive a majority of their revenue through reimbursement from state and federally funded Medicaid and Medicare programs. We believe government reimbursement is a key factor supporting the cost-structure and profitability of SNF operators. Since the inception of the Medicaid and Medicare programs in 1965, the state and federal governments have proven to be reliable payers in support of the care for the U.S. elderly population. Over the last decade, SNF Medicare and SNF Medicaid reimbursement rates have been increasing at a stable rate, including growing at estimated CAGRs of 4% and 3%, respectively, over the last five years through 2012. We believe that the government will continue to provide adequate funding for post-acute and long-term care SNFs.

Competition

The market for making investments in healthcare facilities is highly competitive and fragmented. We compete with other public and private companies who provide lease and/or mortgage financing to operators of a variety of different types of healthcare properties. We also face competition when leasing available properties to prospective operators. We compete with these other companies based on reputation, purchase price and financing alternatives offered and the relationship that develops during the term of the lease.

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We believe there has been a trend in our industry over the last few years of companies pursuing large portfolio transactions. In addition, we believe our industry has also experienced a trend over the last few years of companies seeking to diversify into other asset classes and away from SNFs. In contrast, we have focused on smaller and middle-market transactions, primarily involving SNFs. We have experience identifying and underwriting the abilities of qualified local, regional and national operators. We have established a track record of working with market-leading operators to support their growth plans through acquisitions. Our experience, reputation and relationships in the SNF industry allow us to acquire properties to which other investors do not have access.

Regulation

Typically, operators of SNFs receive significant funding from governmental programs and are regulated by the states and the federal government. Operators of SNFs are subject to federal and state laws that regulate the type and quality of the nursing care provided, ancillary services (e.g., respiratory, occupational, physical and infusion therapies), qualifications of the administrative personnel and nursing staff, the adequacy of the physical plant and equipment, distribution of pharmaceuticals, reimbursement and rate setting and operating policies. In addition, most, if not all, of our operators are subject to extensive laws and regulations pertaining to healthcare fraud and abuse, including kickbacks and false claims. The following discussion describes certain material U.S. federal and state healthcare laws and regulations that may affect our operations and those of our operators. However, the discussion does not address all applicable federal, state and local healthcare laws and regulations that could affect our operations and those of our operators.

Licensing and Certification. Our operators and facilities are subject to regulatory and licensing requirements of federal, state and local authorities and are periodically surveyed by them to confirm compliance. Failure to obtain licensure or loss or suspension of licensure or certification may prevent a facility from operating or result in a suspension of reimbursement payments until all licensure or certification issues have been resolved and the necessary licenses or certification are obtained or reinstated. Facilities may also be affected by changes in accreditation standards or procedures of accrediting agencies that are recognized by governments in the certification process. State licensing laws require operators of SNFs and other healthcare facilities to comply with extensive standards governing operations. State agencies administering those laws regularly inspect such facilities and investigate complaints. Transfers of operations of SNFs and other healthcare facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and real estate.

Certificate of Need. Some states require that SNFs obtain governmental approval, in the form of a Certificate of Need, or CON, or similar certification that generally varies by state and is subject to change, prior to the addition or construction of new beds, the addition of services or certain capital expenditures. CON laws in those states that have them generally require an applicant to demonstrate the need for constructing a new facility, expanding an existing facility, changing the ownership or control of an existing licensed facility, or terminating services that have been approved through the CON process. The CON laws and regulations may restrict our ability to add new facilities or expand an existing facility's size or services. In addition, CON laws may constrain our ability to lease a particular property to a new operator.

Medicare and Medicaid Certification. A significant portion of the revenues of our operators that operate SNFs is derived from participation in government-funded reimbursement programs, primarily Medicare and

Medicaid, and failure to maintain certification to participate in these programs could result in a loss of funding from such programs. Medicare and Medicaid laws also require operators of SNFs to comply with extensive standards governing operations. Federal and state agencies administering those laws regularly inspect such facilities and investigate complaints. From time to time, our operators are notified of potential penalties, financial or otherwise, relating to facilities operated by them, and such penalties have been imposed from time to time. If they are unable to cure deficiencies which have been identified or which are identified in the future, such sanctions may be imposed and if imposed may adversely affect our operators revenues, which may affect their ability to meet their obligations to us.

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Fraud and Abuse Laws and Regulations. There are various highly complex federal and state laws governing a wide array of referrals, financial relationships and arrangements and prohibiting fraud by healthcare providers, including criminal provisions that prohibit financial inducements for referrals, filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments. All healthcare providers, including SNFs, are subject to the Federal Anti-Kickback Statute, which generally prohibits persons from offering, providing, soliciting, or receiving remuneration to induce either the referral of an individual or the furnishing of a good or service for which payment may be made under a federal healthcare program, such as Medicare or Medicaid. SNFs are also subject to the Federal Ethics in Patient Referral Act of 1989, commonly referred to as the Stark Law. The Stark Law generally prohibits the submission of claims to Medicare for payment if the claim results from a physician referral for certain designated services and the physician has a financial relationship with the health service provider that does not qualify under one of the exceptions for a financial relationship under the Stark Law. Similar prohibitions on kickbacks, physician self-referrals and submission of claims apply to state Medicaid programs, and may also apply to private payors under state laws. Further, healthcare providers, including, but not limited to, SNFs are subject to substantial financial penalties under the Civil Monetary Penalties Act and the Federal False Claims Act and, in particular, actions under the Federal False Claims Act's whistleblower provisions. Private enforcement of healthcare fraud has increased due in large part to amendments to the Federal False Claims Act that encourage private individuals with knowledge of fraud to sue on behalf of the government and earn a percentage of the federal government's recovery. These whistleblower suits, which have become more frequent, are also known as *qui tam* actions and may be filed by almost anyone, including present and former patients, nurses and other employees. Such whistleblower actions have been brought against nursing facilities on the basis of the alleged failure of the nursing facility to meet applicable regulations relating to its operations. Significantly, if a claim is successful, the Federal False Claims Act provides for treble damages and penalties up to \$11,000 per claim. Violations of these laws subject persons and entities to termination from participation in Medicare, Medicaid and other federally funded healthcare programs and can also result in the imposition of treble damages and fines or other penalties. Such penalties may affect operators' abilities to meet their obligations to us or to continue operating the facility. Governments are also devoting increasing attention and resources to anti-fraud initiatives against healthcare providers such as SNFs. The Office of the Inspector General of the U.S. Department of Health and Human Services has announced a number of new and ongoing initiatives to study instances of potential Medicare and Medicaid overbilling and/or fraud in SNFs. Violations of these laws subject persons and entities to termination from participation in Medicare, Medicaid and other federally-funded healthcare programs. In addition, the Health Reform Laws (discussed in greater detail below) revise healthcare fraud and abuse provisions that will affect our operators. Specifically, the Health Reform Laws allow for up to treble damages under the Federal False Claims Act for violations related to state-based health insurance exchanges authorized by the Health Reform Laws, which will be implemented beginning in 2014. The Health Reform Laws also impose new civil monetary penalties for false statements or actions that lead to delayed inspections, with penalties of up to \$15,000 per day for failure to grant timely access and up to \$50,000 for a knowing violation. Additionally, the Health Reform Laws require certain entities including providers, suppliers, Medicaid managed care organizations, Medicare Advantage organizations, and prescription drug program sponsors to report and return overpayments to the appropriate payer by the later of (a) sixty (60) days after the date the overpayment was identified, or (b) the date that the corresponding cost report is due. The entity also must notify the payer in writing of the reason for the overpayment. A violation of these requirements may result in criminal liability, civil liability under the Federal False Claims Act, and/or exclusion from the federal healthcare programs. On February 14, 2012, the Centers for Medicaid and Medicare Services, or CMS, published a proposed rule implementing the Health Reform Laws requirement that healthcare providers and suppliers report and return self-identified overpayments by the later of 60 days after the date the overpayment was identified, or the date any

corresponding cost report is due, if applicable. The Health Reform Laws also amend the Federal Anti Kickback Statute to state that any items or services resulting from a violation of the Anti Kickback Statute constitutes a false or fraudulent claim under the Federal False Claims Act. The Health Reform Laws also provide for additional funding to investigate and prosecute healthcare fraud and abuse. Accordingly, the increased penalties under the Health Reform Laws for fraud and abuse violations may have a negative impact on our operators in the event that the government brings an enforcement action or subjects them to penalties. SNFs may also experience an increase in medical record reviews from a host of government agencies and contractors, including the Department of Health and Human Services Office of the Inspector General, the Department of Justice, Zone Program Integrity Contractors, and Recovery Audit Contractors. These reviews may occur more frequently because of a November 2012 report from OIG, which found that SNFs inappropriately received \$1.5 billion in Medicare payments in 2009.

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Other Laws. Other laws that impact how our operators conduct their operations include: federal and state laws designed to protect the confidentiality and security of patient health information; state and local licensure laws; laws protecting consumers against deceptive practices; laws generally affecting our operators management of property and equipment and how our operators generally conduct their operations, such as fire, health and safety, and environmental laws; federal and state laws affecting assisted living facilities mandating quality of services and care, and quality of food service; resident rights (including abuse and neglect laws); and health standards set by the federal Occupational Safety and Health Administration. For example, the Health Insurance Portability and Accountability Act of 1996 and the regulations promulgated thereunder (collectively, HIPAA), impose extensive requirements on how certain entities, including SNFs, use, disclose, and safeguard protected health information (as that term is defined under HIPAA), including requirements to protect the integrity, availability, and confidentiality of electronic PHI. Many of these obligations were expanded under the Health Information Technology for Economic and Clinic Health Act of 2009 and the regulations promulgated thereunder (HITECH). In order to comply with the HIPAA and HITECH, covered entities often must undertake significant operational and technical implementation efforts. Operators also may face significant financial exposure if they fail to maintain the privacy and security of medical records, personal health information about individuals, or other protected health information. HITECH, which strengthened the HHS Secretary's authority to impose civil money penalties for HIPAA violations occurring after February 18, 2009, directs the HHS Secretary to provide for periodic audits to ensure covered entities and their business associates (as that term is defined under HIPAA) comply with the applicable HITECH requirements, increasing the likelihood that a HIPAA violation will result in an enforcement action. In October 2009, the Office for Civil Rights (OCR) issued an interim Final Rule which conformed HIPAA enforcement regulations to the HITECH Act, increasing the maximum penalty for multiple violations of a single requirement or prohibition to \$1.5 million. Higher penalties may accrue for violations of multiple requirements or prohibitions. HIPAA violations are also potentially subject to criminal penalties. Additionally, on January 25, 2013, OCR promulgated a final rule that expands the applicability of and requirements under HIPAA and HITECH and strengthens the government's ability to enforce these laws. Generally, covered entities and business associates were required to come into compliance with the final rule by September 23, 2013, though certain exceptions may apply.

Legislative and Regulatory Developments. Because all of our properties are used as healthcare properties, we will be impacted by the risks associated with the healthcare industry, including healthcare reform. The Patient Protection and Affordable Care Act, or PPACA, and the Health Care and Education Reconciliation Act of 2010, which amends PPACA, or, together with PPACA, the Health Reform Laws, and the June 28, 2012, United States Supreme Court ruling upholding the individual mandate of the Health Reform Laws and partially invalidating the expansion of Medicaid (further discussed below), may have a significant impact on Medicare, Medicaid, other federal healthcare programs, and private insurers, which impact the reimbursement amounts received by SNFs and other healthcare providers. The Health Reform Laws could have a substantial and material adverse effect on all parties directly or indirectly involved in the healthcare system. Together, the Health Reform Laws make the most sweeping and fundamental changes to the U.S. healthcare system undertaken since the creation of Medicare and Medicaid and contain various provisions that may directly impact us or our operators. These new laws include a large number of health-related provisions that are scheduled to take effect over the next several years, including potentially expanding Medicaid eligibility, requiring most individuals to have health insurance, establishing new regulations on health plans, establishing health insurance exchanges and modifying certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste, including through new tools to address fraud and abuse. Because all of our properties are used as healthcare properties, we will be impacted by the risks associated with the healthcare industry, including healthcare reform. While the expansion of healthcare

coverage may result in some additional demand for services provided by operators, reimbursement levels may be lower than the costs required to provide such services, which could materially adversely affect the ability of operators to generate profits and pay rent under their lease agreements with us and thereby could materially adversely affect our business, financial position or results of operations. For example, despite the Supreme Court's decision to partially invalidate the expansion of Medicaid, a number of states have expanded their Medicaid programs. While State participation in the Medicaid expansion could increase our operators' revenues, with increasingly strained budgets, it is unclear how states will pay their share of costs of the Medicaid expansion and whether other healthcare expenditures may be reduced as a result.

The Health Reform Laws also enhance certain fraud and abuse penalty provisions that could apply to our operators in the event of one or more violations of the federal healthcare regulatory laws. In addition, there are provisions that impact the health coverage that we and our operators provide to our respective employees. Furthermore, regulatory proposals and rules are released on an ongoing basis that may have an impact on the healthcare system in general and the skilled nursing and long-term care industries in particular. We cannot predict whether the existing Health Reform Laws, or future healthcare reform legislation or regulatory changes, will have a material impact on our operators' property or business. If the operations, cash flows or financial condition of our operators are materially adversely impacted by the Health Reform Laws or future legislation, our revenue and operations may be adversely affected as well. In addition, despite the Supreme Court's decision to uphold the Health Reform Laws, the House of Representatives has voted multiple times to repeal or dismantle the Health Reform Laws in full. We cannot predict whether any of these or future attempts to repeal or amend the Health Reform Laws will be successful, nor can we predict the impact that such a repeal or amendment would have on our operators and their ability to meet their obligations to us.

Additionally, provisions of Title VI of the Health Reform Laws are designed to increase transparency and program integrity of SNFs. Specifically, Section 6102 of PPACA requires all SNFs to have in operation a compliance and ethics program that is effective in preventing and detecting criminal, civil, and administrative violations of the Health Reform Laws as well as other relevant statutes and regulations. Such programs must also promote quality of care in SNFs. On February 2, 2011, CMS announced that it would finalize compliance plan requirements for SNFs in future rulemaking, but, as of February 14, 2014, it has yet to promulgate regulations implementing Section 6102 of PPACA. Additionally, the Health Reform Laws make it easier for consumers to file complaints against nursing homes by mandating that states establish complaint websites. The provisions calling for enhanced transparency will increase the administrative burden

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and costs on these providers. Regulatory proposals and rules are released on an ongoing basis that may have an impact on the healthcare system in general and the skilled nursing and long-term care industries in particular. We cannot predict whether any legislative or regulatory proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our operators. In 2007, CMS instituted a Special Focus Facility, or SFF, initiative to stimulate improvement in the quality of care for SNFs with a history of compliance difficulties. Properties are identified based on SNFs that have more problems than other SNFs (about twice the average number of deficiencies), more serious problems than most SNFs and a pattern of problems that has persisted over a long period of time (generally three years). CMS requires that SFFs be visited by survey teams twice as frequently as other nursing homes (about twice per year). Within approximately 24 months after a facility is identified as a SFF, CMS expects one of three outcomes: improvement and graduation from the list; termination from participation in Medicare; or an extension of time to continue showing improvement. Five of our properties have been identified by CMS as SFFs, two of which are classified as showing significant improvement, two of which are classified as not showing significant improvement and one of which was recently identified as a SFF.

Environmental Matters

In addition to environmental risks relating to releases of hazardous substances, our properties are subject to environmental laws regulating, among other things, air emissions, wastewater discharges and the handling and disposal of wastes, including medical wastes. Certain of our properties utilize above or underground storage tanks to store heating oil for use at the properties. Other properties were built during the time that asbestos-containing building materials were routinely installed in residential and commercial structures. Our leases obligate our operators to comply with applicable environmental laws and to indemnify us if their noncompliance results in losses or claims against us. An operator's failure to comply could result in fines and penalties or the requirement to undertake corrective actions which may result in significant costs to the operator and thus adversely affect their ability to meet their obligations to us.

Pursuant to U.S. federal, state and local environmental laws and regulations, a current or previous owner or operator of real property may be required to investigate, remove and/or remediate a release of hazardous substances or other regulated materials at, or emanating from, such property. Further, under certain circumstances, such owners or operators of real property may be held liable for property damage, personal injury and/or natural resource damage resulting from or arising in connection with such releases. Certain of these laws have been interpreted to impose joint and several liability unless the harm is divisible and there is a reasonable basis for allocation of responsibility. We also may be liable under certain of these laws for damage that occurred prior to our ownership of a property or at a site where we sent wastes for disposal. The failure to properly remediate a property may also adversely affect our ability to lease, sell or rent the property or to borrow funds using the property as collateral.

In connection with the ownership of our current or past properties and any properties that we may acquire in the future, we could be legally responsible for environmental liabilities or costs relating to a release of hazardous substances or other regulated materials at or emanating from such property. In order to assess the potential for such liability, we typically engage a consultant to conduct a limited environmental assessment of each property prior to acquisition and oversee our properties in accordance with environmental laws. Most of our leases require operators to conduct all activities in compliance with environmental laws and to indemnify the owner for any harm caused by the failure to do so. We are not aware of any environmental issues that are expected to have a material impact on the operations of any of our properties. See Risk Factors Risks Relating to Our Business and Operations.

Americans With Disabilities Act

The Company's properties must comply with Title III of the Americans with Disabilities Act, or ADA, to the extent that such properties are public accommodations as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of the Company's properties where such removal is readily achievable. While it has not conducted a formal audit or investigation of its compliance with the ADA, the Company believes that its operating properties are in substantial compliance with the ADA and that it will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is ongoing, and the Company will continue to assess its properties and make alterations as appropriate in this respect.

Insurance

Under the terms of our leases, our operators are required to maintain comprehensive general liability, fire, flood, earthquake, boiler and machinery, nursing home or long-term care professional liability and extended coverage insurance with respect to our properties with policy specifications, limits and deductibles set forth in the lease agreement or other written agreement between us and the operator. In some limited situations, we have agreed in our leases to pay half of the cost of earthquake insurance. We believe that our properties are covered by adequate insurance provided by reputable companies and with commercially reasonable deductibles and limits. Our leases provide that insurance premiums are the responsibility of the operator, and our operators are responsible for any increases in premiums. In addition, we carry contingent property and liability coverage for our properties encumbered by the existing credit facility.

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Employees

As of December 31, 2013, we had 28 full-time employees. None of our employees are represented by a union. The Company believes its relations with its employees are good.

Corporate Information

Aviv REIT, Inc. was incorporated as a Maryland corporation on July 30, 2010 and operates in a manner intended to allow it to qualify as a REIT for U.S. federal income tax purposes. Our operating partnership, Aviv Healthcare Properties Limited Partnership, a Delaware limited partnership, was formed on July 30, 2010, and was the successor to a Delaware limited partnership of the same name formed on March 4, 2005 in connection with the roll-up of various affiliated entities. Aviv REIT, Inc. is the sole general partnership of Aviv Healthcare Properties Limited Partnership. On March 26, 2013, we completed the initial public offering of shares of AVIV's common stock.

Offices

Our corporate offices are located at 303 West Madison Street, Suite 2400, Chicago, Illinois 60606. Our telephone number is (312) 855-0930. The Company believes its current offices are adequate for its current operations.

Available Information

The Company maintains a website, <http://www.avivreit.com>, which contains additional information concerning the Company. The Company makes available, free of charge through its website, its Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. The Company's Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters of the Audit, the Compensation and the Nominating and Corporate Governance Committees of its Board of Directors are also available on its website and are available in print to any stockholder upon request in writing to Aviv REIT, Inc., c/o Investor Relations, 303 West Madison Street, Suite 2400, Chicago, Illinois 60606. Information on or connected to the Company's website is neither part of nor incorporated by reference into this Annual Report on Form 10-K or any other SEC filings. The SEC maintains a website, <http://www.sec.gov>, which contains reports, proxy and information statements, and other information regarding the Company and other issuers that file electronically with the SEC.

Financial Information

For required financial information related to the Company's operations, please refer to its consolidated financial statements, including the notes thereto, included with this Annual Report on Form 10-K.

Item 1A. RISK FACTORS

The following risk factors address the material risks and uncertainties concerning our business and an investment in our common stock. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business or adversely affect the value of our common stock. If any of the risks discussed in this report were to occur, our business, financial condition, liquidity and results of operation could be materially and adversely affected. Some statements in this report, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled Special Note Regarding Forward-Looking

Statements at the beginning of this Annual Report.

Risks Relating to Our Business and Operations

Our business is dependent upon our operators successfully operating their businesses, and their failure to do so could have a material adverse effect on our ability to successfully and profitably operate our business.

We depend on our operators to operate the properties we own in a manner that generates revenues sufficient to allow them to meet their obligations to us, including their obligations to pay rent, maintain certain insurance coverage, pay real estate taxes and maintain the properties in a manner so as not to jeopardize their operating licenses or regulatory status. The ability of our operators to fulfill their obligations under our leases may depend, in part, upon the overall profitability of their operations, including any other SNFs or other properties or businesses they may acquire or operate. Cash flow generated by certain individual properties may not be sufficient for an operator to meet its obligations to us. Our financial position could be weakened and our ability to fulfill our obligations under our indebtedness could be limited if any of our major operators were unable to meet their obligations to us or failed to renew or extend their relationship with us as their lease terms expire, or if we were unable to lease or re-lease our properties on

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economically favorable terms. While we have generally been successful in the past in transitioning properties from one operator to another where properties are underperforming, we cannot assure you that we will be able to continue to identify and successfully transition underperforming properties going forward. In addition, from time to time we may recognize straight-line rent write-offs in connection with transitioning properties.

Our portfolio is predominantly comprised of SNFs. As a result of our focus on SNFs, any changes affecting SNFs or SNF operators, including changes in governmental rules and regulations, particularly with respect to Medicare and Medicaid reimbursement, could have an adverse impact on our operators' revenues, costs and results of operations, which may affect their ability to meet their obligations to us. Additionally, if conditions in the SNF industry decline, we may be required to evaluate our properties for impairments or write-downs, which could result in charges that might be significant.

Certain operators account for a significant percentage of our rental income, and the failure of any of these operators to meet their obligations to us could materially reduce our rental income and net income.

As of December 31, 2013, approximately 14.0% of our contractual rent was from Daybreak, which operates 52 of our properties in Texas, approximately 13.5% of our contractual rent was from Saber, which operates 30 of our properties in Ohio, Pennsylvania, and Florida and approximately 8.4% of our contractual rent was from EmpRes, which operates 17 of our properties in California, Oregon, Nevada, Montana, and Washington. No other operator generated more than 7.1% of our total contractual rent as of December 31, 2013. The failure or inability of any of these operators, or of other operators that account for a significant percentage of our rental income, to meet their obligations to us could materially reduce our rental income and net income, which could in turn reduce the amount of dividends we pay and cause our stock price to decline.

The geographic concentration of our properties could leave us vulnerable to an economic downturn, regulatory or reimbursement changes or acts of nature in those areas, resulting in a decrease in our revenues or otherwise negatively impacting our results of operations.

As of December 31, 2013, the three states from which we derived the largest amount of contractual rent were Texas (17.5%), Ohio (14.0%) and California (12.8%). As a result of these concentrations, the conditions of local economies and real estate markets, changes in governmental rules and regulations, particularly with respect to Medicaid, acts of nature and other factors that may result in a decrease in demand for long-term care services in these states could have an adverse impact on our operators' revenues, costs and results of operations, which may affect their ability to meet their obligations to us.

We may not be successful in identifying and consummating suitable acquisitions or investment opportunities, which may impede our growth and negatively affect our results of operations and may result in the use of a significant amount of management resources.

Our ability to expand through acquisitions is integral to our business strategy and requires us to identify suitable acquisition or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions or investments on satisfactory terms or at all. Failure to identify or consummate acquisitions or investment opportunities, or to integrate successfully any acquired properties without substantial expense, delay or other operational or financial problems, would slow our growth, which could in turn adversely affect our stock price.

Our ability to acquire properties successfully may be constrained by the following significant risks:

competition from other real estate investors with significant capital, including publicly-traded REITs and institutional investment funds;

unsatisfactory results of our due diligence investigations or failure to meet other customary closing conditions; and

failure to finance an acquisition on favorable terms or at all.

If any of these risks are realized, our business, financial condition and results of operations, our ability to make distributions to our stockholders and the trading price of our common stock may be materially and adversely affected.

We rely on external sources of capital to fund future capital needs, and if we encounter difficulty in obtaining such capital, we may not be able to make future investments necessary to grow our business or meet maturing commitments.

In order to qualify as a REIT under U.S. Internal Revenue Code of 1986, as amended, or the Code, we are required, among other things, to distribute each year to our stockholders at least 90% of our REIT taxable income (computed without regard to our deduction for dividends paid and excluding any net capital gains). Because of this distribution requirement, we may not be able to fund, from cash retained from operations, all of our future capital needs, including capital needs to make investments and acquisitions and to satisfy or refinance maturing commitments.

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As a result, we expect to rely on external sources of capital, including debt and equity financing. If we are unable to obtain needed capital at all or only on unfavorable terms from these sources, we might not be able to make the investments needed to expand our business, or to meet our obligations and commitments as they mature. Our access to capital will depend upon a number of factors over which we have little or no control, including general market conditions, the market's perception of our current and potential future earnings and cash distributions and the market price of the shares of our capital stock. We may not be in position to take advantage of attractive investment opportunities for growth in the event that we are unable to access the capital markets on a timely basis or we are only able to obtain financing on unfavorable terms.

We had approximately \$681.2 million of indebtedness outstanding as of December 31, 2013, and our indebtedness could adversely affect our financial condition and, as a result, our operations.

We have substantial indebtedness and we may increase our indebtedness in the future. As of December 31, 2013, we had total indebtedness of \$681.2 million outstanding, including \$400.0 million of indebtedness with respect to our 2019 Notes (excluding \$2.8 million of net debt premium balance related to the Notes), \$250 million of indebtedness with respect to our 2021 Notes, \$20.0 million of indebtedness with respect to our Revolving Credit Facility, and \$11.2 million of other indebtedness (excluding \$2.4 million of net debt premium). See Management's Discussion and Analysis of Financial Condition and Results of Operations—Indebtedness Outstanding in Item 7 of this Annual Report on Form 10-K for additional information. Our level of indebtedness could have important consequences to our stockholders. For example, it could:

increase our vulnerability to general adverse economic and industry conditions;

limit our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business;

increase our cost of borrowing;

require us to dedicate a substantial portion of our cash flow from operations to payments on indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures and other general corporate requirements, or to carry out other aspects of our business;

limit our ability to make material acquisitions or take advantage of business opportunities that may arise;

limit our ability to make distributions to our stockholders, which may cause us to lose our qualification as a REIT under the Code or to become subject to federal corporate income tax on any REIT taxable income that we do not distribute; and

place us at a potential competitive disadvantage compared to our competitors that have less debt.

Further, we have the ability to incur substantial additional debt, including secured debt. If we incur additional debt, the related risks described above could intensify.

Risk factors related to our credit ratings.

We plan to manage the Company to maintain a capital structure consistent with our current profile, but there can be no assurance that we will be able to maintain our current credit ratings. Any downgrades in terms of ratings or outlook by any or all of the rating agencies could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell properties in our portfolio is limited.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. In addition, our properties are special purpose properties that could not be readily converted to general residential, retail or office use. Transfers of operations of SNFs and other healthcare properties are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. To the extent we are unable to sell any properties for our book value, we may be required to take a non-cash impairment charge or loss on the sale, either of which would reduce our net income.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We may not have funds available to correct those defects or to make those improvements. We may agree to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede our ability to sell a property even if we deem it necessary or appropriate. These facts and any others that would impede our ability to respond to adverse changes in the performance of our properties may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the trading price of our common stock.

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Uninsured losses or losses in excess of our operators' insurance coverage could adversely affect our financial position and our cash flow.

Under the terms of our leases, our operators are required to maintain comprehensive general liability, fire, flood, earthquake, boiler and machinery, nursing home or long-term care professional liability and extended coverage insurance with respect to our properties with policy specifications, limits and deductibles set forth in the leases or other written agreements between us and the operator. However, our properties may be adversely affected by casualty losses which exceed insurance coverages and reserves. Should an uninsured loss occur, we could lose both our investment in, and anticipated profits and cash flows from, the property. Even if it were practicable to restore the property to its condition prior to the damage caused by a major casualty, the operations of the affected property would likely be suspended for a considerable period of time. In the event of any substantial loss affecting a property, disputes over insurance claims could arise.

Our assets may be subject to impairment charges.

We periodically evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our results of operations and funds from operations in the period in which the write-off occurs. As part of our impairment evaluation during 2013 and 2012, we recorded a charge of approximately \$0.5 million and \$11.1 million, respectively.

As an owner of real property, we may be exposed to environmental liabilities.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real property, such as us, may be liable in certain circumstances for the costs of investigation, removal, remediation or release of hazardous or toxic substances (including materials containing asbestos) at, under or disposed of in connection with such property, as well as certain other potential costs relating to hazardous or toxic substances, including government fines and damages for injuries to persons or adjacent property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances and liability may be imposed on the owner in connection with the activities of an operator at the property. The cost of any required investigation, remediation, removal, fines or personal or property damages and the owner's liability therefore could exceed the value of the property and/or the assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect our operators' ability to attract additional residents, our ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenues.

Although our leases require the operator to indemnify us for certain environmental liabilities, the scope of such obligations may be limited. For instance, some of our leases do not require the operator to indemnify us for environmental liabilities arising before the operator took possession of the premises. Further, we cannot assure you that any such operator would be able to fulfill its indemnification obligations. If we were to be liable for any such environmental liabilities and were unable to seek recovery against our operators, our business, financial condition and results of operations could be materially and adversely affected.

We depend upon our key employees and our failure to retain or attract sufficient numbers of qualified personnel could have a material adverse effect on our business.

Our future performance depends to a significant degree upon the continued contributions of our management team and other employees. As of December 31, 2013, we had 28 full-time employees and, as a result, the loss of even a small number of our employees may have an adverse effect on our business. Accordingly, our future success depends on our ability to retain, attract, hire and train skilled management and other qualified personnel. Competition for qualified employees is intense, and we compete for qualified employees with companies that may have greater financial resources than we have. Consequently, we may not be successful in retaining, attracting, hiring, and training the people we need, which would seriously impede our ability to implement our business strategy.

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Failure to properly manage our rapid growth could distract our management or increase our expenses.

We have experienced rapid growth and development in a relatively short period of time and expect to continue this rapid growth in the future. This growth has resulted in increased levels of responsibility for our management. Future property acquisitions could place significant additional demands on, and require us to expand, our management, resources and personnel. Our failure to manage any such rapid growth effectively could harm our business and, in particular, our financial condition, results of operations and cash flows, which could negatively affect our ability to make distributions to stockholders and the trading price of our common stock. Our growth could also increase our capital requirements, which may require us to issue potentially dilutive equity securities and incur additional debt.

Risks Relating to Our Operators and the Skilled Nursing Facility Industry

Our operators' failure to comply with the requirements of governmental reimbursement programs such as Medicare or Medicaid, licensing and certification requirements, fraud and abuse regulations or new legislative developments may affect their ability to meet their obligations to us.

Our operators are subject to numerous federal, state and local laws and regulations that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing laws. The ultimate timing or effect of any changes in these laws and regulations cannot be predicted. We have no direct control over our operators' ability to meet the numerous federal, state and local regulatory requirements. The failure of any of our operators to comply with these laws, requirements and regulations may affect their ability to meet their obligations to us. In particular:

Licensing and Certification. Our operators and facilities are subject to regulatory and licensing requirements of federal, state, and local authorities and are periodically surveyed by them to confirm compliance. Failure to obtain licensure or loss or suspension of licensure or certification may prevent a facility from operating or result in a suspension of reimbursement payments until all licensure or certification issues have been resolved and the necessary licenses or certification are obtained or reinstated. If an operator does not continue to meet all regulatory requirements, that operator may lose its ability to provide or bill and receive payment for healthcare services. In such event, revenues from those facilities could be reduced or eliminated for an extended period of time or permanently. Transfers of operations of SNFs and other healthcare facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and real estate.

Certificate of Need. Some states require that SNFs obtain governmental approval, in the form of a Certificate of Need, or CON, or similar certification that generally varies by state and is subject to change, prior to the addition or construction of new beds, the addition of services or certain capital expenditures. The CON laws and regulations may restrict our ability to add new facilities or expand an existing facility's size or services. In addition, CON laws may constrain our ability to lease a particular property to a new operator.

Medicare and Medicaid Certification. A significant portion of the revenues of our operators that operate SNFs is derived from participation in government-funded reimbursement programs, primarily Medicare and Medicaid. Failure to maintain certification to participate in these programs could result in a loss of funding from such programs. Loss of certification could cause the revenues of our operators to decline, potentially

jeopardizing their ability to meet their obligations to us. Medicare and Medicaid laws also require operators of SNFs to comply with extensive standards governing operations.

Fraud and Abuse Laws and Regulations. There are various highly complex federal and state laws governing a wide array of referrals, financial relationships and arrangements and prohibiting fraud by healthcare providers, including criminal provisions that prohibit financial inducements for referrals, filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments. All healthcare providers, including SNFs, are subject to the Federal Anti-Kickback Statute, which generally prohibits persons from offering, providing, soliciting, or receiving remuneration to induce either the referral of an individual or the furnishing of a good or service for which payment may be made under a federal healthcare program, such as Medicare or Medicaid. SNFs are also subject to the Federal Ethics in Patient Referral Act of 1989, commonly referred to as the Stark Law. The Stark Law generally prohibits the submission of claims to Medicare for payment if the claim results from a physician referral for certain designated services and the physician has a financial relationship with the health service provider that does not qualify under one of the exceptions for a financial relationship under the Stark Law. Similar prohibitions on kickbacks, physician self-referrals and submission of claims apply to state Medicaid programs, and may also apply to private payors under state laws. Violations of these laws subject persons and entities to termination from participation in Medicare, Medicaid and other federally funded healthcare programs or result in the imposition of treble damages and fines or other penalties. SNFs may also experience an increase in medical record reviews from a host of government agencies and contractors, including the Department of Health and Human Services Office of the Inspector General, the Department of Justice, Zone Program Integrity Contractors, and Recovery Audit Contractors. These reviews may increase in light of a November 2012 report from the OIG, which said that SNFs inappropriately received \$1.5 billion in Medicare payments in 2009.

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Other Laws. Other laws that impact how our operators conduct their operations include: federal and state laws designed to protect the confidentiality and security of patient health information; state and local licensure laws; laws protecting consumers against deceptive practices; laws generally affecting our operators management of property and equipment and how our operators generally conduct their operations, such as fire, health and safety, and environmental laws; federal and state laws affecting assisted living facilities mandating quality of services and care, and quality of food service; resident rights (including abuse and neglect laws); and health standards set by the federal Occupational Safety and Health Administration. For example, the Health Insurance Portability and Accountability Act of 1996 and the regulations promulgated thereunder (collectively, HIPAA), impose extensive requirements on the way in which certain entities, including SNFs, use, disclose, and safeguard protected health information (as that term is defined under HIPAA), including requirements to protect the integrity, availability, and confidentiality of electronic PHI. Many of these obligations were expanded under the Health Information Technology for Economic and Clinic Health Act of 2009 and the regulations promulgated thereunder (HITECH). In order to comply with HIPAA and HITECH, covered entities often must undertake significant operational and technical implementation efforts. Operators also may face significant financial exposure if they fail to maintain the privacy and security of medical records, personal health information about individuals, or protected health information. HITECH strengthened the HHS Secretary's authority to impose civil money penalties for HIPAA violations occurring after February 18, 2009. HITECH directs the HHS Secretary to provide for periodic audits to ensure covered entities and their business associates (as that term is defined under HIPAA) comply with the applicable HITECH requirements, increasing the likelihood that a HIPAA violation will result in an enforcement action. In October 2009, the Office for Civil Rights (OCR) issued an interim final rule which conformed HIPAA enforcement regulations to the HITECH Act, increasing the maximum penalty for multiple violations of a single requirement or prohibition to \$1.5 million. Higher penalties may accrue for violations of multiple requirements or prohibitions. HIPAA violations are also potentially subject to criminal penalties. Additionally, on January 25, 2013, OCR promulgated a final rule that expands the applicability of and requirements under HIPAA and HITECH and strengthens the government's ability to enforce these laws. Generally, covered entities and business associates were required to come into compliance with the final rule by September 23, 2013, though certain exceptions may apply. We cannot predict the effect additional costs to comply with these laws may have on the expenses of our operators and their ability to meet their obligations to us.

Legislative and Regulatory Developments. The Patient Protection and Affordable Care Act, or PPACA, and the Health Care and Education Reconciliation Act of 2010, which amends PPACA, or, together with PPACA, the Health Reform Laws, and the June 28, 2012, United States Supreme Court ruling upholding the individual mandate of the Health Reform Laws and partially invalidating the expansion of Medicaid (further discussed below), may have a significant impact on Medicare, Medicaid, other federal healthcare programs, and private insurers, which could impact the reimbursement amounts received by SNFs and other healthcare providers. The Health Reform Laws could have a substantial and material adverse effect on all parties directly or indirectly involved in the healthcare system. Together, the Health Reform Laws make the most sweeping and fundamental changes to the U.S. healthcare system undertaken since the creation of Medicare and Medicaid and contain various provisions that may directly impact us or our operators. These new laws include a large number of health-related provisions that are scheduled to take effect over the next several years, including expanding Medicaid eligibility, requiring most individuals to have health insurance, establishing new regulations on health plans, establishing health insurance exchanges and modifying certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste, including through new tools to address fraud and abuse. Because all of our properties are used as healthcare properties, we will be impacted by the risks associated with the healthcare industry, including healthcare

reform. While the expansion of healthcare coverage may result in some additional demand for services provided by operators, reimbursement levels may be lower than the costs required to provide such services, which could materially adversely affect the ability of operators to generate profits and pay rent under their lease agreements with us and thereby could materially adversely affect our business, financial position or results of operations. The Health Reform Laws also enhance certain fraud and abuse penalty provisions that could apply to our operators in the event of one or more violations of the federal healthcare regulatory laws. Furthermore, regulatory proposals and rules are released on an ongoing basis that may have an impact on the healthcare system in general and the skilled nursing and long-term care industries in particular. We cannot predict whether the existing Health Reform Laws, or future healthcare reform legislation or regulatory changes, will have a material impact on our operators' property or business. If the operations, cash flows or financial condition of our operators are materially adversely impacted by the Health Reform Laws or future legislation, our revenue and operations may be adversely affected as well. In addition, despite the Supreme Court's decision to uphold the Health Reform Laws, the House of Representatives has voted multiple times to repeal or dismantle the Health Reform Laws in full. We cannot predict whether any of these or future attempts to repeal or amend the Health Reform Laws will be successful, nor can we predict the impact that such a repeal or amendment would have on our operators and their ability to meet their obligations to us.

Our operators depend on reimbursement from government and other third-party payors; reimbursement rates from such payors may be reduced, which could cause our operators' revenues to decline and affect their ability to meet their obligations to us.

The ability of our operators to generate revenue and profit influences the underlying value of our properties. Revenues of our operators are generally derived from payments for patient care. Sources of such payments for SNFs include Medicare, state Medicaid programs, private insurance carriers, healthcare service plans, health maintenance organizations, preferred provider arrangements, self-insured employers and the patients themselves. Medicare and Medicaid programs, as well as numerous private insurance and managed care plans, generally require participating providers to accept government-determined reimbursement levels as payment in full for services rendered, without regard to a facility's charges. Changes in the reimbursement rate or methods of payment from third-party payors, including Medicare and Medicaid, or the implementation of other measures to reduce reimbursements for services provided by our operators, have in the past and could in the future result in a substantial reduction in our operators' revenues. For example, beginning in 2012, SNFs were subject to a productivity adjustment, which means that the payment rates for SNFs may

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decrease from one year to the next. Additionally, although the Health Reform Laws delayed implementation of the Resource Utilization Group, Version Four, or RUG-IV, which revises the payment classification system for SNFs, the Medicare and Medicaid Extenders Act of 2010 repealed this delay retroactively to October 1, 2010. The implementation of the RUG-IV classification may impact our operators by revising the classifications of certain patients. The federal reimbursement for certain facilities, such as SNFs, incorporates adjustments to account for facility case-mix. Additionally, revenue realizable under third-party payor agreements can change after examination and retroactive adjustment by payors during the claims settlement processes or as a result of post-payment audits. Payors may disallow requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable or because additional documentation is necessary or because certain services were not covered or were not medically necessary. There also continue to be new legislative and regulatory proposals that could impose further limitations on government and private payments to healthcare providers. In some cases, states have enacted or are considering enacting measures designed to reduce their Medicaid expenditures and to make changes to private healthcare insurance. Moreover, healthcare facilities continue to experience pressures from private payors attempting to control healthcare costs, and reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. That said, on July 31, 2013, CMS issued its final rate for fiscal year 2014 Medicare payment rates for SNFs. Based on the changes contained in the final rule, CMS estimates that total Medicare payments to SNFs will increase by \$470 million, or 1.3%, for fiscal year 2014, which begins on October 1, 2013. We cannot assure you that adequate reimbursement levels will continue to be available for the services provided by our operators. Further limits on the scope of services reimbursed and on reimbursement rates could have a material adverse effect on our operators' liquidity, financial condition and results of operations, which could cause the revenues of our operators to decline and which may affect their ability to meet their obligations to us.

A number of states are currently managing budget deficits, which may put pressure on states to decrease reimbursement rates for our operators with the goal of decreasing state expenditures under their state Medicaid programs. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. These potential reductions could be compounded by the potential for federal cost-cutting efforts that could lead to reductions in reimbursement to our operators under both the Medicaid and Medicare programs. Potential reductions in Medicaid and Medicare reimbursement to our operators could reduce the cash flow of our operators and their ability to meet their obligations to us.

Possible changes in the healthcare needs of our operators' residents as well as payor mix and payment methodologies may significantly affect the profitability of our operators.

The sources and amounts of our operators' revenues are determined by a number of factors, including licensed bed capacity, occupancy, the healthcare needs of residents and the rate of reimbursement. Changes in the healthcare needs of the residents as well as payor mix among private pay, Medicare and Medicaid may significantly affect our operators' profitability and which may affect their ability to meet their obligations to us.

Our operators may be subject to significant legal actions that could subject them to increased operating costs and substantial uninsured liabilities, which may affect their ability to meet their obligations to us.

Our operators may be subject to claims that their services have resulted in resident injury or other adverse effects. The insurance coverage maintained by our operators, whether through commercial insurance or self-insurance, may not cover all claims made against them or continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to our operators due to state law prohibitions or limitations of availability. As a result, our operators operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits. From time to time, there may also be increases in

government investigations of long-term care providers, particularly in the area of Medicare/Medicaid false claims, as well as increases in enforcement actions resulting from these investigations. Insurance is not available to cover such losses. Any adverse determination in a legal proceeding or government investigation, whether currently asserted or arising in the future, could lead to potential termination from government programs, large penalties and fines and otherwise have a material adverse effect on an operator's financial condition. If an operator is unable to obtain or maintain insurance coverage, if judgments are obtained in excess of the insurance coverage, if an operator is required to pay uninsured punitive damages, or if an operator is subject to an uninsurable government enforcement action, the operator could be exposed to substantial additional liabilities, which could result in its bankruptcy or insolvency or have a material adverse effect on the operator's business and its ability to meet its obligations to us.

The bankruptcy, insolvency or financial deterioration of our operators could delay or prevent our ability to collect unpaid rents or require us to find new operators.

We receive substantially all of our income as rent payments under leases of our properties. We have very limited control over the success or failure of our operators' businesses and, at any time, any of our operators may experience a downturn in its business that may weaken its financial condition. As a result, our operators may fail to make rent payments when due or declare bankruptcy. Any operator failures to make rent payments when due or operator bankruptcies could result in the termination of the operator's lease and could have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the trading price of our common stock. This risk is magnified in situations where we lease multiple properties to a single operator under a master lease, as an operator failure or default under a master lease could reduce or eliminate rental revenue from multiple properties.

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If operators are unable to comply with the terms of the leases, we may be forced to modify the leases in ways that are unfavorable to us. Alternatively, the failure of an operator to perform under a lease could require us to declare a default, repossess the property, find a suitable replacement operator, operate the property or sell the property. There is no assurance that we would be able to lease a property on substantially equivalent or better terms than the prior lease, or at all, find another qualified operator, successfully reposition the property for other uses or sell the property on terms that are favorable to us. It may be more difficult to find a replacement operator for a SNF property than it would be to find a replacement tenant for a general commercial property due to the specialized nature of the business. Even if we are able to find a suitable replacement operator for a property, transfers of operations of SNFs and other healthcare facilities are subject to regulatory approvals not required for transfers of other types of commercial operations, which may affect our ability to successfully transition a property.

If any lease expires or is terminated, we could be responsible for all of the operating expenses for that property until it is re-leased or sold. If we experience a significant number of un-leased properties, our operating expenses could increase significantly. Any significant increase in our operating costs may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the trading price of our common stock.

Any bankruptcy filing by or relating to one of our operators could bar all efforts by us to collect pre-bankruptcy debts from that operator or seize its property. An operator bankruptcy could also delay our efforts to collect past due balances under the leases and could ultimately preclude collection of all or a portion of these sums. It is possible that we may recover substantially less than the full value of any unsecured claims we hold, if any, which may have a material adverse effect on our business, financial condition and results of operations, our ability to make distributions to our stockholders and the trading price of our common stock. Furthermore, dealing with an operator's bankruptcy or other default may divert management's attention and cause us to incur substantial legal and other costs.

If one or more of our operators files for bankruptcy relief, the U.S. federal Bankruptcy Code provides that a debtor has the option to assume or reject the unexpired lease within a certain period of time. However, our leases with operators that lease more than one of our properties are generally made pursuant to a single master lease covering all of that operator's properties leased from us, or are cross-defaulted with other leases, and consequently there is uncertainty about how such arrangements may be treated in a bankruptcy. It is possible that in bankruptcy the debtor-operator may be required to assume or reject the master lease or cross-defaulted leases as a whole, rather than making the decision on a property-by-property basis, thereby preventing the debtor-operator from assuming the better performing properties and terminating the master lease or cross-defaulted leases with respect to the poorer performing properties.

Increased competition may affect the ability of our operators to meet their obligations to us.

The healthcare industry is highly competitive. Our operators are competing with numerous other companies providing similar healthcare services or alternatives such as long-term acute care hospitals, in-patient rehabilitation facilities, home health agencies, hospices, life care at home, community-based service programs, retirement communities and convalescent centers. Our operators may not be able to achieve performance levels that will enable them to meet their obligations to us.

Risks Relating to Our Organization and Structure

AVIV's primary asset is its OP units in the Partnership and, as a result, AVIV will depend on distributions from the Partnership to pay dividends and expenses.

AVIV is a holding company and has no material assets other than OP units in the Partnership. AVIV intends to cause the Partnership to make distributions to partners, including AVIV, in an amount sufficient to allow AVIV to qualify as a REIT for U.S. federal income tax purposes and to pay all our expenses. To the extent we need funds and the Partnership is restricted from making distributions under applicable law or otherwise, or if the Partnership is otherwise unable to provide such funds, the failure to make such distributions could materially adversely affect our liquidity and financial condition.

Members of our management and board of directors are unitholders of the Partnership, and their interests may differ from those of our public stockholders.

Members of our management and board of directors are holders of OP units of the Partnership. Those unitholders may have conflicting interests with holders of AVIV's common stock. For example, holders of OP units may have different tax positions from AVIV or holders of AVIV's common stock, which could influence their decisions in their capacities as members of management regarding whether and when to dispose of assets, whether and when to incur new or refinance existing indebtedness and how to structure future transactions.

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Lindsay Goldberg, Mr. Bernfield, our Chairman and Chief Executive Officer, and a trust formed for the benefit of the estate of Zev Karkomi, one of our co-founders, together with certain of their respective affiliates, family members and estates and trusts, own shares of common stock and OP units representing 57.4%, 14.3% and 12.6% respectively, of AVIV's outstanding common stock on a fully-diluted basis and have the ability to exercise significant influence over our Company and any matter presented to our stockholders.

Lindsay Goldberg, a private investment firm, Mr. Bernfield, our Chairman and Chief Executive Officer, and a trust formed for the benefit of the estate of Zev Karkomi, one of our co-founders, together with certain of their respective affiliates, family members and estates and trusts, own shares of common stock and OP units representing 57.4%, 14.3% and 12.6%, respectively, of AVIV's outstanding common stock on a fully-diluted basis, including net shares issuable under in-the-money options. As a result of their equity ownership and their positions within our Company, each of Lindsay Goldberg, Mr. Bernfield and members of the Karkomi Estate individually or, to the extent their interests are aligned, collectively may be able to influence the outcome of matters submitted for stockholder action, including the election of our board of directors and approval of significant corporate transactions, including business combinations, consolidations and mergers and the determination of our day-to-day corporate and management policies. In addition, Lindsay Goldberg has the right to nominate three directors pursuant to an Investment Agreement. Therefore, each of Lindsay Goldberg, Mr. Bernfield and the Karkomi Estate (and members thereof) have substantial influence over us and could exercise influence in a manner that is not in the best interests of our other stockholders. This concentration of ownership might also have the effect of delaying or preventing a change of control that our stockholders may view as beneficial. Lindsay Goldberg has agreed that, while the Investment Agreement is in effect, in connection with any merger to which AVIV is a constituent party, a sale of all or substantially all of the assets of AVIV, plans of liquidation involving AVIV, or issuances of capital stock by AVIV, in each case, to the extent such matter is submitted to a vote of stockholders or included in a solicitation of consents with respect to the stockholders, it will vote its shares in AVIV which represent up to its indirect ownership percentage of the Partnership in its sole and absolute discretion and will vote its shares in excess of such amount in proportion with the other stockholders of AVIV that are unaffiliated with Lindsay Goldberg.

The obligations associated with being a public company require significant resources and management attention.

As a result of the issuance of our 2019 Notes in February 2011, we became a public reporting company under the Exchange Act. However, we have limited experience complying with Securities and Exchange Commission, or SEC, regulations. Since becoming a public company with our common stock listed on the New York Stock Exchange, or NYSE, in March 2013, we must to comply with additional laws, regulations and requirements, including the requirements of the NYSE, with which we had not previously been required to comply. Despite recent reforms made possible by the JOBS Act, compliance with these laws, regulations and requirements occupies a significant amount of time of our board of directors and management and significantly increases our legal, accounting and other expenses, particularly after we no longer qualify as an emerging growth company. Furthermore, the need to establish the corporate infrastructure demanded of public companies may divert management's attention from implementing our growth strategy, which could prevent us from improving our business, results of operations and financial condition. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations upon becoming a public company. However, the measures we take may not be sufficient to satisfy our obligations. In addition, we cannot predict or estimate the amount of additional costs we may incur in order to comply with these requirements.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments and attestation by our independent registered public accounting firm of the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting beginning with our Annual Report on Form 10-K following the date on which we no longer qualify as an

emerging growth company or we opt not to use the applicable exemption. We could qualify as an emerging growth company for up to five years, although we could lose that status sooner if our revenues exceed \$1 billion, if we issue more than \$1 billion in non-convertible debt in a three year period, or if the market value of our common stock held by non-affiliates exceeds \$700 million as of any June 30th before that time, in which case we would no longer qualify as an emerging growth company as of the following December 31st.

In connection with our implementation of the necessary procedures and practices related to internal control over financial reporting, we or our independent registered public accounting firm may identify deficiencies that we may not be able to remedy in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. If we fail to comply with Section 404, or if we or our independent registered public accounting firm identify and report a material weakness, it may affect the reliability of our internal control over financial reporting, which could adversely affect the market price of our common stock and subject us to sanctions or investigations by the NYSE, the SEC or other regulatory authorities, which would require additional financial and management resources.

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Our charter restricts the ownership and transfer of our outstanding stock, which may have the effect of delaying, deferring or preventing a transaction or change of control of our company.

In order for AVIV to qualify as a REIT, no more than 50% of the value of outstanding shares of our stock may be owned, actually or constructively, by five or fewer individuals at any time during the last half of each taxable year. Subject to some exceptions, our charter prohibits any stockholder from owning actually or constructively more than 8.6% (in value) of our outstanding common stock or of our outstanding stock of all classes and series. Our charter's constructive ownership rules are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 8.6% of our outstanding stock by an individual or entity could cause that individual or entity to own constructively in excess of 8.6% in value of our outstanding stock, and thus violate our charter's ownership limit. Our charter also prohibits any person from owning shares of our stock that would result in our being closely held under Section 856(h) of the Code or otherwise cause AVIV to fail to qualify as a REIT. Any attempt to own or transfer shares of our stock in violation of these restrictions may result in the shares being automatically transferred to a charitable trust or may be void.

Certain provisions of Maryland Law may limit the ability of a third party to acquire control of our Company.

Certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of delaying, deferring or preventing a transaction or a change of control of our Company that might involve a premium price for holders of our common stock or otherwise be in their best interests.

Subject to certain limitations, provisions of the MGCL prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our stock or an affiliate or associate of us who beneficially owned 10% or more of the voting power of our stock during the previous two years) or an affiliate of the interested stockholder for five years after the most recent date on which the stockholder became an interested stockholder. After the five year period, business combinations between us and an interested stockholder or an affiliate of the interested stockholder must generally either provide a minimum price to our stockholders or be approved by the affirmative vote of at least 80% of the votes entitled to be cast by holders of our outstanding stock and at least two-third of the votes entitled to be cast by stockholders other than the interested stockholder and its affiliates and associates.

These provisions of the MGCL relating to business combinations do not apply, however, to business combinations that are approved or exempted by our board of directors prior to the time that the interested stockholder becomes an interested stockholder. As permitted by the statute, our board of directors has by resolution exempted any business combination between us and any other person or entity from the business combination provisions of the MGCL and, consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations between us and any such person or entity. As a result, these persons may be able to enter into business combinations with us that may not be in the best interests of our stockholders without compliance by our company with the supermajority vote requirements and the other provisions of the statute. Our bylaws provide that this resolution may only be revoked, altered or amended, and our board of directors may only adopt any resolution inconsistent with such resolution, or any other resolution of our board of directors exempting any business combination from the business combination provisions of the MGCL, with the affirmative vote of a majority of the votes cast on the matter by holders of outstanding shares of our common stock.

The MGCL also provides that holders of control shares (which are shares of our stock which, when aggregated with other shares that the acquiror owns or is entitled to direct the exercise of voting power (other than solely by virtue of a revocable proxy), entitle the stockholder to exercise (i) at least 10% but less than 33%, (ii) at least 33% but less than a

majority or (iii) a majority of the voting power in the election of directors) generally have no voting rights with respect to control shares except to the extent approved by stockholders (other than the holder of the control shares, our officers and our directors who are also our employees) entitled to cast at least two-thirds of the votes entitled to be cast on the matter. As permitted by Maryland law, our bylaws contain a provision exempting from the provisions of the MGCL relating to control share acquisitions any and all acquisitions by any person of our common stock. Our board of directors may not amend this provision of our bylaws without the approval of a majority of the votes cast on any such amendment by holders of outstanding shares of our common stock.

Additionally, Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to elect to be subject to certain provisions relating to corporate governance that may have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium to the market price of our common stock or otherwise be in our stockholders' best interests.

We may change our investment strategies and policies without stockholder approval.

Our board of directors, without the approval of our stockholders, may alter our investment strategies and policies if it determines that a change is in our best interests. The methods of implementing our investment strategies and policies may vary as new investments and financing techniques are developed.

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Risks Relating to Our Tax Status and Other Tax Related Matters

Our failure to remain qualified as a REIT would have significant adverse consequences to us and the value of our common stock.

We made the election to be taxed as a REIT effective as of our taxable year ending December 31, 2010. We believe that we have been organized and have operated in a manner that has allowed us to qualify for taxation as a REIT under the Code commencing with such taxable year, and we intend to continue to be organized and operate in this manner. Qualification as a REIT involves the application of highly technical and complex Code provisions and U.S. Treasury Department regulations, or Treasury regulations, promulgated thereunder for which there are only limited judicial and administrative interpretations. Even a technical or inadvertent violation could jeopardize our ability to remain qualified as a REIT. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Code is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to remain qualified as a REIT. In order to remain qualified as a REIT, we must satisfy a number of requirements on a continuing basis, including requirements regarding the composition of our assets, sources of our gross income and stockholder ownership. Also, we must make distributions to stockholders aggregating annually at least 90% of our REIT taxable income (computed without regard to our deduction for dividends paid and excluding any net capital gains).

If we lose our qualification as a REIT, we will face serious tax consequences that would substantially reduce the funds available for distribution to our stockholders for each of the years involved because:

we would not be allowed a deduction for distributions to stockholders in computing our taxable income and we would be subject to U.S. federal income tax at regular corporate rates;

we also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and

unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following a year during which we were disqualified.

In addition, if we lose our qualification as a REIT, we will not be required to make distributions to stockholders, but all distributions to our stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. This means that our taxable non-corporate U.S. stockholders would generally be taxed on our dividends at capital gains rates, and our corporate stockholders generally would be entitled to the dividends received deduction with respect to such dividends, subject, in each case, to applicable limitations under the Code.

As a result of these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could adversely affect the trading price of our common stock.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, taxes on certain prohibited transactions, taxes on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. We currently own an interest in one taxable REIT subsidiary, or TRS, and we may use TRSs to undertake indirectly activities that the REIT rules might otherwise preclude us from doing directly or through pass-through subsidiaries. Such TRSs will be subject to federal, state and local corporate level income tax at regular rates. In addition, we may incur a 100% excise tax on any transaction with a TRS that is not conducted on an arm's length basis. Any of these taxes would decrease cash available for the payment of our debt obligations or for distribution to our stockholders.

To maintain our REIT qualification, we may be forced to borrow funds during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our stockholders annually at least 90% of our REIT taxable income (computed without regard to our deduction for dividends paid and excluding any net capital gains), and we will be subject to regular corporate income taxes to the extent that we distribute annually less than 100% of our REIT taxable income (computed without regard to our deduction for dividends paid and excluding any net capital gains). In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. We intend to make distributions to our stockholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP as a result of differences in timing between the recognition of taxable income and the actual receipt of cash or the effect of nondeductible capital expenditures, the creation of reserves or required debt or amortization payments. The terms of the indentures governing our 2019 Notes and 2021 Notes and our Revolving Credit Facility restrict our ability to incur additional indebtedness. If we do not have other funds available in these situations, we may need to borrow funds to the extent that we are permitted to do so, on a short-term basis, or possibly on a long-term basis, in order to make the distributions necessary to qualify as a REIT and avoid the payment of income and excise taxes, even if the then prevailing market conditions are not favorable for these borrowings.

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Dividends payable by REITs generally do not qualify for the reduced tax rates applicable to some dividends.

The maximum tax rate for qualified dividends, which are dividends received during the applicable tax year from U.S. corporations and from certain qualified non-U.S. corporations, payable to taxable non-corporate U.S. stockholders is 20%. Dividends payable by REITs, however, are generally not eligible for the 20% rate. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals, trusts or estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment currently given to corporate dividends, which could negatively affect the value of our properties. However, as a REIT, AVIV generally would not be subject to federal or state corporate income taxes on that portion of our ordinary income or capital gain that we distribute currently to our stockholders, and we thus expect to avoid the double taxation to which other corporations are typically subject.

Certain of our business activities are potentially subject to the prohibited transaction tax, which could reduce the return on your investment.

For so long as AVIV qualifies as a REIT, our ability to dispose of property during the first few years following acquisition may be restricted to a substantial extent as a result of AVIV's REIT qualification. Under applicable provisions of the Code regarding prohibited transactions by REITs, while AVIV qualifies as a REIT, we will be subject to a 100% penalty tax on any gain recognized on the sale or other disposition of any property (other than foreclosure property) that we own, directly or indirectly through any subsidiary entity, including our operating partnership (but generally excluding TRSs) that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of a trade or business. Whether property is inventory or otherwise held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances surrounding each property.

We intend to avoid the 100% prohibited transaction tax by (a) conducting activities that may otherwise be considered prohibited transactions through a TRS (but such TRS would incur corporate rate income taxes with respect to any income or gain recognized by it), (b) conducting our operations in such a manner so that no sale or other disposition of an asset we own, directly or indirectly through any subsidiary, will be treated as a prohibited transaction or (c) structuring certain dispositions of our properties to comply with the requirements of the prohibited transaction safe harbor available under the Code for properties that, among other requirements, have been held for at least two years. Despite our present intention, no assurance can be given that any particular property we own, directly or through any subsidiary entity, will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business.

Complying with REIT requirements may cause us to liquidate or forgo otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, AVIV continually must satisfy tests concerning, among other things, the sources of our income, the type and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. As a result, we may be required to liquidate or forgo investments that would be otherwise advantageous to us in order to satisfy the source-of-income, asset-diversification or distribution requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make certain attractive investments. The likelihood that we would be required to so liquidate or forgo otherwise advantageous investments is made greater by the fact that the terms of the indentures governing our 2019 Notes and 2021 Notes and the terms of our credit facilities restrict our ability to incur additional indebtedness, which

indebtedness might otherwise be used to satisfy the REIT distribution requirements.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Code substantially limit our ability to hedge our assets and liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets generally does not constitute gross income for purposes of the 75% or 95% gross income tests that apply to REITs, if certain requirements are met. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because a domestic TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in a TRS will generally not provide any tax benefit, except that such losses could theoretically be carried back or forward against past or future taxable income in the TRS.

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New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for AVIV to qualify as a REIT.

We cannot predict how changes in the tax laws might affect our investors or us. The U.S. federal income tax rules that affect REITs are constantly under review, and the present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could materially adversely affect the U.S. federal income tax treatment of an investment in our common stock. Revisions in U.S. federal tax laws and interpretations thereof could cause us to change our investments and commitments, which could also affect the tax considerations of an investment in our common stock. It is impossible to anticipate the effects of any such revisions at this time.

Non-U.S. stockholders may be subject to FIRPTA tax upon their receipt of certain distributions from us or upon their disposition of shares of our common stock.

A non-U.S. stockholder that disposes of a U.S. real property interest, or USRPI (which includes shares of stock of a U.S. corporation whose assets consist principally of USRPIs), or that receives a distribution attributable to gains from such a disposition, is generally subject to the Foreign Investment in Real Property Tax Act of 1980, as amended, or FIRPTA, on the amount received from (or to the extent attributable to gains from) such disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT that is domestically controlled. A REIT is domestically controlled if less than 50% of its stock, by value, has been owned directly or indirectly by non-U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT's existence. We cannot assure you that we will qualify as a domestically controlled REIT. If we were to fail to so qualify, amounts received by a non-U.S. stockholder on certain dispositions of shares of our common stock would be subject to FIRPTA tax, unless (i) our shares of common stock were regularly traded on an established securities market and (ii) the non-U.S. stockholder did not, at any time during a specified testing period, hold more than 5% of our common stock. Furthermore, certain distributions by us may be subject to FIRPTA tax unless our shares of common stock are regularly traded on an established securities market located in the United States and the condition in clause (ii) of the immediately preceding sentence is satisfied.

Distributions to tax-exempt stockholders may be classified as UBTI.

Although generally exempt from U.S. federal income tax, tax-exempt entities may be subject to taxation on their unrelated business taxable income (as such term is defined in the Code), or UBTI. While some investments in real estate may generate UBTI, the IRS has ruled that dividend distributions from a REIT to a tax-exempt entity generally do not constitute UBTI, subject to certain exceptions. However, tax-exempt stockholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from U.S. federal income taxation under certain sections of the Code are subject to different UBTI rules, which generally require such stockholders to characterize distributions that we make as UBTI. Moreover, in certain circumstances, a pension trust that owns more than 10% of our stock could be required to treat a percentage of any dividends received from us as UBTI.

The limit on the percentage of shares of our common stock that any person may own may discourage a takeover or business combination that may have benefited our stockholders.

In order to maintain our qualification as a REIT under the Code, our charter generally restricts (subject to certain exceptions) any person from actually or constructively owning more than 8.6% (in value) of our common stock or of our outstanding stock of all classes and series. This restriction may discourage a change of control of us and may deter individuals or entities from making tender offers for shares of our stock on terms that might be financially attractive to

you or which may cause a change in our management. This ownership restriction may also prohibit business combinations that would have otherwise been approved by our board of directors and you. In addition to deterring potential transactions that may be favorable to you, these provisions may also decrease your ability to sell your shares of our common stock.

Risks Relating to Ownership of Our Common Stock

The market price of our common stock may be volatile.

The market price of our common stock may be highly volatile and subject to wide fluctuations. Our financial performance, government regulatory action, tax laws, interest rates and market conditions in general could have a significant impact on the future market price of our common stock. Some of the factors that could negatively affect our share price or result in fluctuations in the price of our stock include:

actual or anticipated variations in our quarterly operating results;

changes in our funds from operations or earnings estimates;

increases in market interest rates may lead purchasers of our shares to demand a higher yield;

changes in market valuations of similar companies;

adverse market reaction to any increased indebtedness we incur in the future;

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additions or departures of key personnel;

actions by stockholders;

speculation in the press or investment community;

general market, economic and political conditions;

our operating performance and the performance of other similar companies;

changes in accounting principles;

passage of legislation or other regulatory developments that adversely affect us or our industry; and

the potential impact of governmental budgets and healthcare reimbursement expenditures.

Market interest rates may have an effect on the value of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our distribution rate as a percentage of our stock price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution or interest rate on our common stock or seek securities paying higher dividends or interest. The market price of our common stock likely will be based primarily on the earnings that we derive from rental income with respect to our properties and our related distributions to stockholders, and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions can affect the market value of our common stock. For instance, if interest rates rise, it is likely that the market price of our common stock will decrease because potential investors may require a higher dividend yield on our common stock as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and make distributions to stockholders.

Future sales of shares of our common stock may depress the price of our shares.

We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. Any sales by us or our existing stockholders of a substantial number of shares of our common stock in the public market, or the perception that such sales might occur, may cause the market price of our shares to decline. The exercise of any options or the vesting of any restricted stock granted to our directors, executive officers and other employees under our 2010 Management Incentive Plan and 2013 Long-Term Incentive Plan, the issuance of our common stock in connection with facility, portfolio or business acquisitions and other issuances of our common stock could have an adverse effect on the market price of the shares of our common stock. In addition, future sales of shares of our common stock by us may be dilutive to existing stockholders.

Our cash available for distributions may not be sufficient to make distributions at expected levels.

We may be unable to pay our annual distributions to stockholders out of cash available for distributions. If sufficient cash is not available for distributions from our operations, we may have to fund distributions from working capital or to borrow to provide funds for such distributions, or to reduce the amount of such distributions. To the extent that we fund distributions from working capital, our cash available for investing purposes will decrease.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

The information set forth under **Our Portfolio** and **Offices** in Item 1 of this Annual Report on Form 10-K is incorporated by reference herein.

Item 3. LEGAL PROCEEDINGS

The Company is involved in various unresolved legal actions and proceedings, which arise in the normal course of our business. Although the outcome of a particular proceeding can never be predicted, we do not believe that the result of any of these matters will have a material adverse effect on our business, operating results, liquidity, or financial position.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Holder; Market Price of and Dividends on the Registrant's Common Equity**

Shares of AVIV's common stock, par value \$0.01 per share, which we refer to here as its Common Stock, trade on the New York Stock Exchange, or NYSE, under the symbol AVIV. As of February 18, 2014, the Company had approximately 38 holders of record of Common Stock and 197 holders of record of OP units. This figure does not reflect the beneficial ownership of shares held in nominee name. The following table sets forth, for the indicated periods, the high and low sale prices for AVIV's Common Stock on the NYSE and the cash distributions declared per share:

	Price Range ⁽¹⁾		Cash Distributions
	High	Low	Declared Per Share ⁽²⁾
2013			
First Quarter (March 21 through March 31, 2013)	\$ 24.17	\$ 22.10	\$ 0.30
Second Quarter	\$ 31.10	\$ 23.38	\$ 0.384
Third Quarter	\$ 26.38	\$ 21.31	\$ 0.36
Fourth Quarter	\$ 26.02	\$ 22.64	\$ 0.36
2012			
First Quarter			\$ 0.36
Second Quarter			\$ 0.34
Third Quarter			\$ 0.33
Fourth Quarter			\$ 0.32

- (1) On March 26, 2013, the Company completed an initial public offering, or IPO, of its Common Stock pursuant to a registration statement filed with the SEC, which became effective on March 20, 2013. As such, no sale prices are available for 2012.
- (2) Cash distributions prior to the IPO have been retrospectively restated to reflect the 60.37-for-one split of the Common Stock effective on March 8, 2013.

To qualify and maintain its qualification as a REIT, the Company intends to make annual distributions to its stockholders of at least 90% of its REIT taxable income (which does not necessarily equal net income as determined in accordance with generally accepted accounting principles). Dividends are declared by the board of directors. The Company's ability to pay dividends to its stockholders is dependent on its receipt of distributions from its Partnership, which in turn is dependent on its healthcare properties generating operating income. The indenture that governs the Company's 3/4% senior unsecured notes due 2019, 6% senior unsecured notes due 2021 and the Revolving Credit Facility agreement limits the Company's ability to pay dividends, but allows it to pay the minimum necessary to meet its REIT income distribution requirements.

Issuer Purchases of Securities

Neither we nor any affiliated purchaser repurchased any shares of AVIV's Common Stock or OP units of the Partnership during the quarter ended December 31, 2013.

Unregistered Sales of Equity Securities

During 2013, AVIV issued 15.2 million shares of its Common Stock in an underwritten initial public offering, which are registered under the Securities Act of 1933, as amended, or the Securities Act. Pursuant to the Partnership Agreement of the Partnership, the Partnership issued to AVIV an equal number of OP units for the same price at which the shares of Common Stock were sold, less underwriting discounts, commissions and expenses, in a transaction that was not registered under the Securities Act in reliance on Section 4(a)(2) of the Securities Act due to the fact that the OP units were issued only to AVIV and therefore did not involve a public offering.

AVIV from time to time issues shares of Common Stock pursuant to redemptions by the limited partners of the Partnership of OP units. Pursuant to the Partnership Agreement, each time OP units are redeemed for shares of Common Stock, the limited partner is deemed to sell to AVIV a number of OP units equal to the number of shares of Common Stock that were issued in transactions that are not registered under the Securities Act in reliance on Section 4(a)(2) of the Securities Act due to the fact that the shares of Common Stock were issued only to the limited partner effecting the redemption and therefore did not involve a public offering. During 2013, AVIV, as general partner of the Partnership, redeemed 322,137 OP units in exchange for shares of Common Stock.

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Performance Graph

The following line graph sets forth, for the period from March 21, 2013 (the date our Common Stock began trading on the NYSE) through December 31, 2013, a comparison of the percentage change in the cumulative total stockholder return on our Common Stock compared to the cumulative total return of the S&P 500 Market Index and the MSCI US REIT Index, or RMS. The graph assumes that \$100 was invested on March 21, 2013 in shares of our common stock and each of the aforementioned indices and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our shares will continue in line with the same or similar trends depicted in the graph below.

Source: Bloomberg

The foregoing graph and chart shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act, or under the Exchange Act, except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under those acts.

Use of Proceeds

On March 20, 2013, our registration statement on Form S-11 (File No. 333-185532) was declared effective by the SEC for our IPO pursuant to which we sold an aggregate of 15,180,000 shares of AVIV's Common Stock at a price to the public of \$20.00 per share. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on March 21, 2013 pursuant to Rule 424(b) under the Securities Act.

Item 6. SELECTED FINANCIAL DATA

The following tables set forth the selected historical consolidated data for AVIV and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this Annual Report on Form 10-K and the historical consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K.

The selected historical consolidated financial data as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 have been derived from our audited historical consolidated financial statements appearing elsewhere in this report. The selected historical financial data as of December 31, 2011, 2010, and 2009 and for the years ended December 31, 2010 and 2009 have been derived from our audited historical consolidated financial statements of Aviv REIT, Inc., which are not included in this report. Certain comparative figures have been reclassified to conform to our current financial statement presentation and to reflect the effect of the classification of certain assets as discontinued operations. The historical results are not necessarily indicative of the results to be expected in the future. Historical financial data for periods prior to September 17, 2010 represent the results of operations and financial condition of our operating partnership, Aviv Healthcare Properties Limited Partnership, as predecessor to AVIV.

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PRESENTATION OF NON-GAAP FINANCIAL INFORMATION

We use financial measures that are derived on the basis of methodologies other than in accordance with United States generally accepted accounting principles, or GAAP. The non-GAAP financial measures used in Item 6 of this Annual Report on Form 10-K include FFO, Normalized FFO, AFFO, EBITDA and Adjusted EBITDA. We derive these measures as follows:

The National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income (computed in accordance with GAAP), excluding gains and losses from sales of property (net) and impairments of depreciated real estate, plus real estate depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. Applying the NAREIT definition to our financial statements results in FFO representing net income before depreciation and amortization, impairment of assets, and gain (loss) on sale of assets (net).

Normalized FFO represents FFO before loss on extinguishment of debt, reserves for uncollectible loan receivables, transaction costs, severance costs, and change in fair value of derivatives.

AFFO represents Normalized FFO before amortization of deferred financing costs, non-cash stock-based compensation, straight-line rental income (net) and rental income from intangible amortization (net).

EBITDA represents net income before interest expense (net), amortization of deferred financing costs and depreciation and amortization.

Adjusted EBITDA represents EBITDA before impairment of assets, gain (loss) on sale of assets (net), transaction costs, write off of straight-line rents, non-cash stock-based compensation, loss on extinguishment of debt, reserves for uncollectible loan receivables and change in fair value of derivatives.

Our management uses FFO, Normalized FFO, AFFO, EBITDA and Adjusted EBITDA as important supplemental measures of our operating performance and liquidity. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. The term FFO was designed by the real estate industry to address this issue and as an indicator of a company's ability to incur and service debt. Because FFO, Normalized FFO, and AFFO exclude depreciation and amortization unique to real estate, impairment, gains and losses from property dispositions and extraordinary items and because EBITDA and Adjusted EBITDA exclude certain non-cash charges and adjustments and amounts spent on interest and taxes, they provide our management with performance measures that, when compared year over year or with other REITs, reflect the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and, with respect to FFO, Normalized FFO, and AFFO, interest costs, in each case providing perspectives not immediately apparent from net income. In addition, we believe that FFO, Normalized FFO, AFFO, EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of REITs.

We offer these measures to assist the users of our financial statements in assessing our financial performance and liquidity under GAAP, but these measures are non-GAAP measures and should not be considered measures of

liquidity, alternatives to net income or indicators of any other performance measure determined in accordance with GAAP, nor are they indicative of funds available to fund our cash needs, including our ability to make payments on our indebtedness. In addition, our calculations of these measures are not necessarily comparable to similar measures as calculated by other companies that do not use the same definition or implementation guidelines or interpret the standards differently from us. Investors should not rely on these measures as a substitute for any GAAP measure, including net income, cash flows provided by operating activities or revenues.

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Operating Information	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Revenues					
Rental income	\$ 136,513	\$ 121,210	\$ 91,091	\$ 84,097	\$ 80,980
Interest on secured loans and financing lease	4,400	4,633	5,193	5,172	3,442
Interest and other income	154	1,129	844	133	466
Total revenues	141,067	126,972	97,128	89,402	84,888
Expenses					
Interest expense incurred	40,785	47,440	36,010	22,722	26,519
Amortization of deferred financing costs	3,459	3,543	2,657	1,008	550
Depreciation and amortization	33,226	26,892	20,272	17,246	16,920
General and administrative	26,886	15,955	11,422	9,823	7,557
Transaction costs	3,114	7,259	5,493	1,578	7,441
Loss on impairment	500	11,117	5,233	96	
Reserve for uncollectible secured loan and other receivables	68	10,331	1,591	750	
Change in fair value of derivatives				(2,931)	(6,988)
Gain on sale of assets, net	(1,016)		(1,171)	(512)	
Loss on extinguishment of debt	10,974	28	3,807	2,296	
Other expense		400	267		
Total expenses	117,996	122,965	85,581	52,076	51,999
Income from continuing operations	23,071	4,007	11,547	37,326	32,889
Discontinued operations		4,586	(234)	656	792
Net income	23,071	8,593	11,313	37,982	33,681
Distributions and accretion on Class E Preferred Units				(17,372)	(14,570)
Net income allocable to noncontrolling interests/limited partnership units of the Partnership	(6,010)	(3,455)	(5,107)	(16,780)	(19,111)
Net income allocable to stockholders	\$ 17,061	\$ 5,138	\$ 6,206	\$ 3,830	\$
Earnings per common share:					
Basic:					
Income from continuing operations allocable to stockholders	\$ 0.51	\$ 0.12	\$ 0.44		
Discontinued operations, net of noncontrolling interest		0.14	(0.01)		

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Net income allocable to stockholders	\$	0.51	\$	0.26	\$	0.43
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Diluted:

Income from continuing operations allocable to stockholders	\$	0.49	\$	0.12	\$	0.43
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Discontinued operations, net of noncontrolling interest				0.14		(0.01)
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Net income allocable to stockholders	\$	0.49	\$	0.26	\$	0.42
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Weighted average common shares outstanding:

Basic		33,700,834		20,006,538		14,487,565
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Diluted		44,324,214		20,135,689		14,633,354
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Dividends declared per common share	\$	1.40	\$	1.25	\$	1.18
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Balance Sheet Information	As of December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Gross real estate investments	\$ 1,310,790	\$ 1,102,832	\$ 919,384	\$ 703,049	\$ 636,409
Cash and cash equivalents	50,764	17,876	40,862	13,029	15,543
Secured loan receivables, net	41,686	32,639	33,031	36,610	28,970
Total assets	1,330,433	1,099,529	951,421	731,400	665,130
Debt	686,406	705,153	600,474	440,576	480,105
Total liabilities	761,988	779,026	704,162	486,244	527,598
Stockholders' equity	434,292	326,568	241,712	223,767	
Noncontrolling interests	134,153	(6,065)	5,547	21,389	1,177
Total equity	568,445	320,503	247,259	245,156	74,562
Total liabilities and equity	1,330,433	1,099,529	951,421	731,400	665,130

Other Information	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands except ratios)				
Cash flows provided by operating activities	\$ 67,353	\$ 44,475	\$ 52,088	\$ 54,680	\$ 40,042
Cash flows used in investing activities	(218,901)	(184,690)	(207,056)	(75,117)	(38,493)
Cash flows provided by financing activities	184,436	117,229	182,801	17,923	4,632
FFO (1)	55,781	42,177	35,647	54,812	50,601
Normalized FFO (1)	70,156	55,995	46,459	56,505	51,054
AFFO (1)	79,520	52,085	50,197	52,408	43,523
EBITDA (2)	100,540	86,464	70,241	78,931	77,639
Adjusted EBITDA (2)	128,762	110,215	94,180	84,743	78,498
Ratio of earnings to fixed charges (3)	1.51x	1.17x	1.29x	2.60x	2.23x

(1) The following table is a reconciliation of our net income to FFO and Normalized FFO:

Funds from Operation	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Net Income	\$ 23,071	\$ 8,593	\$ 11,313	\$ 37,982	\$ 33,681
Depreciation and amortization	33,226	26,892	20,272	17,246	16,920
Loss on impairment	500	11,117	5,233	96	
Gain on sale of assets, net	(1,016)	(4,425)	(1,171)	(512)	
Funds from Operations	55,781	42,177	35,647	54,812	50,601
Loss on extinguishment of debt	10,974	28	3,807	2,296	
Reserve for uncollectible loan receivables	11	6,531	1,512	750	
Transaction costs	3,114	7,259	5,493	1,578	7,441
Severance costs	276				
Change in fair value of derivatives				(2,931)	(6,988)
Normalized Funds from Operations	70,156	55,995	46,459	56,505	51,054
Amortization of deferred financing costs	3,459	3,543	2,665	1,008	550

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Non-cash stock(unit)-based compensation	11,752	1,689	1,972	1,632	406
Straight-line rental income, net	(4,478)	(7,656)	467	(3,056)	(6,389)
Rental income from intangible amortization, net	(1,369)	(1,486)	(1,366)	(3,681)	(2,098)
AFFO	\$ 79,520	\$ 52,085	\$ 50,197	\$ 52,408	\$ 43,523

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The following table is a reconciliation of our cash flows provided by operating activities to FFO and Normalized FFO:

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Cash flows provided by operating activities	\$ 67,353	\$ 44,475	\$ 52,088	\$ 54,680	\$ 40,042
Depreciation from discontinued operations		(43)	(575)	(608)	(608)
Reserve for uncollectible loan and other receivables	(68)	(10,331)	(1,512)	(750)	
Non-cash stock (unit)-based compensation	(11,752)	(1,689)	(1,972)	(1,632)	(406)
Amortization of deferred financing costs	(3,459)	(3,543)	(2,665)	(1,008)	(550)
Straight-line rental income (expense), net	4,478	7,656	(467)	3,056	6,389
Rental income from intangible amortization, net	1,369	1,486	1,366	3,681	2,098
Changes in operating assets and liabilities	2,514	4,194	(5,967)	(4,101)	(3,352)
Change in fair value of derivatives				2,931	6,988
Discontinued operations			(773)		
Non-cash loss on extinguishment of debt	(5,161)	(42)	(3,807)	(1,437)	
Other	507	14	(69)		
Funds From Operations	55,781	42,177	35,647	54,812	50,601
Loss on extinguishment of debt	10,974	28	3,807	2,296	
Reserve for uncollectible loan receivables	11	6,531	1,512	750	
Transaction costs	3,114	7,259	5,493	1,578	7,441
Severance costs	276				
Change in fair value of derivatives				(2,931)	(6,988)
Normalized Funds From Operations	70,156	55,995	46,459	56,505	51,054
Amortization of deferred financing costs	3,459	3,543	2,665	1,008	550
Non-cash stock (unit)-based compensation	11,752	1,689	1,972	1,632	406
Straight-line rental income, net	(4,478)	(7,656)	467	(3,056)	(6,389)
Rental income from intangible amortization, net	(1,369)	(1,486)	(1,366)	(3,681)	(2,098)
AFFO	\$ 79,520	\$ 52,085	\$ 50,197	\$ 52,408	\$ 43,523

(2) The following table is a reconciliation of our net income to EBITDA and Adjusted EBITDA:

EBITDA	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Net income	\$ 23,071	\$ 8,593	\$ 11,313	\$ 37,982	\$ 33,681
Interest expense, net	40,784	47,436	35,991	22,695	26,488
Amortization of deferred financing costs	3,459	3,543	2,665	1,008	550
Depreciation and amortization	33,226	26,892	20,272	17,246	16,920

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EBITDA	100,540	86,464	70,241	78,931	77,639
Loss on impairment	500	11,117	5,233	96	
Gain on sale of assets, net	(1,016)	(4,425)	(1,171)	(512)	
Transaction costs	3,114	7,259	5,493	1,578	7,441
Write off of straight-line rents	2,887	1,552	7,093	2,903	
Non-cash stock (unit)-based compensation	11,752	1,689	1,972	1,632	406
Loss on extinguishment of debt	10,974	28	3,807	2,296	
Reserve for uncollectible loan receivables	11	6,531	1,512	750	
Change in fair value of derivatives				(2,931)	(6,988)
Adjusted EBITDA	\$ 128,762	\$ 110,215	\$ 94,180	\$ 84,743	\$ 78,498

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The following table is a reconciliation of our cash flows provided by operating activities to EBITDA and Adjusted EBITDA:

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands)				
Cash flows provided by operating activities	\$ 67,353	\$ 44,475	\$ 52,088	\$ 54,680	\$ 40,042
Interest expense, net	40,784	47,436	35,991	22,695	26,488
Depreciation from discontinued operations		(43)	(575)	(608)	(608)
Straight-line rental income (expense), net	4,478	7,656	(467)	3,056	6,389
Rental income from intangible amortization, net	1,369	1,486	1,366	3,681	2,098
Non-cash stock (unit)-based compensation	(11,752)	(1,689)	(1,972)	(1,632)	(406)
Gain on sale of assets, net	1,016	4,425	1,171	512	
Loss on impairment	(500)	(11,117)	(6,092)	(96)	
Reserve for uncollectible loan and other receivables	(68)	(6,531)	(1,426)	(750)	
Changes in operating assets and liabilities	2,514	396	(5,967)	(4,101)	(3,352)
Non-cash loss on extinguishment of debt	(5,161)	(42)	(3,807)	(1,437)	
Other	507	12	(69)	57	6,988
EBITDA	100,540	86,464	70,241	78,931	77,639
Loss on impairment	500	11,117	5,233	96	
Gain on sale of assets, net	(1,016)	(4,425)	(1,171)	(512)	
Transaction costs	3,114	7,259	5,493	1,578	7,441
Write-off of straight-line rents	2,887	1,552	7,093	2,903	
Non-cash stock (unit)-based compensation	11,752	1,689	1,972	1,632	406
Loss on extinguishment of debt	10,974	28	3,807	2,296	
Reserve for uncollectible loan receivables	11	6,531	1,512	750	
Change in fair value of derivatives				(2,931)	(6,988)
Adjusted EBITDA	\$ 128,762	\$ 110,215	\$ 94,180	\$ 84,743	\$ 78,498
Cash flow used in investing activities	\$ (218,901)	\$ (184,690)	\$ (207,056)	\$ (75,117)	\$ (38,493)
Cash flow provided by (used in) financing activities	\$ 184,436	\$ 117,229	\$ 182,801	\$ 17,923	\$ 4,632

- (3) For purposes of the ratio of earnings to fixed charges, earnings consists of net income before fixed charges. Fixed charges consist of interest expensed and capitalized and amortized premiums, preferred dividends, discounts and capitalized expenses related to indebtedness.

Table of Contents**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview**

Aviv REIT, Inc., or AVIV, is a self-administered real estate investment trust, or REIT, specializing in the ownership of post-acute and long-term care skilled nursing facilities, or SNFs. AVIV is the general partner of Aviv Healthcare Properties Limited Partnership, or the Partnership. Unless the context requires otherwise or except as otherwise noted, as used herein the words we, the Company, us and our refer to Aviv REIT, Inc., its controlled subsidiaries, Aviv Healthcare Properties Limited Partnership and its controlled subsidiaries collectively, as the operations of the two aforementioned entities are materially comparable for the periods presented. We have been in the business of investing in SNFs for over 30 years, including through our predecessors. Our properties are leased through triple-net leases to third-party operators who have responsibility for the operation of the facilities. We are entitled to a cash rental stream from these operators under our leases. Our management team has an extensive track record and knowledge of healthcare real estate. We believe that we own one of the largest and highest-quality SNF portfolios in the United States. As of December 31, 2013, our portfolio consisted of 282 properties in 29 states leased to 38 operators who represent many of the largest and most experienced operators in the industry. We have a geographically diversified portfolio, with no state representing more than 17.5% of our contractual rent as of December 31, 2013. Our properties are leased to a diversified group of operators, with no single operator representing more than 14.0% of our contractual rent as of December 31, 2013.

As a result of our many years of industry experience, we have developed strong relationships with, and triple-net lease our properties to, many of the largest and most experienced operators in the United States. We cultivate long-term relationships with our operators and, as of December 31, 2013, 70% of our properties are leased to operators with whom we have had a relationship for at least five years, and many of our properties are leased to operators with whom we have had a relationship for at least ten years. We believe we will continue to access potential new investment opportunities as a result of our relationships with existing operators and our network of other market-leading operators.

We structure our triple-net leases to generate attractive returns on a long-term basis. Under our triple-net leases, our operators are responsible for all operating costs and expenses related to the property, including maintenance and repair obligations and other capital expenditures. Our leases typically have initial terms of 10 years or more and include annual rent escalators of approximately 2%. We often enter into lease extensions during the term of the lease in connection with additional acquisitions, reinvestment projects and other opportunities that arise. Leases representing 99.4% of our contractual rent as of December 31, 2013 are supported by personal and/or corporate guarantees and 86.3% represent master leases or leases with cross-default provisions, and these provisions provide us with significant credit support for our rents. Our leases also typically require security deposits of several months' rent. As of December 31, 2013, 20.2% of our leases are scheduled to expire before 2019.

We finance investments through borrowings under our credit facilities, unsecured senior notes, issuances of equity securities, project-specific first mortgages or a combination of these methods. We compete with other public and private companies who provide lease and/or mortgage financing to operators of a variety of different types of healthcare properties. While the overall landscape for healthcare finance is competitive, we are disciplined and selective about the investments we make and have a strong track record of identifying qualified operators and attractive markets in which to invest. We have built a high-quality and strategically-diversified portfolio of operators and properties.

Developments in 2013

On March 26, 2013, we completed the initial public offering, or IPO, of shares of common stock of AVIV. In connection with the IPO, we, through an indirectly-owned subsidiary, entered into a \$300 million secured revolving credit facility and a \$100 million secured delayed-draw term loan with Bank of America, N.A. On April 16, 2013, we converted the entire \$100 million term loan into a secured revolving credit facility, thereby terminating the term loan and any availability thereunder and increasing the amount available under the secured revolving credit facility from \$300 million to \$400 million. On October 16, 2013, we issued \$250 million of 6% Senior Notes due 2021. The Revolving Credit Facility and Senior Notes due 2021 are discussed in further detail under [Liquidity and Capital Resources](#) [Indebtedness Outstanding](#).

Factors Affecting Our Business and the Business of Our Operators

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

Table of Contents***Industry Trends***

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

The growth in demand for services provided to the elderly has resulted in an increase in healthcare spending. The Centers for Medicare and Medicaid Services, or CMS, and the Office of the Actuary forecast that U.S. healthcare expenditures will increase from approximately \$2.7 trillion in 2011 to approximately \$4.8 trillion in 2021. Furthermore, according to CMS, national expenditures for SNFs are expected to grow from approximately \$151 billion in 2011 to approximately \$255 billion in 2021, representing a compound annual growth rate, or CAGR, of 5.4%. On July 31, 2013, CMS issued its final rule for fiscal year 2014 Medicare payment rates for SNFs. Based on the changes contained in the final rule, CMS estimates that total Medicare payments to SNFs will increase by \$470 million, or 1.3%, for fiscal year 2014, which began on October 1, 2013.

Liquidity and Access to Capital

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

Our indebtedness is comprised principally of the unsecured obligations under our 2019 Notes, our 2021 Notes and our Revolving Credit Facility, each described in further detail under **Liquidity and Capital Resources** **Indebtedness Outstanding** . Substantially all of such indebtedness is scheduled to mature in 2016 or thereafter.

Factors Affecting Our Operators' Profitability

Our revenues are derived from rents we receive from triple-net leases with our operators. Certain economic factors present both opportunities and risks to our operators and, therefore, influence their ability to meet their obligations to us. Our operators' revenues are largely derived from third-party sources. Therefore, we indirectly rely on these same third-party sources to obtain our rents. The majority of these third-party payments come from the federal Medicare program and state Medicaid programs. Our operators also receive payments from other third-party sources, such as private insurance companies or private-pay residents, but these payments typically represent a small portion of our operators' revenues. The sources and amounts of our operators' revenues are determined by a number of factors, including licensed bed capacity, occupancy rates, the healthcare needs of residents and the rate of reimbursement. Changes in the profile of the residents as well as the mix among payor types, including private pay, Medicare and Medicaid, may significantly affect our operators' profitability and, in turn, their ability to meet their obligations to us. Managing, billing and successfully collecting third-party payments is a relatively complex activity that requires significant experience and is critical to the successful operation of a SNF. We believe the quality mix of our portfolio and resulting reimbursement rates have remained relatively stable over recent years. In addition, our portfolio occupancy has increased over recent years as certain operators have strategically focused on taking beds out of use in order to enhance the privacy of the resident's rooms and drive overall revenue. As a result of these relatively stable underlying metrics and the recent acquisitions of strongly performing facilities and divestitures of lower performing facilities, we have experienced a gradual increase in our EBITDARM and EBITDAR coverages in recent years.

Components of Our Revenues, Expenses and Cash Flow

Revenues

Our revenues consist primarily of the rents and associated charges we collect from our operators as stipulated in our long-term triple-net leases. In addition to rent under existing leases, a part of our revenues is made up of other cash payments owed to us by our operators. Additionally, we recognize certain non-cash revenues. These other cash and non-cash revenues are highlighted below. While not a significant part of our revenues, we also earn interest from a variety of secured loans outstanding.

Rental Income

Rental income represents rent under existing leases that is earned from our operators. In addition, this includes straight-line rental income relating to straight-lining of rents as well as income from intangible amortization. Both straight-line rental income and income from intangible amortization are explained in further detail below under Components of Cash Flow Cash Provided by Operations.

Substantially all of our leases have real estate escrow clauses that require our operators to make estimated payments to us to cover their current real estate tax obligations. We collect money for these taxes and are reimbursed by our operators and the net impact after making such payments is included in rental income.

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Interest on Secured Loans

We earn interest on certain capital advances and secured loans we make to our operators for a variety of purposes, including for capital expenditures at our properties for which we receive additional rent. While we amend our leases to reflect the additional rent owed as a result of these income producing capital expenditures, we recognize the investment as a secured loan for accounting purposes when the lease term exceeds the useful life of the capital expenditure. In addition, we recognize contractual rent associated with direct financing leases, in part, as interest income.

Interest and Other Income

We sweep our excess cash balances into overnight interest-bearing accounts.

Expenses

We recognize a variety of cash and non-cash charges in our financial statements. Our expenses consist primarily of the interest expense on the borrowings we incur in order to make our investments, depreciation and amortization, and the general and administrative costs associated with operating our business. These interest charges are associated with our 2019 Notes, 2021 Notes and Revolving Credit Facility as well as certain asset specific loans.

Interest Expense Incurred

We recognize the interest we incur on our existing borrowings as an interest expense.

Amortization of Deferred Financing Costs

We incur non-cash charges that reflect costs incurred with arranging certain debt instruments. We generally recognize these costs over the term of the respective debt instrument for which the costs were incurred.

Depreciation and Amortization

We incur depreciation and amortization expense on all of our long-lived assets. This non-cash expense is designed under generally accepted accounting principles, or GAAP, to reflect the economic useful lives of our assets.

General and Administrative

Our general and administrative costs consist primarily of payroll and payroll related expense, including non-cash stock based compensation. In addition to payroll, we incur accounting, legal and other professional fees as well as certain other administrative costs of running our business, along with certain expenses related to bank charges, franchise taxes, and corporate filing fees. Additionally, when we lease a property, we recognize related rent expense which is included in general and administrative expense. We have incurred increased costs associated with being a public filer since 2011 and further increased costs following our IPO in 2013.

Transaction Costs

Transaction costs include costs incurred related to the acquisition, disposition or transition of real estate investments, inclusive of indemnity expense and other related items.

Loss on Impairments

We have implemented a policy that requires management to make quarterly assessments of the market value of our properties relative to the amounts at which we carry them on our balance sheet. This assessment requires a combination of factors. Certain subjective factors such as market condition and property condition are considered as well as lease structure. We consider these results in our assessment of whether potential impairment indicators are present. We utilize subjective financial modeling that compares the sum of the undiscounted cash flows from future contractual rents plus the terminal value against the depreciated book value of an asset. When undiscounted cash flows are less than the depreciated book value of an asset, we record a charge to reflect the asset at its estimated fair value.

Reserve for Uncollectible Loan and Accounts Receivable

Management periodically evaluates outstanding secured 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. Loan impairment is monitored via a quantitative and qualitative analysis including credit quality indicators.

Gain on Sale of Assets, net

We record any gain resulting from the sale of assets at the time of sale. We record any losses resulting from the sale of assets at the time we enter into a definitive agreement for the sale of the asset.

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Loss on Extinguishment of Debt

We recognize costs relating to extinguishing debt prior to initial termination dates when we incur them, including the non-cash write-off of deferred financing cost.

Cash Flow

Cash Provided by Operations

Cash provided by operations is derived largely from net income by adjusting our revenues for those amounts not collected in cash during the period in which the revenue is recognized and for cash collected that was billed in prior periods or will be billed in future periods. Net income is further adjusted by adding back expenses charged in the period that is not paid for in cash during the same period. We make our distributions based largely on cash provided by operations while maintaining debt covenant compliance requirements. Key non-cash add-backs, in addition to depreciation and the amortization of deferred financing charges, in deriving cash provided by operations are:

Straight-line Rental Income (loss)

We recognize straight-line rental income as a result of the accounting treatment of many of our long-term leases that include fixed rent escalation clauses. Because most of our leases contain fixed rent escalations, we straight-line our lease revenue recognition. Straight-lining involves spreading the rents we expect to earn during the term of a lease under its escalation clause over the lease term. As a result, during the first half of a lease term with a fixed escalation clause, we accrue a receivable for rents owed but not paid until future periods. During the second half of the lease term, our cash receipts exceed our recognized revenues and we amortize the receivable.

Rental Income from Intangible Amortization

We incur non-cash rental income adjustments from the amortization of certain intangibles resulting from the required application of purchase accounting in the initial recording of our real estate acquisitions. At the date of acquisition, all assets acquired and liabilities assumed are recorded at their respective fair value, including any value attributable to in-place lease agreements. Any identified above or below market lease intangible asset or liability is amortized over the remaining lease term as a non-cash adjustment to rental income.

Non-Cash Stock-Based Compensation

We incur non-cash expense associated with the share-based payments to certain employees. The share-based payments are in the form of stock options and restricted stock. Expense is recognized ratably over the vesting schedule based on the grant date fair value of the awards.

Non-Cash Loss on Extinguishment of Debt

We incurred certain expense associated with the pre-payment of debt in connection with our IPO. Costs associated with the origination of this loan were capitalized and ratably expensed over the life of the loan. When we pre-paid this loan, we recognized a non-cash expense write-off for the unamortized capitalized debt costs.

Reserve for Uncollected Rental Income and Uncollectable Secured Loan Receivable

We incur an expense estimate for a reserve based upon our historical collection record of billed rental income and collections of secured loan receivables.

Investing Activities

Cash used in investing activities consists of cash that is used during a period for making new investments, capital expenditures and secured operator loans offset by cash provided by investing activities from net secured loan receivables and sales of real estate investments.

Financing Activities

Cash provided by financing activities consists of cash we received from issuances of debt and equity capital. This cash provides the primary basis for the investments in new properties, capital expenditures and secured operator loans. While we may invest a portion of our cash from operations into new investments, as a result of our distribution requirements to maintain our REIT status, it is likely that additional debt or equity issuances will finance the majority of our investment activity. Cash used in financing activities consists of repayment of debt and distributions/dividends paid to partners/stockholders.

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Results of Operations

This Annual Report on Form 10-K contains audited financial statements and other financial data for each of AVIV and the Partnership. As noted above, AVIV is the sole general partner of the Partnership and, as of December 31, 2013, owned 76.4% of the economic interest in the Partnership. All of the Company's operations are conducted by the Partnership which is consolidated by AVIV, and therefore the following information is the same for AVIV and the Partnership.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues

Revenues increased \$14.1 million, or 11.1%, from \$127.0 million for the year ended December 31, 2012 to \$141.1 million for the same period in 2013. The increase in revenue generally resulted from additional rent associated with the acquisitions and investments made during 2012 and 2013 and the factors set forth below.

Detailed changes in revenues for the year ended December 31, 2013 compared to the same period in 2012 were as follows:

Rental income increased \$15.3 million, or 12.6%, from \$121.2 million for the year ended December 31, 2012 to \$136.5 million for the same period in 2013. The increase is primarily due to additional cash rent of approximately \$16.0 million associated with acquisitions and investments made during 2012 and 2013.

Interest on secured loans remained materially consistent for the year ended December 31, 2012 compared to the same period in 2013.

Interest and other income decreased \$1.0 million, or 86.4%, from \$1.1 million for the year ended December 31, 2012 to \$0.1 million for the same period in 2013. The decrease is primarily due to non-recurring termination fee income and reimbursements of fees that occurred in 2012.

Expenses

Expenses decreased \$5.0 million, or 4.1%, from \$123.0 million for the year ended December 31, 2012 to \$118.0 million for the same period in 2013. The decreases were primarily due to a decrease of \$10.3 million in reserve for uncollectible loan and account receivables, \$10.6 million in loss on impairment of assets, \$6.7 million in interest expense incurred and \$4.1 million in transaction costs in the current year offset by an increase of \$10.9 million in loss on extinguishment of debt, \$10.9 million in general and administrative expenses and \$6.3 million in depreciation and amortization.

Detailed changes in our expenses for the year ended December 31, 2013 compared to the same period in 2012 were as follows:

Interest expense incurred decreased \$6.7 million, or 14.0%, from \$47.4 million for the year ended December 31, 2012 to \$40.8 million for the same period in 2013. The majority of the decrease was due to a decrease in mortgage interest expense related to the pay down of debt in connection with the IPO offset by an increase in a full year of interest associated with the 2019 Notes and the interest related to the Revolving Credit Facility, which was obtained in connection with the IPO.

Amortization of deferred financing costs remained materially consistent for the year ended December 31, 2012 compared to the same period in 2013.

Depreciation and amortization expense increased \$6.3 million, or 23.6%, from \$26.9 million for the year ended December 31, 2012 to \$33.2 million for the same period in 2013. The increase was a result of an increase in depreciation expense associated with newly acquired facilities and facilities placed into service during 2012 and 2013.

General and administrative expense increased \$10.9 million, or 68.1%, from \$16.0 million for the year ended December 31, 2012 to \$26.9 million for the same period in 2013. This increase was primarily due to \$9.7 million of non-cash stock-based compensation expense that was recorded as a result of the vesting of outstanding options in connection with the IPO.

Transaction costs decreased \$4.2 million, or 57.5%, from \$7.3 million for the year ended December 31, 2012 to \$3.1 million for the same period in 2013. This decrease was primarily due to a non-recurring lease termination fee of \$2.4 million that was incurred in the fourth quarter of 2012 and a smaller number of transactions that closed in 2013 compared with 2012, resulting in \$1.3 million less in transaction related costs.

Loss on impairment of assets expense decreased \$10.6 million, or 95.5%, from \$11.1 million for the year ended December 31, 2012 to \$0.5 million for the same period in 2013. Loss on impairment expense is the non-recurring loss on 12 facilities in 2012 and one facility in 2013 where a portion of the carrying value was not deemed recoverable.

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Reserve for uncollectible loan and accounts receivable decreased \$10.2 million, or 99.0%, from \$10.3 million for the year ended December 31, 2012 to \$0.1 million for the same period in 2013. The decrease was primarily due to the additional expense incurred in 2012 to reserve against outstanding loans and other receivable balances from five operators.

Gain on sale of assets increased \$1.0 million from \$0 for the year ended December 31, 2012 to a gain of \$1.0 million for the same period in 2013. This increase was due to the sale of seven non-strategic assets in 2013.

Loss on extinguishment of debt increased \$10.9 million from \$28,000 for the year ended December 31, 2012 to \$11.0 million for the same period in 2013. The increase in the current year was due to the non-cash write-offs related to debt that was settled in conjunction with the IPO.

Other expenses decreased \$0.4 million from \$0.4 million for the year ended December 31, 2012 to \$0 for the same period in 2013. Other expenses in the prior year represented an earnout accretion expense that ended in December 2012 with the final earnout payment.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues

Revenues increased \$29.8 million, or 30.7%, from \$97.1 million for the year ended December 31, 2011 to \$127.0 million for the same period in 2012. The increase in revenue generally resulted from additional rent associated with the acquisitions and investments made during 2012 and acquisitions and investments not owned for the entire period in 2011.

Detailed changes in revenues for the year ended December 31, 2012 compared to the same period in 2011 were as follows:

Rental income increased \$30.1 million, or 33.1%, from \$91.1 million for the year ended December 31, 2011 to \$121.2 million for the same period in 2012. The increase is primarily due to additional cash rent of approximately \$24.9 million associated with the current year acquisitions and rent from 2011 acquisitions and investments not owned for the entire period, and additional income of approximately \$5.0 million associated with the decrease in non-recurring straight-line rental income write-offs.

Interest on secured loans decreased \$0.6 million, or 10.8%, from \$5.2 million for the year ended December 31, 2011 to \$4.6 million for the same period in 2012. This decrease was primarily due to less interest earned in 2012 on loans related to two operators.

Interest and other income increased \$0.3 million, or 33.8%, from \$0.8 million for the year ended December 31, 2011 to \$1.1 million for the same period in 2012. The increase was due to \$1.1 million of non-recurring termination fee income and indemnity reimbursements in 2012 compared to non-recurring sales proceeds of \$810,000 in 2011 from the sale of unoccupied licensed beds at two of our facilities.

Discontinued operations decreased \$4.6 million from a \$4.6 million loss for the year ended December 31, 2012 to \$0 for the same period in 2013. The activity in 2012 is related to four facilities that were sold in 2012. The sales resulted in a gain on sale of \$4.4 million in 2012.

Expenses

Expenses increased \$37.4 million, or 43.7%, from \$85.6 million for the year ended December 31, 2011 to \$123.0 million for the same period in 2012. The increases were primarily due to an increase of \$11.4 million of interest expense, \$6.6 million of depreciation and amortization due to an increase of acquisitions and investment activity in 2012, \$5.9 million of loss on impairment of assets for ten facilities, \$8.7 million related to the reserve for uncollectible secured loan and other receivables, and \$4.5 million of increased general and administrative expenses.

Detailed changes in our expenses for the year ended December 31, 2012 compared to the same period in 2011 were as follows:

Interest expense incurred increased \$11.4 million, or 31.7%, from \$36.0 million for the year ended December 31, 2011 to \$47.4 million for the same period in 2012. The majority of the increase was due to an increase in 2019 Notes and mortgage interest expense due to the increase in principal balance in 2012.

Amortization of deferred financing costs increased \$0.8 million, or 29.6%, from \$2.7 million for the year ended December 31, 2011 to \$3.5 million for the same period in 2012. The increase was primarily due a full year of amortization being recognized in 2012 on 2019 Notes and a full year of amortization recognized on the loans procured in 2011 in addition to the expense incurred on loans procured during 2012.

Depreciation and amortization expense increased \$6.6 million, or 32.7%, from \$20.3 million for the year ended December 31, 2011 to \$26.9 million for the same period in 2012. The increase was primarily due to additional depreciation associated with newly acquired facilities in 2012 and a full year of depreciation for 2011 acquisitions that were not owned for the full period.

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General and administrative expense increased \$4.5 million, or 39.5%, from \$11.4 million for the year ended December 31, 2011 to \$16.0 million for the same period in 2012. These increases were primarily due to \$1.4 million increase in office salaries due to new hires in 2012, and \$0.6 million increase in professional fees related to consulting services. General and administrative expense for 2012 included \$2.6 million of non-recurring costs related to litigation, employee recruiting, legal and tax consulting projects and write-offs of state withholding tax receivables owed by certain of the Partnership's limited partners relating to income allocated to such partners.

Transaction costs increased \$1.8 million, or 32.7%, from \$5.5 million for the year ended December 31, 2011 to \$7.3 million for the same period in 2012. These increases were primarily due to a non-recurring lease termination fee of \$2.4 million and an increase in the number of acquisitions in 2012 resulting in \$0.5 million of transaction related costs, offset by a \$2.0 million decrease in indemnity expense related to indemnity payments that were made in 2011 related to two tenants.

Loss on impairment of assets expense increased \$5.9 million from \$5.2 million for the year ended December 31, 2011 to \$11.1 million for the same period in 2012. The increase was a result of the anticipated loss on disposition of assets to be sold subsequent to December 31, 2012 based upon market comparables.

Reserve for uncollectible loan and accounts receivable increased \$8.7 million from \$1.6 million for the year ended December 31, 2011 to \$10.3 million for the same period in 2012. This increase is primarily due to the expense incurred in 2012 to reserve against outstanding loan balances of an operator and the write-off of another operator's loan compared to the same period in 2011.

Gain on sale of assets decreased \$1.2 million, from a gain of \$1.2 million for the year ended December 31, 2011 to \$0 for the same period in 2012. This decrease was due to the sale of non-strategic assets in 2011.

Loss on extinguishment of debt decreased \$3.8 million from \$3.8 million for the year ended December 31, 2011 to \$28,000 for the same period in 2012. This cost was a result of prepaying certain corporate indebtedness prior to maturity and the non-cash write-off of deferred financing costs.

Other expenses increased \$0.1 million, or 33.3%, from \$0.3 million for the year ended December 31, 2011 to \$0.4 million for the same period in 2012. The increase is due to a full year of amortization on the earnout provision liability related to an acquisition that closed in May 2011.

Discontinued operations increased \$4.8 million from a \$0.2 million loss for the year ended December 31, 2011 to \$4.6 million of income for the same period in 2012. The activity in both years is related to four facilities that were sold in 2012. The sales resulted in a gain on sale of \$4.4 million in 2012.

Liquidity and Capital Resources

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings. We believe that the net cash provided by operations and

availability under our Revolving Credit Facility will be adequate to fund our operating requirements, debt service and the payment of dividends in accordance with REIT requirements of the U.S. federal income tax laws for the next twelve months. We expect to meet our long-term liquidity requirements, such as scheduled debt maturities, property acquisitions, new construction and reinvestment projects, through long-term secured and unsecured borrowings, the issuance of additional equity securities or, in connection with acquisitions of additional properties, the issuance of OP units of the Partnership.

We intend to repay indebtedness incurred under our Revolving Credit Facility from time to time, to provide capacity for acquisitions or otherwise, out of cash flow and from the proceeds of issuances of unsecured notes, additional shares of common stock of AVIV and other securities. We intend to invest in additional properties and portfolios as suitable opportunities arise and adequate sources of financing are available. We are currently evaluating additional potential investments consistent with the normal course of our business. These potential investments are in various stages of evaluation with both existing and new operators and include acquisitions, construction projects, capital reinvestment projects and other investment opportunities. There can be no assurance as to whether or when any portion of these investments will be completed. Our ability to complete investments is subject to a number of risks and variables, including our ability to negotiate mutually agreeable terms with the counterparties and our ability to finance the purchase price. We may not be successful in identifying and consummating suitable acquisitions or investment opportunities, which may impede our growth and negatively affect our results of operations and may result in the use of a significant amount of management resources. We expect that future investments in properties will depend on and will be financed by, in whole or in part, our existing cash, the proceeds from additional issuances of unsecured notes or shares of common stock of AVIV, or other securities or borrowings (including under our Revolving Credit Facility).

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Cash Flows

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

The discussion of cash flows is for both AVIV and the Partnership.

Cash provided by operations increased \$22.9 million, or 51.5%, from \$44.5 million for the year ended December 31, 2012 to \$67.4 million for the same period in 2013. The increase was primarily due to a \$21.2 million increase in cash from operations after giving consideration to non-cash components for the year ended December 31, 2013 as compared to the same period in 2012.

Cash used in investing activities increased \$34.2 million, or 18.5%, from \$184.7 million for the year ended December 31, 2012 to \$218.9 million for the same period in 2013. This increase was largely due to the increase in funds used for the purchase of real estate investments in the year ended December 31, 2013, as compared to the same period in 2012.

Cash provided by financing activities increased \$67.2 million, or 57.3%, from \$117.2 million for the year ended December 31, 2012 to \$184.4 million for the same period in 2013. The increase was primarily due to the \$277.8 million in additional net cash funding received as a result of the IPO, net of capital raising costs, offset by \$20.0 million in additional cash spent to pay dividends/distributions in 2013 as compared to 2012, \$117.2 million in additional net cash used to pay down debt in 2013 as compared to 2012 in connection with the IPO.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

The discussion of cash flows is for both AVIV and the Partnership.

Cash provided by operations decreased \$7.6 million, or 14.6%, from \$52.1 million for the year ended December 31, 2011 to \$44.5 million for the same period in 2012. The decrease was primarily due to a \$2.7 million decrease in net income for the year ended December 31, 2012 compared to the same period in 2011 and a non-cash decrease in the write-offs of straight line rent receivables of \$5.5 million.

Cash used in investing activities decreased \$22.4 million, or 10.8%, from \$207.1 million for the year ended December 31, 2011 to \$184.7 million for the same period in 2012. This decrease was primarily due to the receipt of proceeds from dispositions and a decrease in investment activity for the year ended December 31, 2012 compared to the same period in 2011.

Cash provided by financing activities decreased \$65.6 million, or 35.9%, from \$182.8 million for the year ended December 31, 2011 to \$117.2 million for the same period in 2012. The decrease was primarily due to net debt activity in 2011 exceeding net debt activity in 2012 by \$66.5 million.

Indebtedness Outstanding

Our indebtedness outstanding consists principally of borrowings under our 2019 Notes and 2021 Notes and our Revolving Credit Facility. We had total indebtedness of approximately \$686.4 million (inclusive of our debt premium) outstanding as of December 31, 2013. Substantially all of such indebtedness is scheduled to mature in 2016 or thereafter.

As of December 31, 2013, we were in compliance with all of the financial covenants of our outstanding debt and lease agreements and the indentures governing our 2019 Notes and 2021 Notes.

7 3/4% Senior Notes due 2019

In February 2011, April 2011, and March 2012, we, through Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation, or the Issuers, issued an aggregate of \$400 million of 7 3/4% Senior Notes due 2019, which we refer to as the 2019 Notes, in a series of private placements. The Issuers subsequently conducted exchange offers in which all of the 2019 Notes issued in the aforementioned private placements were exchanged for freely tradable notes that have been registered under the Securities Act. The Issuers are majority owned subsidiaries of AVIV. The obligations under the 2019 Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by AVIV and certain of our existing and, subject to certain exceptions, future subsidiaries.

The 2019 Notes are unsecured senior obligations of the Issuers and will mature on February 15, 2019. The 2019 Notes bear interest at a rate of 7.75% 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 dates of February 15 and August 15 of each year. A premium of \$2.8 million and \$1.0 million was associated with the offering of the \$100 million of 2019 Notes in April 2011 and the \$100 million of 2019 Notes in March 2012, respectively. The premium will be amortized as an adjustment to the yield on the 2019 Notes over their term. The net proceeds from the offerings of the 2019 Notes were used to repay indebtedness under two credit facilities and, together with proceeds from additional equity investments made by our stockholders, to fund pending investments.

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The 2019 Notes are redeemable at the option of the Issuers, in whole or in part, at any time, and from time to time, on or after February 15, 2015, at the redemption prices set forth in the indenture governing the 2019 Notes, plus accrued and unpaid interest to the applicable redemption date. In addition, prior to February 15, 2015, the Issuers may redeem all or a portion of the 2019 Notes at a redemption price equal to 100% of the principal amount of the 2019 Notes redeemed, plus a make-whole premium, plus accrued and unpaid interest to the applicable redemption date.

The indenture governing the 2019 Notes contains restrictive covenants that, among other things, restrict the ability of AVIV, the Issuers and their restricted subsidiaries to: (i) incur or guarantee additional indebtedness; (ii) incur or guarantee secured indebtedness; (iii) pay dividends or distributions on, or redeem or repurchase, their capital stock; (iv) make certain investments or other restricted payments; (v) sell assets; (vi) create liens on their assets; (vii) enter into transactions with affiliates; (viii) merge or consolidate or sell all or substantially all of their assets; and (ix) pay dividends or other amounts to AVIV. The indenture governing the 2019 Notes also provides for customary events of default, including, but not limited to, the failure to make payments of interest or premium, if any, on, or principal of, the 2019 Notes, the failure to comply with certain covenants and agreements specified in the Indenture for a period of time after notice has been provided, the acceleration of other indebtedness resulting from the failure to pay principal on such other indebtedness prior to its maturity, and certain events of insolvency. If any event of default occurs, the principal of, premium, if any, and accrued interest on all the then outstanding 2019 Notes may become due and payable immediately.

6% Senior Notes due 2021

In October 2013, the Issuers issued \$250 million of 6% Senior Notes due 2021, or the 2021 Notes and, together with the 2019 Notes, the Senior Notes, in a private placement. The Issuers subsequently conducted an exchange offer in which all of the 2021 Notes issued in the aforementioned private placement were exchanged for freely tradable notes that have been registered under the Securities Act. The obligations under the 2021 Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by AVIV and certain of our existing and, subject to certain exceptions, future subsidiaries.

The 2021 Notes are unsecured senior obligations of the Issuers and will mature on October 15, 2021. The 2021 Notes bear interest at a rate of 6% per annum, payable semiannually to holders of record at the close of business on the April 1 or the October 1 immediately preceding the interest payment dates of April 15 and October 15 of each year. A portion of the net proceeds from the offering of the 2021 Notes was used to repay all outstanding indebtedness under our Revolving Credit Facility. The remainder of the net proceeds was used for general corporate purposes.

The 2021 Notes are redeemable at the option of the Issuers, in whole or in part, at any time, and from time to time, on or after October 15, 2017, at the redemption prices set forth in the indenture governing the 2021 Notes, plus accrued and unpaid interest to the applicable redemption date. In addition, prior to October 15, 2017, the Issuers may redeem all or a portion of the 2021 Notes at a redemption price equal to 100% of the principal amount of the 2021 Notes redeemed, plus a make-whole premium, plus accrued and unpaid interest to the applicable redemption date. At any time, or from time to time, on or prior to October 15, 2016, the Issuers may redeem up to 35% of the principal amount of the 2021 Notes, using the proceeds of specific kinds of equity offerings, at a redemption price of 106% of the principal amount to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date.

The indenture governing the 2021 Notes contains restrictive covenants that, among other things, restrict the ability of AVIV, the Issuers and their restricted subsidiaries to: (i) incur or guarantee additional indebtedness; (ii) incur or guarantee secured indebtedness; (iii) pay dividends or distributions on, or redeem or repurchase, their capital stock; (iv) make certain investments or other restricted payments; (v) sell assets; (vi) create liens on their assets; (vii) enter into transactions with affiliates; (viii) merge or consolidate or sell all or substantially all of their assets; and (ix) pay

dividends or other amounts to AVIV. The indenture governing the 2021 Notes also provides for customary events of default, including, but not limited to, the failure to make payments of interest or premium, if any, on, or principal of, the 2021 Notes, the failure to comply with certain covenants and agreements specified in the Indenture for a period of time after notice has been provided, the acceleration of other indebtedness resulting from the failure to pay principal on such other indebtedness prior to its maturity, and certain events of insolvency. If any event of default occurs, the principal of, premium, if any, and accrued interest on all the then outstanding 2021 Notes may become due and payable immediately.

Revolving Credit Facility

On March 26, 2013, we, through an indirectly-owned subsidiary, entered into a \$300 million secured revolving credit facility and a \$100 million secured delayed-draw term loan with Bank of America, N.A., or collectively, as amended from time to time, the Revolving Credit Facility. On April 16, 2013, we converted the entire \$100 million term loan into a secured revolving credit facility, thereby terminating the term loan and any availability thereunder and increasing the amount available under the secured revolving credit facility from \$300 million to \$400 million. The Revolving Credit Facility also has an accordion feature that may allow us to increase the availability thereunder by an additional \$100 million to \$500 million. The Revolving Credit Facility had an outstanding balance of \$20.0 million as of December 31, 2013.

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On each payment date, we pay interest only in arrears on any outstanding principal balance of the Revolving Credit Facility. The Revolving Credit Facility bears interest at the rate of LIBOR plus a margin of 235 basis points to 300 basis points, depending on our leverage ratio, and the interest rate was 2.52% at December 31, 2013. The initial term of the Revolving Credit Facility expires on March 26, 2016 with a one-year extension option provided that certain conditions precedent are satisfied. The proceeds from the Revolving Credit Facility are available for general corporate purposes.

The amount available for us to borrow under the Revolving Credit Facility is subject to the lesser of the aggregate mortgage ability amount, as defined, for each of the properties that form the borrowing base of the facility and the aggregate collateral value amount of the borrowing base assets. The Revolving Credit Facility may be repaid from time to time at our option, and amounts repaid under the Revolving Credit Facility may be redrawn. An unused fee equal to 50 basis points of the unused balance on the Revolving Credit Facility is due quarterly.

Our ability to borrow under the Revolving Credit Facility is subject to our ongoing compliance with a number of customary restrictive covenants, including:

a leverage ratio (defined as consolidated total indebtedness to total asset value) of less than 60%,

a minimum fixed charge coverage ratio (defined as consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.50:1.00,

a minimum tangible net worth equal to at least \$350.0 million plus 80% of the net proceeds of any additional equity issuances, and

a minimum rent coverage ratio of greater than or equal to 1.30:1.00.

Under the Revolving Credit Facility, our distributions may not exceed the greater of (i) 95% of our Adjusted Funds From Operations, as defined therein, or (ii) the amount required for us to qualify and maintain our status as a REIT. If a default or event of default occurs and is continuing, we may be precluded from making certain distributions.

We and certain of our subsidiaries guarantee the obligations under the Revolving Credit Facility and certain of our subsidiaries have pledged specified assets (including real property), stock and other interests as collateral for the obligations.

Other Loans

In November 2010, an indirectly-owned subsidiary entered into two acquisition loan agreements on the same terms that provided for borrowings of \$7.8 million. Principal and interest payments are due monthly beginning on December 1, 2010 through the maturity date of December 1, 2015. Interest is a fixed rate of 6.00%. These loans are secured by a skilled nursing facility controlled by such subsidiary. These acquisition loans were paid off in full on May 15, 2013.

In June 2012, an indirectly-owned subsidiary assumed a HUD loan with a balance of approximately \$11.5 million. Interest is a fixed rate of 5.00%. The loan originated in November 2009 with a maturity date of October 1, 2044, and

is based on a 35-year amortization schedule. A premium of \$2.5 million was associated with the assumption of debt and will be amortized as an adjustment to interest expense on the HUD loan over its term. As of December 31, 2013, the balance of such loan was \$11.2 million (excluding \$2.4 million of net debt premium balance).

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The following table shows the amounts due in connection with the contractual obligations described below as of December 31, 2013 (including future interest payments):

	Payments Due by Period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
	(in thousands)				
Revolving credit facility and other notes payable	\$ 1,226	\$ 22,062 ⁽¹⁾	\$ 1,431	\$ 18,485	\$ 43,204
6% Senior Notes Due 2021 ⁽²⁾	15,000	30,000	30,000	291,250	366,250
7 ³ / ₄ % Senior Notes due 2019 ⁽³⁾	31,000	62,000	62,000	405,167	560,167
Total	\$ 47,226	\$ 114,062⁽¹⁾	\$ 93,431	\$ 714,902	\$ 969,621

(1) Primarily relates to maturity of indebtedness under our Revolving Credit Facility in March 2016. Does not give effect to any future amounts which may be drawn under the Revolving Credit Facility which would also mature in March 2016.

(2) Reflects \$250 million outstanding for our 2021 Notes.

(3) Reflects \$400 million outstanding for our 2019 Notes.

Off-Balance Sheet Arrangements

As of December 31, 2013, the Company did not have any off-balance sheet arrangements.

Critical Accounting Policies

The Company has provided a summary of its significant accounting policies in Footnote 2 to its financial statements included elsewhere in this Form 10-K. The preparation of these financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. The Company's actual results may differ from these estimates. The Company describes below those accounting policies that it deems critical and requires material subjective or complex judgments and that have the most significant impact on its financial condition and results of operations. The Company's management evaluates these estimates on an ongoing basis, based upon information currently available and on various assumptions management believes are reasonable as of the date hereof.

Real Estate Investments

We periodically assess the carrying value of real estate investments 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 real estate investments will not be recovered in part or in whole, a provision will be recorded to reduce the carrying basis of the real estate investments and related intangibles to their estimated

fair value. The estimated fair value of our real estate investments is determined by using customary industry standard methods that include discounted cash flow and/or direct capitalization analysis (Level 3) or estimated cash proceeds received upon the anticipated disposition of the asset from market comparables (Level 2).

Revenue Recognition

Rental income is recognized on a straight-line basis over the term of the lease when collectability is reasonably assured. Differences between rental income earned and amounts due under the lease are charged or credited, as applicable, to straight-line rent receivable. Income recognized from this policy is titled straight-line 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 the net impact is reflected in rental income on the consolidated statements of operations and comprehensive income.

Lease Accounting

We, as lessor, make a determination with respect to each of our 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 statements of operations and comprehensive income as rental income for actual rent collected plus or minus a straight-line adjustment for estimated minimum lease

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escalators. Assets subject to operating leases are reported as real estate investments in the consolidated balance sheets. For facilities leased as direct financing arrangements, an asset equal to our 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.

All of our 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.

Purchase Accounting

We allocate the purchase price of facilities between net tangible and identified intangible assets acquired and liabilities assumed as a result of purchasing the business and subsequently leasing the business to unrelated third party operators. We make estimates of the fair value of the tangible and intangible assets and acquired liabilities using information obtained from multiple sources as a result of preacquisition due diligence, marketing, leasing activities of our diverse operator base, industry surveys of critical valuation metrics such as capitalization rates, discount rates and leasing rates and appraisals obtained as a requirement of the Term Loan (Level 3). We allocate the purchase price of facilities to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of ASC 805, Business Combinations (ASC 805). The determination of fair value involves the use of significant judgment and estimation.

We determine fair values as follows:

Real estate investments are valued using discounted cash flow projections that assume certain future revenue and costs and consider capitalization and discount rates using current market conditions.

We allocate the purchase price of facilities to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values.

Other assets acquired and other liabilities assumed are valued at stated amounts, which approximate fair value.

Assumed debt balances are valued at fair value, with the computed discount/premium amortized over the remaining term of the obligation.

We determine the value of land based on third party appraisals. The fair value of in-place leases, if any, reflects: (i) above and below-market leases, if any, determined by discounting the difference between the estimated current market rent and the in-place rentals, the resulting intangible asset or liability of which is amortized to rental revenue over the remaining life of the associated lease plus any fixed rate renewal periods if applicable; (ii) the estimated value of the cost to obtain operators, including operator allowances, operator improvements, and leasing commissions, which is amortized over the remaining life of the associated lease; and (iii) an estimated value of the absorption period to reflect the value of the rents and recovery costs foregone during a reasonable lease-up period as if the acquired space was vacant, which is amortized over the remaining life of the associated lease. We also estimate the value of

operator or other customer relationships acquired by considering the nature and extent of existing business relationships with the operator, growth prospects for developing new business with such operator, such operator's credit quality, expectations of lease renewals with such operator, and the potential for significant, additional future leasing arrangements with such operator. We amortize such value, if any, over the expected term of the associated arrangements or leases, which would include the remaining lives of the related leases. The amortization is included in the consolidated statements of operations and comprehensive income in rental income. Generally, our purchase price allocation of the purchased business and subsequent leasing of the business to unrelated third party operators does not include an allocation to intangible assets or intangible liabilities, as they are either immaterial or do not exist.

Item 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and global economic and political conditions, and other factors which are beyond our control.

As of December 31, 2013, \$20.0 million of our consolidated borrowings bore interest at variable rates (representing borrowing under our Revolving Credit Facility). We do not currently use interest rate hedging contracts, including swaps, caps and floors, to manage our interest rate risk. If interest rates increased by 100 basis points and assuming we had outstanding balances of \$20.0 million on our variable rate indebtedness during the year ended December 31, 2013, our interest expense would have increased by \$0.2 million for the year ended December 31, 2013. The Company believes that it has effectively managed interest rate exposure because, as of December 31, 2013, 97% of the Company's indebtedness was fixed rate debt.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Index to Financial Statements at page F-1 of this Annual Report on Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures of AVIV. Under the supervision of and with the participation of AVIV's management, including its Chief Executive Officer and its Chief Financial Officer, AVIV evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that AVIV's disclosure controls and procedures were effective as of December 31, 2013 to provide reasonable assurance that information required to be disclosed by AVIV in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to AVIV's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting of AVIV. AVIV's management is responsible for establishing and maintaining adequate internal control over financial reporting. AVIV's internal control over financial reporting is a process designed by, or under the supervision of, its Chief Executive Officer and its Chief Financial Officer, and effected by its board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. AVIV's management carried out an evaluation, with the participation of its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of AVIV's internal control over financial reporting based on the framework set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, AVIV's management concluded that AVIV's internal control over financial reporting was effective as of December 31, 2013.

Changes in Internal Control over Financial Reporting of AVIV. During the year ended December 31, 2013, there have been no changes in AVIV's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures of the Partnership. Under the supervision of and with the participation of the Partnership's management, including the Chief Executive Officer and the Chief Financial Officer of AVIV, the general partner of the Partnership, the Partnership evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Partnership's disclosure controls and procedures were effective as of December 31, 2013 to provide reasonable assurance that information required to be disclosed by the Partnership in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to the Partnership's management, including the Chief Executive Officer and the Chief Financial Officer of AVIV, as appropriate to allow timely

decisions regarding required disclosure.

Internal Control Over Financial Reporting of the Partnership. The Partnership's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Partnership's internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer of AVIV, the general partner of the Partnership, and effected by AVIV's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Partnership's management carried out an evaluation, with the participation of the Chief Executive Officer and the Chief Financial Officer of AVIV, of the effectiveness of the Partnership's internal control over financial reporting based on the framework set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Partnership's management concluded that the Partnership's internal control over financial reporting was effective as of December 31, 2013.

Changes in Internal Control over Financial Reporting of the Partnership. During the year ended December 31, 2013, there have been no changes in the Partnership's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

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PART III

Item 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Information on our directors, executive officers and the Audit Committee of our Board of Directors and Section 16(a) reporting compliance required to be included pursuant to this Item 10 is incorporated by reference from the Company's Proxy Statement with respect to the 2014 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2014.

We have adopted a code of ethics that applies to our Chief Executive Officer and senior financial officers. A copy of this code of ethics can be found on our website at www.avivreit.com. In the event of any amendment to, or waiver from, the code of ethics, we will publicly disclose the amendment or waiver for senior financial officers by posting the information on our website.

Item 11. *EXECUTIVE COMPENSATION*

This information is incorporated by reference from the Company's Proxy Statement (under the headings Compensation of Directors, Executive Compensation, Compensation Committee Interlocks and Insider Participation and Compensation Committee Report) with respect to the 2014 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2014.

Item 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

This information is incorporated by reference to the Company's Proxy Statement (under the headings Security Ownership of Certain Beneficial Owners and Management and Executive Officer Compensation Equity Compensation Plan Information) with respect to the 2014 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2014.

Item 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

This information is incorporated by reference from the Company's Proxy Statement (under the headings Information About Our Board of Directors and its Committees and Certain Relationships and Related Transactions) with respect to the 2014 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2014.

Item 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

This information is incorporated by reference from the Company's Proxy Statement (under the heading Relationship with Independent Registered Public Accounting Firm-Principal Accountant Fees and Services) with respect to the 2014 Annual Meeting of Stockholders to be filed with the SEC no later than April 30, 2014.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) *Financial Statements*

The following consolidated financial statements beginning on page F-1 are filed as part of this report:

Consolidated Balance Sheets as of December 31, 2013 and 2012 for each of AVIV and the Partnership;

Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2013, 2012, and 2011 for each of AVIV and the Partnership;

Consolidated Statements of Changes in Equity for the Years Ended December 31, 2013, 2012, and 2011 for AVIV, and Consolidated Statements of Partners' Capital for the Partnership;

Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012, and 2011 for each of AVIV and the Partnership; and

Notes to Consolidated Financial Statements.

(2) *Financial Statement Schedules*

(3) *Exhibits*: The Exhibit Index is incorporated by reference herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, each registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVIV REIT, INC.

February 20, 2014

By: /s/ Donna M. O Neill

Name: **Donna M. O Neill**

Title: Chief Information and Accounting Officer (principal
accounting officer)

**AVIV HEALTHCARE PROPERTIES LIMITED
PARTNERSHIP**

By: Aviv REIT, Inc., its general partner

February 20, 2014

By: /s/ Donna M. O Neill

Name: **Donna M. O Neill**

Title: Chief Information and Accounting Officer (principal
accounting officer)

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of each registrant and in the capacities indicated on February 20, 2014.

Signature	Title
/s/ Craig M. Bernfield Craig M. Bernfield	Chief Executive Officer and Director (principal executive officer)
/s/ Steven J. Insoft Steven J. Insoft	President and Chief Operating Officer
/s/ Mark L. Wetzel Mark L. Wetzel	Chief Financial Officer and Treasurer (principal financial officer)
/s/ Donna M. O'Neill Donna M. O'Neill	Chief Accounting Officer (principal accounting officer)
/s/ Norman Bobins Norman Bobins	Director
/s/ Michael W. Dees Michael W. Dees	Director
/s/ Alan E. Goldberg Alan E. Goldberg	Director
/s/ Susan R. Lichtenstein Susan R. Lichtenstein	Director
/s/ Mark B. McClellan Mark B. McClellan	Director
/s/ Sharon O'Keefe Sharon O'Keefe	Director
/s/ Mark J. Parrell Mark J. Parrell	Director
/s/ Ben W. Perks Ben W. Perks	Director
/s/ James H. Roth James H. Roth	Director
/s/ J. Russell Triedman J. Russell Triedman	Director

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EXHIBIT INDEX

- 3.1 Articles of Amendment and Restatement of Aviv REIT, Inc., filed with the State Department of Assessments and Taxation of the State of Maryland on September 14, 2010, included as Exhibit 3.1 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 3.2 Amended and Restated Bylaws of Aviv REIT, Inc., included as Exhibit 3.2 to Registrant's Current Report on Form 8-K filed with the SEC on March 29, 2013 and incorporated herein by reference thereto.
- 3.3 Certificate of Limited Partnership of Aviv Healthcare Merger Sub LP (now known as Aviv Healthcare Properties Limited Partnership), filed with the Secretary of State of the State of Delaware on July 30, 2010, included as Exhibit 3.3 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 3.3.1 Certificate of Merger of Aviv Healthcare Merger Sub LP (now known as Aviv Healthcare Properties Limited Partnership), filed with the Secretary of State of the State of Delaware on September 17, 2010, included as Exhibit 3.3.1 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 3.4 Second Amended and Restated Agreement of Limited Partnership of Aviv Healthcare Properties Limited Partnership dated March 26, 2013, included as Exhibit 3.3 to Registrant's Current Report on Form 8-K filed with the SEC on March 29, 2013 and incorporated herein by reference thereto.
- 4.1 Indenture, dated as of February 4, 2011, among Aviv Healthcare Properties Limited Partnership, Aviv Healthcare Capital Corporation, as Issuers, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee, included as Exhibit 4.1 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 4.1.1 First Supplemental Indenture, dated as of March 22, 2011, among Aviv Healthcare Properties Limited Partnership, Aviv Healthcare Capital Corporation, as Issuers, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee, included as Exhibit 4.1.1 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 4.1.2 Second Supplemental Indenture, dated as of November 1, 2011, among Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation, as Issuers, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee, included as Exhibit 4.1.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 and incorporated herein by reference thereto.
- 4.1.3 Third Supplemental Indenture, dated as of December 29, 2011, among Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation, as Issuers, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee, included as Exhibit 4.1.3 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2011 and incorporated herein by reference thereto.
- 4.1.4 Fourth Supplemental Indenture, dated as of March 28, 2012, among Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation, as Issuers, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee, included as Exhibit 4.1.4 to Registrant's Form S-4 Registration Statement No. 333-180754 and incorporated herein by reference thereto.
- 4.1.5

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Fifth Supplemental Indenture, dated as of November 30, 2012, among Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation, as Issuers, the Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee, included as Exhibit 4.1.5 to Registrant's Form S-11 Registration Statement No. 333-185532 and incorporated herein by reference thereto.

- 4.2 Indenture, dated as of October 16, 2013, among Aviv Healthcare Properties Limited Partnership, Aviv Healthcare Capital Corporation, as Issuers, Aviv REIT, Inc. and the other Guarantors named therein, as Guarantors, and The Bank of New York Mellon Trust Company, N.A., as Trustee, included as Exhibit 4.1 to Registrant's Current Report on Form 8-K filed with the SEC on October 16, 2013 and incorporated herein by reference thereto.

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- 4.3 Amended and Restated Registration Rights Agreement, dated as of September 17, 2010, among Aviv REIT, Inc., Aviv Healthcare Merger Sub LP, Aviv Healthcare Properties Limited Partnership, and the Bernfield Investors, the Karkomi Investors and the LG Investors (each as defined therein), included as Exhibit 4.3 to Registrant's Draft Form S-11 Registration Statement No. 333-185532 and incorporated herein by reference thereto.
- 4.4 Form of 7 3/4% Senior Notes due 2019 (included in Exhibit 4.1).
- 4.5 Form of 6% Senior Notes due 2021 (included in Exhibit 4.2).
- 10.1 Investment Agreement dated March 25, 2013 between Aviv REIT, Inc. and LG Aviv L.P., included as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the SEC on March 29, 2013 and incorporated herein by reference thereto.
- 10.2 Credit Agreement dated March 26, 2013 among Aviv Financing IV, L.L.C., as the Parent Borrower, and the other Borrowers party thereto, Aviv REIT, Inc., Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Properties Operating Partnership I, L.P., as Guarantors, and the other Guarantors party thereto, the Lenders party thereto, Bank of America, N.A., as Administrative Agent, and the other financial institutions named therein, as Lenders, included as Exhibit 10.2 to Registrant's Current Report on Form 8-K filed with the SEC on March 29, 2013 and incorporated herein by reference thereto.
- 10.2.1 First Amendment to Credit Agreement dated April 16, 2013 among Aviv Financing IV, L.L.C., as the Parent Borrower, the other Borrower party thereto, Aviv REIT, Inc., Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Properties Operating Partnership I, L.P., as Guarantors, and the other Guarantors party thereto, the Lenders party thereto, Bank of America, N.A., as Administrative Agent, and the other financial institutions named therein, as Lenders, included as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the SEC on April 22, 2013 and incorporated herein by reference thereto.
- 10.3 Aviv REIT, Inc. 2010 Management Incentive Plan, included as Exhibit 10.3 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 10.3.1 First Amendment to the Aviv REIT, Inc. 2010 Management Incentive Plan, included as Exhibit 4.5 to Registrant's Registration Statement on Form S-8 (Registration No. 333-187500) and incorporated herein by reference thereto.
- 10. 3.2 Form of Time-Based Nonqualified Stock Option Award Agreement under the Aviv REIT, Inc. 2010 Management Incentive Plan, included as Exhibit 10.4 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 10. 3.3 Form of Nonlimited Performance-Based Nonqualified Stock Option Award Agreement under the Aviv REIT, Inc. 2010 Management Incentive Plan, included as Exhibit 10.5 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 10.4 Aviv REIT, Inc. 2013 Long-Term Incentive Plan, included as Exhibit 4.3 to Registrant's Registration Statement on Form S-8 (Registration No. 333-187500) and incorporated herein by reference thereto.
- 10.4.1 Form of Non-Employee Director Restricted Stock Award Agreement under the Aviv REIT, Inc. 2013 Long-Term Incentive Plan, included as Exhibit 10.17 to Registrant's Registration Statement on Form S-11 (Registration No. 333-185532) and incorporated herein by reference thereto.
- 10.4.2 Form of Stock Award Agreement under the Aviv REIT, Inc. 2013 Long-Term Incentive Plan, included as Exhibit 10.18 to Registrant's Registration Statement on Form S-11 (Registration No. 333-185532) and incorporated herein by reference thereto.
- 10.4.3

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Form of Restricted Stock Unit Award Agreement for performance-based restricted stock units under the Aviv REIT, Inc. 2013 Long-Term Incentive Plan, included as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the SEC on July 15, 2013 and incorporated herein by reference thereto.

- 10.4.4 Form of Restricted Stock Unit Award Agreement for time-based restricted stock units under the Aviv REIT, Inc. 2013 Long-Term Incentive Plan, included as Exhibit 10.2 to Registrant's Current Report on Form 8-K filed with the SEC on July 15, 2013 and incorporated herein by reference thereto.

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- 10.5 Form of Aviv Healthcare Properties Limited Partnership Class D Unit Award Agreement (for new grants), included as Exhibit 10.6 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 10.6 Form of Aviv Healthcare Properties Limited Partnership Class D Unit Award Agreement (for replacement grants), included as Exhibit 10.7 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 10.7 Amended and Restated Phantom Partnership Unit Award Agreement, dated as of September 17, 2010, among Aviv Asset Management, L.L.C., Steven J. Insoft and Aviv Healthcare Properties Limited Partnership, included as Exhibit 10.8 to Registrant's Form S-4 Registration Statement No. 333-173824 and incorporated herein by reference thereto.
- 10.8 Employment Agreement dated November 8, 2013 between Aviv Asset Management, L.L.C. and Mark L. Wetzel, included as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the SEC on November 12, 2013 and incorporated herein by reference thereto.
- 10.9 Separation Agreement and Release dated December 6, 2013 between Aviv Asset Management, L.L.C. and James H. Lyman, included as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed with the SEC on December 12, 2013 and incorporated herein by reference thereto.
- 12.1* Statement Regarding Computation of Ratio of Earnings to Fixed Charges.
- 21.1* Subsidiaries of Aviv REIT, Inc.
- 23.1* Consent of Ernst & Young LLP
- 31.1* Certification of Chief Executive Officer of Aviv REIT, Inc. pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of Chief Financial Officer and Treasurer of Aviv REIT, Inc. pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3* Certification of Chief Executive Officer of Aviv REIT, Inc., in its capacity as the general partner of Aviv Healthcare Properties Limited Partnership, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.4* Certification of Chief Financial Officer and Treasurer of Aviv REIT, Inc., in its capacity as the general partner of Aviv Healthcare Properties Limited Partnership, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Joint Certification of Principal Executive and Financial Officers of Aviv REIT, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Joint Certification of Principal Executive and Financial Officers of Aviv REIT, Inc., in its capacity as the general partner of Aviv Healthcare Properties Limited Partnership, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101* Sections of this Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets for each of Aviv REIT, Inc. and Aviv Healthcare Properties Limited Partnership; (ii) Consolidated Statements of Operations and Comprehensive Income for each of Aviv REIT, Inc. and Aviv Healthcare Properties Limited Partnership; (iii) Consolidated Statements of Changes in Equity for Aviv REIT, Inc. and Consolidated Statements of Partners' Capital for Aviv Healthcare Properties Limited Partnership; (iv) Consolidated Statements of Cash Flows for each of Aviv REIT, Inc. and Aviv Healthcare Properties Limited Partnership; and (v) Notes to

Consolidated Financial Statements.

- * Filed herewith.
Management contract or compensatory plan or arrangement.

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**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO THE FINANCIAL STATEMENTS**

AVIV REIT, INC.

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

<u>Report of Independent Registered Public Accounting Firm with respect to Aviv REIT, Inc.</u>	F-2
<u>Report of Independent Registered Public Accounting Firm with respect to Aviv Healthcare Properties Limited Partnership</u>	F-3
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012 of Aviv REIT, Inc.</u>	F-4
<u>Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011 of Aviv REIT, Inc.</u>	F-5
<u>Consolidated Statements of Changes in Equity for the Years Ended December 31, 2013, 2012 and 2011 of Aviv REIT, Inc.</u>	F-6
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011 of Aviv REIT, Inc.</u>	F-7
<u>Consolidated Balance Sheets as of December 31, 2013 and 2012 of Aviv Healthcare Properties Limited Partnership</u>	F-9
<u>Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2013, 2012 and 2011 of Aviv Healthcare Properties Limited Partnership</u>	F-10
<u>Consolidated Statements of Changes in Equity for the Years Ended December 31, 2013, 2012 and 2011 of Aviv Healthcare Properties Limited Partnership</u>	F-11
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2012 and 2011 of Aviv Healthcare Properties Limited Partnership</u>	F-12
<u>Notes to Consolidated Financial Statements</u>	F-14

FINANCIAL STATEMENT SCHEDULES

<u>Schedule II Valuation and Qualifying Accounts</u>	F-45
<u>Schedule III Real Estate and Investments</u>	F-46

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable or have been omitted because sufficient information has been included in the notes to the Consolidated Financial Statements.

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AVIV REIT, INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and the Stockholders

Aviv REIT, Inc.

We have audited the accompanying consolidated balance sheets of Aviv REIT, Inc. (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed in the accompanying index to the financial statements. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aviv REIT, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Chicago, Illinois

February 20, 2014

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and the Partners

Aviv Healthcare Properties Limited Partnership

We have audited the accompanying consolidated balance sheets of Aviv Healthcare Properties Limited Partnership (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed in the accompanying index to the financial statements. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aviv Healthcare Properties Limited Partnership at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Chicago, Illinois

February 20, 2014

Table of Contents**AVIV REIT, INC.****Consolidated Balance Sheets****(in thousands except share data)**

	December 31, 2013	December 31, 2012
Assets		
Income producing property		
Land	\$ 138,150	\$ 119,132
Buildings and improvements	1,138,173	968,075
Assets under direct financing leases	11,175	11,049
	1,287,498	1,098,256
Less accumulated depreciation	(147,302)	(119,371)
Construction in progress and land held for development	23,292	4,576
Net real estate	1,163,488	983,461
Cash and cash equivalents	50,764	17,876
Straight-line rent receivable, net	40,580	36,102
Tenant receivables, net	1,647	3,484
Deferred finance costs, net	16,643	14,651
Secured loan receivables, net	41,686	32,639
Other assets	15,625	11,316
Total assets	\$ 1,330,433	\$ 1,099,529
Liabilities and equity		
Secured loan	\$ 13,654	\$ 213,679
Unsecured notes payable	652,752	403,180
Line of credit	20,000	88,294
Accrued interest payable	15,284	13,265
Dividends and distributions payable	17,694	13,687
Accounts payable and accrued expenses	10,555	10,943
Tenant security and escrow deposits	21,586	18,278
Other liabilities	10,463	17,700
Total liabilities	761,988	779,026
Equity:		
Stockholders' equity		
Common stock (par value \$0.01; 37,593,910 and 21,653,813 shares issued and outstanding, respectively)	376	217
Additional paid-in-capital	523,658	375,030
Accumulated deficit	(89,742)	(46,527)
Accumulated other comprehensive loss		(2,152)

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Total stockholders' equity	434,292	326,568
Noncontrolling interests - operating partnership	134,153	(6,065)
Total equity	568,445	320,503
Total liabilities and equity	\$ 1,330,433	\$ 1,099,529

See accompanying notes.

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Table of Contents**AVIV REIT, INC.****Consolidated Statements of Operations and Comprehensive Income****(in thousands except share and per share data)**

	Year Ended December 31		
	2013	2012	2011
Revenues			
Rental income	\$ 136,513	\$ 121,210	\$ 91,091
Interest on secured loans and financing lease	4,400	4,633	5,193
Interest and other income	154	1,129	844
Total revenues	141,067	126,972	97,128
Expenses			
Interest expense incurred	40,785	47,440	36,010
Amortization of deferred financing costs	3,459	3,543	2,657
Depreciation and amortization	33,226	26,892	20,272
General and administrative	26,886	15,955	11,422
Transaction costs	3,114	7,259	5,493
Loss on impairment	500	11,117	5,233
Reserve for uncollectible secured loans and other receivables	68	10,331	1,591
Gain on sale of assets, net	(1,016)		(1,171)
Loss on extinguishment of debt	10,974	28	3,807
Other expenses		400	267
Total expenses	117,996	122,965	85,581
Income from continuing operations	23,071	4,007	11,547
Discontinued operations		4,586	(234)
Net income	23,071	8,593	11,313
Net income allocable to noncontrolling interests operating partnership	(6,010)	(3,455)	(5,107)
Net income allocable to stockholders	\$ 17,061	\$ 5,138	\$ 6,206
Net income	\$ 23,071	\$ 8,593	\$ 11,313
Unrealized loss on derivative instruments		(476)	(7,392)
Total comprehensive income	\$ 23,071	\$ 8,117	\$ 3,921
Net income allocable to stockholders	\$ 17,061	\$ 5,138	\$ 6,206
Unrealized loss on derivative instruments, net of noncontrolling interest operating partnership portion of \$0, \$192, and \$3,336, respectively		(284)	(4,056)

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Total comprehensive income allocable to stockholders	\$	17,061	\$	4,854	\$	2,150
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Earnings per common share:

Basic:

Income from continuing operations allocable to stockholders	\$	0.51	\$	0.12	\$	0.44
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Discontinued operations, net of noncontrolling interests operating partnership				0.14		(0.01)
--	--	--	--	------	--	--------

Net income allocable to stockholders	\$	0.51	\$	0.26	\$	0.43
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Diluted:

Income from continuing operations allocable to stockholders	\$	0.49	\$	0.12	\$	0.43
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Discontinued operations, net of noncontrolling interests operating partnership				0.14		(0.01)
--	--	--	--	------	--	--------

Net income allocable to stockholders	\$	0.49	\$	0.26	\$	0.42
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Weighted average common shares outstanding:

Basic		33,700,834		20,006,538		14,487,565
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Diluted		44,324,214		20,135,689		14,633,354
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Dividends declared per common share	\$	1.40	\$	1.25	\$	1.18
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See accompanying notes.

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AVIV REIT, INC.

Consolidated Statements of Changes in Equity

(in thousands except share data)

	Common Stock		Stockholders' Equity			Total	Noncontrolling Interests		Total Equity
	Shares	Amount	Additional Paid-In-Capital	Accumulated Deficit	Comprehensive Income (loss)		Stockholders' Equity	Operating Partnership	
Balance at January 1, 2011	13,706,465	\$ 137	\$ 223,704	\$ (2,262)	\$ 2,188	\$ 223,767	\$ 21,389	\$ 245,156	
Non-cash stock (unit)-based compensation			1,122			1,122	850	1,972	
Distributions to partners							(18,884)	(18,884)	
Capital contributions	2,124,903	22	39,978			40,000	420	40,420	
Unrealized loss on derivative instruments					(4,056)	(4,056)	(3,336)	(7,392)	
Dividends to stockholders				(25,327)		(25,327)		(25,327)	
Net income				6,206		6,206	5,107	11,313	
Balance at December 31, 2011	15,831,368	159	264,804	(21,383)	(1,868)	241,712	5,546	247,258	
Non-cash stock (unit)-based compensation			1,284			1,284	406	1,690	
Distributions to partners							(15,638)	(15,638)	
Capital contributions	5,822,445	58	108,942			109,000	358	109,358	
Unrealized loss on derivative instruments					(284)	(284)	(192)	(476)	
Dividends to stockholders				(30,282)		(30,282)		(30,282)	
Net income				5,138		5,138	3,455	8,593	
	21,653,813	217	375,030	(46,527)	(2,152)	326,568	(6,065)	320,503	

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Balance at December 31, 2012								
Non-cash stock (unit)-based compensation	23,250		10,864		10,864	888		11,752
Shares issued for settlement of management vested stock	414,710	4	8,290		8,294			8,294
Distributions to partners						(16,658)		(16,658)
Capital contributions						214		214
Initial public offering proceeds	15,180,000	152	303,448		303,600			303,600
Cost of raising capital			(25,829)		(25,829)			(25,829)
Retirement of derivative instruments					2,152	2,152	1,622	3,774
Dividends to stockholders					(60,276)	(60,276)		(60,276)
Reclassification of equity at IPO date			(153,751)		(153,751)		153,751	
Conversion of OP Units/Adjustment of noncontrolling interests operating partnership ownership of operating partnership	322,137	3	5,606		5,609	(5,609)		
Net income					17,061	17,061	6,010	23,071
Balance at December 31, 2013	37,593,910	\$ 376	\$ 523,658	\$ (89,742)	\$	\$ 434,292	\$ 134,153	\$ 568,445

See accompanying notes.

Table of Contents**AVIV REIT, INC.****Consolidated Statements of Cash Flows****(in thousands)**

	Year Ended December 31,		
	2013	2012	2011
Operating activities			
Net income	\$ 23,071	\$ 8,593	\$ 11,313
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	33,226	26,935	20,847
Amortization of deferred financing costs	3,459	3,543	2,665
Accretion of debt premium	(507)	(414)	(198)
Straight-line rental (income) loss, net	(4,478)	(7,656)	467
Rental income from intangible amortization, net	(1,369)	(1,486)	(1,366)
Non-cash stock-based compensation	11,752	1,689	1,972
Gain on sale of assets, net	(1,016)	(4,425)	(1,171)
Non-cash loss on extinguishment of debt	5,161	42	3,807
Loss on impairment	500	11,117	6,092
Reserve for uncollectible secured loan and other receivables	68	10,331	1,426
Accretion of earn-out provision for previously acquired real estate investments		400	267
Changes in assets and liabilities:			
Tenant receivables	(3,511)	(4,572)	(6,104)
Other assets	(5,229)	(5,873)	2,596
Accounts payable and accrued expenses	3,949	5,021	6,146
Tenant security deposits and other liabilities	2,277	1,230	3,329
Net cash provided by operating activities	67,353	44,475	52,088
Investing activities			
Purchase of real estate	(197,388)	(172,773)	(181,214)
Proceeds from sales of real estate	15,549	31,933	1,510
Capital improvements	(12,003)	(13,558)	(9,364)
Development projects	(18,738)	(28,067)	(21,406)
Secured loan receivables received from others	4,086	14,632	14,338
Secured loan receivables funded to others	(10,407)	(16,857)	(10,920)
Net cash used in investing activities	(218,901)	(184,690)	(207,056)
	<i>See accompanying notes.</i>		

Table of Contents**AVIV REIT, INC.****Consolidated Statements of Cash Flows (continued)****(in thousands)**

	Year Ended December 31,		
	2013	2012	2011
Financing activities			
Borrowings of debt	\$ 470,000	\$ 267,761	\$ 404,928
Repayment of debt	(488,241)	(174,127)	(244,832)
Payment of financing costs	(10,448)	(5,143)	(9,608)
Capital contributions	575	109,000	40,420
Deferred contribution		(35,000)	35,000
Initial public offering proceeds	303,600		
Cost of raising capital	(25,829)		
Cash distributions to partners	(16,314)	(16,484)	(19,485)
Cash dividends to stockholders	(48,907)	(28,778)	(23,622)
Net cash provided by financing activities	184,436	117,229	182,801
Net increase (decrease) in cash and cash equivalents	32,888	(22,986)	27,833
Cash and cash equivalents:			
Beginning of year	17,876	40,862	13,029
End of year	\$ 50,764	\$ 17,876	\$ 40,862
Supplemental cash flow information			
Cash paid for interest	\$ 40,008	\$ 46,711	\$ 29,025
Supplemental disclosure of noncash activity			
Accrued dividends payable to stockholders	\$ 13,551	\$ 9,888	\$ 8,384
Accrued distributions payable to partners	\$ 4,143	\$ 3,799	\$ 4,646
Write-off of straight-line rent receivable, net	\$ 2,887	\$ 1,552	\$ 7,093
Write-off of in-place lease intangibles, net	\$	\$ 19	\$ 36
Write-off of deferred financing costs, net	\$ 5,161	\$ 42	\$ 3,807
Assumed debt	\$	\$ 11,460	\$

See accompanying notes.

Table of Contents**AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP****Consolidated Balance Sheets****(in thousands)**

	December 31,	
	2013	2012
Assets		
Income producing property		
Land	\$ 138,150	\$ 119,132
Buildings and improvements	1,138,173	968,075
Assets under direct financing leases	11,175	11,049
	1,287,498	1,098,256
Less accumulated depreciation	(147,302)	(119,371)
Construction in progress and land held for development	23,292	4,576
Net real estate	1,163,488	983,461
Cash and cash equivalents	50,764	15,534
Straight-line rent receivable, net	40,580	36,102
Tenant receivables, net	1,647	3,484
Deferred finance costs, net	16,643	14,651
Secured loan receivables, net	41,686	32,639
Other assets	15,625	11,316
Total assets	\$ 1,330,433	\$ 1,097,187
Liabilities and equity		
Secured loan	\$ 13,654	\$ 213,679
Unsecured notes payable	652,752	403,180
Line of credit	20,000	88,294
Accrued interest payable	15,284	13,265
Dividends and distributions payable	17,694	13,687
Accounts payable and accrued expenses	10,555	10,943
Tenant security and escrow deposits	21,586	18,278
Other liabilities	10,463	15,359
Total liabilities	761,988	776,685
Equity:		
Partners' capital	568,445	324,275
Accumulated other comprehensive loss		(3,773)
Total equity	568,445	320,502
Total liabilities and equity	\$ 1,330,433	\$ 1,097,187

See accompanying notes.

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Table of Contents**AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP****Consolidated Statements of Operations and Comprehensive Income****(in thousands except unit and per unit data)**

	Year Ended December 31,		
	2013	2012	2011
Revenues			
Rental income	\$ 136,513	\$ 121,210	\$ 91,091
Interest on secured loans and financing lease	4,400	4,633	5,193
Interest and other income	154	1,129	844
Total revenues	141,067	126,972	97,128
Expenses			
Interest expense incurred	40,785	47,440	36,010
Amortization of deferred financing costs	3,459	3,543	2,657
Depreciation and amortization	33,226	26,892	20,272
General and administrative	26,886	15,955	11,422
Transaction costs	3,114	7,259	5,493
Loss on impairment	500	11,117	5,233
Reserve for uncollectible secured loans and other receivables	68	10,331	1,591
Gain on sale of assets, net	(1,016)		(1,171)
Loss on extinguishment of debt	10,974	28	3,807
Other expenses		400	267
Total expenses	117,996	122,965	85,581
Income from continuing operations	23,071	4,007	11,547
Discontinued operations		4,586	(234)
Net income allocable to units	\$ 23,071	\$ 8,593	\$ 11,313
Net income allocable to units	\$ 23,071	\$ 8,593	\$ 11,313
Unrealized loss on derivative instruments		(476)	(7,392)
Total comprehensive income allocable to units	\$ 23,071	\$ 8,117	\$ 3,921
Earnings per unit:			
Basic:			
Income from continuing operations allocable to units	\$ 0.51	\$ 0.12	\$ 0.44
Discontinued operations		0.14	(0.01)
Net income allocable to units	\$ 0.51	\$ 0.26	\$ 0.43
Diluted:			

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Income from continuing operations allocable to units	\$ 0.49	\$ 0.12	\$ 0.43
Discontinued operations		0.14	(0.01)
Net income allocable to units	\$ 0.49	\$ 0.26	\$ 0.42
Weighted average units outstanding:			
Basic	42,792,808	20,006,538	14,487,565
Diluted	44,324,214	20,135,689	14,633,354
Distributions declared per unit	\$ 1.40	\$ 1.25	\$ 1.18

See accompanying notes.

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Table of Contents**AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP****Consolidated Statements of Changes in Equity**

(in thousands)

	Partners Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2011	\$ 241,061	\$ 4,094	\$ 245,155
Non-cash stock (unit)-based compensation	1,972		1,972
Distributions to partners	(44,211)		(44,211)
Capital contributions	40,420		40,420
Unrealized loss on derivative instruments		(7,392)	(7,392)
Net income	11,313		11,313
Balance at December 31, 2011	250,555	(3,298)	247,257
Non-cash stock (unit)-based compensation	1,690		1,690
Distributions to partners	(45,920)		(45,920)
Capital contributions	109,358		109,358
Unrealized loss on derivative instruments		(476)	(476)
Net income	8,593		8,593
Balance at December 31, 2012	324,276	(3,774)	320,502
Non-cash stock (unit)-based compensation	11,752		11,752
Shares issued for settlement of management vested stock	8,294		8,294
Distributions to partners	(76,934)		(76,934)
Capital contributions	215		215
Initial public offering proceeds	303,600		303,600
Cost of raising capital	(25,829)		(25,829)
Retirement of derivative instruments		3,774	3,774
Net income	23,071		23,071
Balance at December 31, 2013	\$ 568,445	\$	\$ 568,445

See accompanying notes.

Table of Contents**AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP****Consolidated Statements of Cash Flows****(in thousands)**

	Year Ended December 31,		
	2013	2012	2011
Operating activities			
Net income	\$ 23,071	\$ 8,593	\$ 11,313
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	33,226	26,935	20,847
Amortization of deferred financing costs	3,459	3,543	2,665
Accretion of debt premium	(507)	(414)	(198)
Straight-line rental (income) loss, net	(4,478)	(7,656)	467
Rental income from intangible amortization, net	(1,369)	(1,486)	(1,366)
Non-cash stock-based compensation	11,752	1,689	1,972
Gain on sale of assets, net	(1,016)	(4,425)	(1,171)
Non-cash loss on extinguishment of debt	5,161	42	3,807
Loss on impairment	500	11,117	6,092
Reserve for uncollectible loans and other receivables	68	10,331	1,426
Accretion of earn-out provision for previously acquired real estate investments		400	267
Changes in assets and liabilities:			
Tenant receivables	(3,511)	(4,572)	(6,104)
Other assets	(5,229)	(5,873)	2,596
Accounts payable and accrued expenses	3,949	5,021	6,146
Tenant security deposits and other liabilities	4,619	546	1,672
Net cash provided by operating activities	69,695	43,791	50,431
Investing activities			
Purchase of real estate	(197,388)	(172,773)	(181,214)
Proceeds from sales of real estate	15,549	31,933	1,510
Capital improvements	(12,003)	(13,558)	(9,364)
Development projects	(18,738)	(28,067)	(21,406)
Secured loan receivables received from others	4,086	14,632	14,338
Secured loan receivables funded to others	(10,407)	(16,857)	(10,920)
Net cash used in investing activities	(218,901)	(184,690)	(207,056)
	<i>See accompanying notes.</i>		

Table of Contents**AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP****Consolidated Statements of Cash Flows (continued)**

(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Financing activities			
Borrowings of debt	\$ 470,000	\$ 267,761	\$ 404,928
Repayment of debt	(488,241)	(174,127)	(244,832)
Payment of financing costs	(10,448)	(5,143)	(9,608)
Capital contributions	575	109,000	40,420
Deferred contribution		(35,000)	35,000
Initial public offering proceeds	303,600		
Cost of raising capital	(25,829)		
Cash distributions to partners	(65,221)	(45,262)	(43,107)
Net cash provided by financing activities	184,436	117,229	182,801
Net increase (decrease) in cash and cash equivalents	35,230	(23,670)	26,176
Cash and cash equivalents:			
Beginning of year	15,534	39,204	13,028
End of year	\$ 50,764	\$ 15,534	\$ 39,204
Supplemental cash flow information			
Cash paid for interest	\$ 40,008	\$ 46,711	\$ 29,025
Supplemental disclosure of noncash activity			
Accrued distributions payable to partners	\$ 17,694	\$ 13,687	\$ 13,030
Write-off of straight-line rent receivable, net	\$ 2,887	\$ 1,552	\$ 7,093
Write-off of in-place lease intangibles, net	\$	\$ 19	\$ 36
Write-off of deferred financing costs, net	\$ 5,161	\$ 42	\$ 3,807
Assumed debt	\$	\$ 11,460	\$

See accompanying notes.

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AVIV REIT, INC.

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

Notes to Consolidated Financial Statements

December 31, 2013

1. Description of Operations and Formation

Aviv REIT, Inc. (AVIV or the REIT), a Maryland corporation, is the sole general partner of Aviv Healthcare Properties Limited Partnership, a Delaware limited partnership, and its subsidiaries (the Partnership). The Partnership is a majority owned subsidiary that owns all of the real estate properties. In these footnotes, the Company refers generically to AVIV, the Partnership, and their subsidiaries. The Partnership was formed in 2010 and directly or indirectly owned or leased 282 properties, principally skilled nursing facilities, across the United States at December 31, 2013. The Company is a fully integrated self-administered company that owns, acquires, develops and 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 operators to pay the Company an ongoing escrow for real estate taxes. Furthermore, all operating and maintenance costs of the buildings are the responsibility of the operators. Substantially all depreciation expense reflected in the consolidated statements of operations and comprehensive income relates to the ownership of real estate properties.

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

All of the business, assets and operations are held by the Partnership and its subsidiaries. The REIT's equity interest in the Partnership is linked to future investments in the REIT, such that future equity issuances by the REIT (pursuant to the Partnership's partnership agreement) will result in a corresponding increase in the REIT's equity interest in the Partnership. The REIT is authorized to issue 300 million shares of common stock (par value \$0.01) and 25 million shares of preferred stock (par value \$0.01). The REIT was funded in September 2010 with 13.2 million shares and approximately \$235 million from one of the REIT's stockholders, and approximately 8.5 million additional shares of common stock were issued by the REIT in connection with \$159 million equity contributions by one of the REIT's stockholders. The Partnership's capital consists of partnership units, which are referred to as OP units, that are owned by AVIV and other investors.

On March 7, 2013, the Board of Directors and stockholders of the REIT approved an increase in the number of authorized shares of common stock to 300,000,000 shares of common stock and a 60.37-for-one split of issued and outstanding common stock. The increase in the authorized shares and the stock split became effective on March 8, 2013 when the REIT's charter was amended for such increase in the number of authorized REIT shares and the stock split. The common share and per common share amounts in these consolidated financial statements and notes to consolidated financial statements have been retrospectively restated to reflect the 60.37-for-one split.

On March 26, 2013, the REIT completed an initial public offering (IPO) of its common stock pursuant to a registration statement filed with the SEC, which became effective on March 20, 2013. The Company received net proceeds after underwriting discounts and commissions, of \$282.3 million, exclusive of other costs of raising capital in consideration for the issuance and sale of approximately 15.2 million shares of common stock (which included approximately 2.0 million shares sold to the underwriters upon exercise of their option to purchase additional shares to cover over-allotments) at a price to the public of \$20.00 per share. In connection with the IPO, the Partnership's Class A, B, C, D, F and G Units were converted into a single class of OP units.

Immediately prior to the completion of the IPO, there were outstanding approximately 21.7 million shares of common stock of the REIT, limited partnership units of the Partnership which were converted into approximately 11.9 million OP units in connection with the IPO, and 125 shares of preferred stock of the REIT. On April 15, 2013, the 125 shares of preferred stock outstanding were redeemed. At December 31, 2013, there were approximately 37.6 million shares of common stock outstanding and 11.6 million OP units outstanding which are redeemable for cash or, at the REIT's option, for shares of common stock of the REIT. The operating results of the Partnership are allocated based upon the REIT's and the limited partners' respective economic interests therein. The REIT's ownership of the Partnership was 76.4% as of December 31, 2013. The REIT's weighted average economic ownership of the Partnership for the years ended December 31, 2013, 2012, and 2011 were 74.0%, 62.5%, and 54.9% respectively.

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2. Summary of Significant Accounting Policies

Basis of Presentation

This report combines the Annual Reports on Form 10-K for the year ended December 31, 2013 of AVIV and the Partnership. AVIV is a real estate investment trust and the general partner of the Partnership. The Partnership's capital is comprised of OP units. As the sole general partner of the Partnership, AVIV has exclusive control of the Partnership's day-to-day management.

The Company believes combining the Annual Reports on Form 10-K of AVIV and the Partnership into this single report provides the following benefits:

enhances investors' understanding of AVIV and the Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;

eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure in this report applies to both AVIV and the Partnership; and

creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

Management operates AVIV and the Partnership as one business. The management of AVIV consists of the same employees as the management of the Partnership.

The Company believes it is important for investors to understand the few differences between AVIV and the Partnership in the context of how AVIV and the Partnership operate as a consolidated company. AVIV is a REIT, whose only material asset is its ownership of OP units of the Partnership. As a result, AVIV does not conduct business itself, other than acting as the sole general partner of the Partnership, issuing public equity from time to time and guaranteeing unsecured debt of the Partnership. AVIV has not issued any indebtedness, but has guaranteed all of the unsecured debt of the Partnership. The Partnership indirectly holds all the real estate assets of the Company. Except for net proceeds from public equity issuances by AVIV, which are contributed to the Partnership in exchange for OP units, the Partnership generates all remaining capital required by the Company's business. These sources include the Partnership's operations, its direct or indirect incurrence of indebtedness, and the issuance of OP units.

As general partner with control of the Partnership, AVIV consolidates the Partnership for financial reporting purposes. The presentation of stockholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of AVIV and those of the Partnership. AVIV's stockholders' equity is comprised of common stock, additional paid in capital and retained earnings (accumulated deficit). The Partnership's capital is comprised of OP units that are owned by AVIV and the other partners. The OP units held by the limited partners (other than AVIV) in the Partnership are presented as part of partners' capital in the Partnership's consolidated financial statements and as noncontrolling interests-operating partnership in AVIV's consolidated financial statements. There is no difference between the assets and liabilities of AVIV and the Partnership as of December 31, 2013. Net income is the same for AVIV and the Partnership.

The accompanying consolidated financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles, or GAAP. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Certain prior period amounts have been reclassified with no effect on the Company's consolidated financial position or results of operations.

The Company manages its business as a single business segment as defined in Accounting Standards Codification (ASC) 280, *Segment Reporting*. The Company has one reportable segment consisting of investments in healthcare properties, consisting primarily of skilled nursing facilities, or SNFs, assisted living facilities, or ALFs, and other healthcare properties located in the United States. All of the Company's properties generate similar types of revenues and expenses related to tenant rent and reimbursements and operating expenses.

Estimates

The preparation of the financial statements in conformity with U.S. 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with original maturities of three months or less. The Company maintains cash and cash equivalents in United States banking institutions that exceed amounts insured by the Federal Deposit Insurance Corporation. The Company believes the risk of loss from exceeding this insured level is minimal.

Table of Contents**Real Estate Investments**

The Company periodically assesses the carrying value of real estate investments 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 real estate investments will not be recovered in part or in whole, a provision will be recorded to reduce the carrying basis of the real estate investments and related intangibles to their estimated fair value. The estimated fair value of the Company's rental properties is determined by using customary industry standard methods that include discounted cash flow and/or direct capitalization analysis (Level 3) or estimated cash proceeds received upon the anticipated disposition of the asset from market comparables (Level 2). As part of the impairment evaluation, the buildings in the following locations were impaired to reflect the estimated fair values (Level 2).

	For the Years Ended		
	December 31,		
	2013	2012	2011
	(in thousands)		
Medford, MA ⁽¹⁾	\$	\$	\$ 859
Zion, IL		1,000	3,843
Bremerton, WA		150	1,390
Youngtown, AZ		1,635	
Fall River, MA		141	
Cincinnati, OH		90	
West Chester, OH		3,414	
Columbus, TX		1,422	
Benton Harbor, MI		491	
Omaha, NE		742	
Searcy, AR	500	1,898	
Cathlamet, WA		93	
Methuen, MA		41	
	\$ 500	\$ 11,117	\$ 6,092

(1) Included in discontinued operations and other expenses

Buildings and building improvements are recorded at cost and have been assigned useful lives up to 40-years and are depreciated on the straight-line method. Personal property, furniture, and equipment have been assigned estimated useful lives up to 10 years and are depreciated on the straight-line method.

The Company may advance monies to its lessees for the purchase, generally, of furniture, fixtures, or equipment or other purposes. Required minimum lease payments due from the lessee increase to provide for the repayment of such amounts over a stated term. These advances in the instance where the depreciable life of the newly purchased asset is less than the remaining lease term are reflected as secured loan receivables on the consolidated balance sheets, and the incremental lease payments are bifurcated between principal and interest over the stated term. In the instance where the depreciable life of the newly purchased assets is longer than the remaining lease term, the purchase is recorded as

property when such assets are deemed to be owned by the Company. In other instances, explicit secured loans are made to lessees for working capital and other funding needs and provide for monthly principal and interest payments generally ranging from five to 10 years.

Purchase Accounting

The Company allocates the purchase price of facilities between net tangible and identified intangible assets acquired and liabilities assumed as a result of the Company purchasing the business and subsequently leasing the business to unrelated third party operators. The Company makes estimates of the fair value of the tangible and intangible assets and acquired liabilities using information obtained from multiple sources as a result of preacquisition due diligence, marketing, leasing activities of the Company's operator base, industry surveys of critical valuation metrics such as capitalization rates, discount rates and leasing rates and appraisals obtained as a requirement of the Term Loan (Level 3). The Company allocates the purchase price of facilities to net tangible and identified intangible assets and liabilities acquired based on their fair values in accordance with the provisions of ASC 805, Business Combinations (ASC 805). The determination of fair value involves the use of significant judgment and estimation.

The Company determines fair values as follows:

Real estate investments are valued using discounted cash flow projections that assume certain future revenue and costs and consider capitalization and discount rates using current market conditions.

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The Company allocates the purchase price of facilities to net tangible and identified intangible assets acquired and liabilities assumed based on their fair values.

Other assets acquired and other liabilities assumed are valued at stated amounts, which approximate fair value.

Assumed debt balances are valued at fair value, with the computed discount/premium amortized over the remaining term of the obligation.

The Company determines the value of land based on third party appraisals. The fair value of in-place leases, if any, reflects: (i) above and below-market leases, if any, determined by discounting the difference between the estimated current market rent and the in-place rentals, the resulting intangible asset or liability of which is amortized to rental revenue over the remaining life of the associated lease plus any fixed rate renewal periods if applicable; (ii) the estimated value of the cost to obtain operators, including operator allowances, operator improvements, and leasing commissions, which is amortized over the remaining life of the associated lease; and (iii) an estimated value of the absorption period to reflect the value of the rents and recovery costs foregone during a reasonable lease-up period as if the acquired space was vacant, which is amortized over the remaining life of the associated lease. The Company also estimates the value of operator or other customer relationships acquired by considering the nature and extent of existing business relationships with the operator, growth prospects for developing new business with such operator, such operator's credit quality, expectations of lease renewals with such operator, and the potential for significant, additional future leasing arrangements with such operator. The Company amortizes such value, if any, over the expected term of the associated arrangements or leases, which would include the remaining lives of the related leases. The amortization is included in the consolidated statements of operations and comprehensive income in rental income. Generally, the Company's purchase price allocation of the purchased business and subsequent leasing of the business to unrelated third party operators does not include an allocation to any intangible assets or intangible liabilities, as they are either immaterial or do not exist.

Revenue Recognition

Rental income is recognized on a straight-line basis over the term of the lease when collectability is reasonably assured. Differences between rental income earned and amounts due under the lease are charged or credited, as applicable, to straight-line rent receivable, net. Income recognized from this policy is titled straight-line 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 the net impact is reflected in rental income on the consolidated statements of operations and comprehensive income.

Below is a summary of the components of rental income for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Cash rental income	\$ 130,666	\$ 112,068	\$ 89,815
Straight-line rental income (loss)	4,478	7,656	(90)
Rental income from intangible amortization	1,369	1,486	1,366
Total rental income	\$ 136,513	\$ 121,210	\$ 91,091

During the years ended December 31, 2013, 2012, and 2011 straight-line rental income (loss) includes a write-off (expense) of straight-line rent receivable, net of approximately \$2.9 million, \$1.5 million, and \$7.1 million, respectively, due to the early termination of leases and replacement of operators.

The Company's reserve for uncollectible operator receivables is included as a component of reserve for uncollectible secured loan and other receivables in the consolidated statements of operations and comprehensive income. The amount incurred during the years ended December 31, 2013, 2012, and 2011 was \$0.1 million, \$10.3 million, and \$1.6 million, respectively.

Lease Accounting

The Company, as lessor, makes a determination with respect to each of its leases whether they should be accounted for as operating leases or direct financing leases. The classification criteria is based on estimates regarding the fair value of the leased facilities, minimum lease payments, effective cost of funds, the economic life of the facilities, the existence of a bargain purchase option, and certain other terms in the lease agreements. Payments received under operating leases are accounted for in the statements of operations and comprehensive income as rental income for actual rent collected plus or minus a straight-line adjustment for estimated minimum lease escalators. Assets subject to operating leases are reported as real estate investments in the consolidated balance sheets. For facilities leased as direct financing arrangements, an asset equal to the Company's net initial investment is established on the balance sheet titled assets under direct financing leases. Payments received under the financing lease are bifurcated between interest income and principal amortization to achieve a consistent yield over the stated lease term using the interest method. Principal amortization (accretion) is reflected as an adjustment to the asset subject to a financing lease. Such accretion was approximately \$0.1 million, \$0.1 million, and \$0.1 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

Deferred Finance Costs

Deferred finance costs are being amortized using the straight-line method, which approximates the interest method, over the term of the respective underlying debt agreement.

Secured Loan Receivables

Secured loan receivables consist of capital improvement loans and secured loans to operators. Capital improvement loans represent the financing provided by the Company to the operator to acquire furniture, fixtures, and equipment while the operator is operating the facility. Secured loans to operators represent financing provided by the Company to operators for working capital needs. Secured loan receivables are carried at their principal amount outstanding. Management periodically evaluates outstanding secured loans and notes receivable for collectability on a loan-by-loan basis. 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. Loan impairment is monitored via a quantitative and qualitative analysis including credit quality indicators and it is reasonably possible that a change in estimate could occur in the near term. As of December 31, 2013 and 2012, respectively, secured loan receivable reserves amounted to approximately \$0 and \$0.3 million, respectively. No other circumstances exist that would suggest that additional reserves are necessary at the balance sheet dates other than as disclosed in Footnote 4.

Stock-Based Compensation

The Company follows ASC 718 Stock Compensation (ASC 718) in accounting for its share-based payments. This guidance requires measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock awards. This cost is recognized as compensation expense ratably over the employee's requisite service period. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized when incurred. Additionally, the Company must make estimates regarding employee forfeitures in determining compensation expense. Subsequent changes in actual experience are monitored and estimates are updated as information is available. The non-cash stock-based compensation expense incurred by the Company through December 31, 2013 is summarized in Footnote 14.

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;

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

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Company's interest rate swaps are valued using models developed by the respective counterparty that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy.

Cash and cash equivalents and derivative financial instruments are reflected in the accompanying consolidated balance sheets at amounts considered by management to reasonably approximate fair value. Management estimates the fair value of its long-term debt using a discounted cash flow analysis based upon the Company's current borrowing rate for debt with similar maturities and collateral securing the indebtedness. The Company had outstanding secured loans, unsecured notes payable, and a line of credit with a carrying value of approximately \$686.4 million and \$705.2 million as of December 31, 2013 and 2012, respectively. The fair values of debt as of December 31, 2013 and 2012 were \$705.8 million and \$720.8 million, respectively, based upon interest rates available to the Company on similar borrowings (Level 3). Management estimates the fair value of its

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secured loan receivables using a discounted cash flow analysis based upon the Company's current interest rates for secured loan receivables with similar maturities and collateral securing the indebtedness. The Company had outstanding secured loan receivables with a carrying value of approximately \$41.7 million and \$32.6 million as of December 31, 2013 and 2012, respectively. The fair values of secured loan receivables as of December 31, 2013 and 2012 approximate their carrying value based upon interest rates available to the Company on similar borrowings.

Derivative Instruments

In the normal course of business, a variety of financial instrument are used to manage or hedge interest rate risk. The Company has implemented ASC 815, Derivatives and Hedging (ASC 815), which establishes accounting and reporting standards requiring that all derivatives, including certain derivative instruments embedded in other contracts, be recorded as either an asset or liability measured at their fair value unless they qualify for a normal purchase or normal sales exception. When specific hedge accounting criteria are not met, ASC 815 requires that changes in a derivative's fair value be recognized currently in earnings. Changes in the fair market values of the Company's derivative instruments are recorded in the consolidated statements of operations and comprehensive income if the derivative does not qualify for or the Company does not elect to apply hedge accounting. If the derivative is deemed to be eligible for hedge accounting, such changes are reported in accumulated other comprehensive income within the consolidated statement of changes in equity, exclusive of ineffectiveness amounts, which are recognized as adjustments to net income. All of the changes in the fair market values of our derivative instruments are recorded in the consolidated statements of operations and comprehensive income for our interest rate swaps that were terminated in September 2010. In November 2010, the Company entered into two interest rate swaps (which were settled at the IPO) and account for changes in fair value of such hedges through accumulated other comprehensive (loss) income in equity in our financial statements via hedge accounting. Derivative contracts are not entered into for trading or speculative purposes. Furthermore, the Company has a policy of only entering into contracts with major financial institutions based upon their credit rating and other factors. Under certain circumstances, the Company may be required to replace a counterparty in the event that the counterparty does not maintain a specified credit rating. As of December 31, 2013, the Company has no outstanding derivative instruments.

Income Taxes

For federal income tax purposes, the Company elected, with the filing of its initial Form 1120 REIT, U.S. Income Tax Return for U.S. Real Estate Investment Trusts, to be taxed as a Real Estate Investment Trust (REIT) effective as of September 2010. To qualify as a REIT, the Company must meet certain organizational, income, asset and distribution tests. The Company currently is in compliance with these requirements and intends to maintain REIT status. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not elect REIT status for four subsequent years. However, the Company may still be subject to federal excise tax. In addition, the Company may be subject to certain state and local income and franchise taxes. Historically, the Company and its predecessor have generally only incurred certain state and local income and franchise taxes, but these amounts were immaterial in each of the periods presented. Prior to September 2010, the Partnership was a limited partnership and the consolidated operating results were included in the income tax returns of the individual partners. No uncertain income tax positions exist as of December 31, 2013 and 2012, respectively. The real estate investments of the Company have an income tax basis of approximately \$1.1 billion (unaudited) and \$812.8 million (unaudited) as of December 31, 2013 and 2012, respectively.

Noncontrolling Interests Operating Partnership / Partnership Units

Noncontrolling interests operating partnership, as presented on AVIV's consolidated balance sheets, represent OP units held by individuals and entities other than AVIV.

Noncontrolling interests operating partnership, which can be settled by issuance of unregistered shares are reported in the equity section of the consolidated balance sheets of AVIV. They are adjusted for income, losses and distributions allocated to OP units not held by AVIV. Adjustments to noncontrolling interests operating partnership are recorded to reflect increases or decreases in the ownership of the Partnership by holders of OP units as a result of the redemptions of OP units for cash or in exchange for shares of AVIV's common stock.

Prior to the IPO, the capital structure of our operating partnership consisted of six classes of partnership units, each of which had different capital accounts and each of which was entitled to different distributions. In connection with the IPO, each class of units of the Partnership was converted into an aggregate of 11,938,420 OP units held by limited partners of the Partnership. As of December 31, 2013, there were 11,616,283 of OP units outstanding.

Table of Contents**Earnings Per Share of the REIT**

Basic earnings per share is calculated by dividing the net income allocable to common shares for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing the net income allocable to common shares for the period by the weighted average number of common and dilutive securities outstanding during the period.

Earnings Per Unit of the Partnership

Basic earnings per unit is calculated by dividing the net income allocable to common units for the period by the weighted average number of OP units outstanding during the period. Diluted earnings per unit is calculated by dividing the net income allocable to OP units for the period by the weighted average number of common and dilutive securities outstanding during the period.

Risks and Uncertainties

The Company is subject to certain risks and uncertainties affecting the healthcare industry as a result of healthcare legislation and continuing regulation by federal, state, and local governments. Additionally, the Company is subject to risks and uncertainties as a result of changes affecting operators of nursing home facilities due to the actions of governmental agencies and insurers to limit the growth in cost of healthcare services.

Discontinued Operations

In accordance with ASC 205-20, *Presentation of Financial Statements-Discontinued Operations* (ASC 205-20), the results of operations to the actual or planned disposition of rental properties are reflected in the consolidated statements of operations and comprehensive income as discontinued operations for all periods presented to the extent material.

3. Real Estate Assets

The Company had the following acquisitions during the year ended December 31, 2013, 2012 and 2011 as described below:

2013 Acquisitions

Month Acquired	Property Type	Location	Purchase Price (in thousands)
April	Traumatic Brain Injury	CA	\$ 779
April	Traumatic Brain Injury	CA	697
April	SNF	TX	2,400
April	Medical Office Building	IN	1,200
May	SNF	OH	14,350
June	SNF	OK	6,200
August	SNF	KY	9,000
September	SNF	TX	3,450
October	ALF	FL	13,000

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October	SNF	OH/IN	35,900
November	SNF	OH	41,000
November	SNF	AR	1,162
December	Hospital	IN	9,300
December	SNF/ALF/Long-Term Acute Care	OH	35,600
December	SNF	TX	13,000
December	SNF	IL	7,000
December	SNF	TX	3,350
			197,388
May	Land Parcel in Development	CT	2,400
			\$ 199,788

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Table of Contents**2012 Acquisitions**

Month Acquired	Property Type	Location	Purchase Price (in thousands)
January	Land Parcel	OH	\$ 275
March	SNF	NV	4,800
March	SNF	OH	2,500
March	SNF/ALF	IA/NE	16,200
April	SNF	TX	72,700
April	ALF	FL	4,936
May	Land Parcel	TX	60
May	ALF	WI	2,500
June	ALF	CT	16,000
July	LTAC	IN	8,400
August	SNF	ID	6,000
September	Traumatic Brain Injury	CA	1,162
September	SNF	KY	9,925
October	SNF	WI	7,600
November	SNF	TX	5,000
November	ALF	FL	14,100
December	Traumatic Brain Injury	CA	975
December	SNF	OH	7,600
December	SNF/ALF	OK	3,500
			184,233
December	Land Parcel in Development	TX	93
			\$ 184,326

2011 Acquisitions

Month Acquired	Property Type	Location	Purchase Price (in thousands)
January	SNF	KS	\$ 3,045
March	SNF	PA	2,200
March	SNF	OH	9,581
March	SNF	FL	10,000
April	SNF/ALF	OH	9,250
April	SNF	KS	1,300
April	SNF	TX	2,093
April	SNF	TX	8,707
May	SNF	KS	2,273
May	SNF	MO	5,470
May	ALF	CT	12,000

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August	SNF	PA	6,100
August	ALF	CT	5,500
September	SNF	OH	3,200
November	SNF	OK	3,300
November	SNF	KS	10,800
November	SNF	PA	50,143
November	SNF	PA	6,657
December	SNF/Traumatic Brain Injury	CA/NV	24,845
December	SNF	AR	4,750
			\$ 181,214

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The following table illustrates the effect on total revenues and net income as if we had consummated the acquisitions as of January 1, 2012 (in thousands, unaudited):

	For the Year Ended December 31,	
	2013	2012
Total revenues	\$ 156,407	\$ 148,873
Net income	35,708	25,023

For the year ended December 31, 2013, revenues attributable to the acquired assets were approximately \$6.6 million and net income attributable to the acquired assets was approximately \$3.8 million recognized in the consolidated statements of operations and comprehensive income.

Transaction-related costs are not expected to have a continuing significant impact on our financial results and therefore have been excluded from these pro forma results. Related to the above business combinations, the Company incurred \$1.2 million and \$1.8 million of transaction costs for the year ended December 31, 2013 and 2012, respectively.

In accordance with ASC 805, the Company allocated the approximate net purchase price paid for these properties acquired as follows:

	2013	2012	2011
	<i>(in thousands)</i>		
Land	\$ 23,466	\$ 20,831	\$ 26,264
Buildings and improvements	163,634	148,307	148,914
Furniture, fixtures and equipment	12,688	15,188	7,567
Above market leases			42
Below market leases			(2,437)
Lease intangibles			864
Mortgages and other notes payable assumed		(11,460)	
Borrowings and available cash	\$ 199,788	\$ 172,866	\$ 181,214

For the business combinations in 2013, 2012 and 2011, other than the acquisition in December 2011 for a purchase price of \$24.8 million, the Company's purchase price allocation of the purchased business and subsequent leasing of the business to unrelated third party operators does not include an allocation to any intangible assets or intangible liabilities, as these amounts are either immaterial or do not exist.

The Company considers renewals on above- or below-market leases when ascribing value to the in-place lease intangible liabilities at the date of a property acquisition. In those instances where the renewal lease rate pursuant to the terms of the lease does not adjust to a current market rent, the Company evaluates whether the stated renewal rate is above or below current market rates and considers the past and current operations of the property, the current rent coverage ratio of the operator, 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.

Dispositions

For the year ended December 31, 2013, the Company disposed of six properties, one vacant land parcel and certain other assets for a total sales price of \$16.3 million, and the Company recognized a net gain on sale of approximately \$1.0 million. The total sales price and net gain are net of transaction costs incurred in relation to the closings at the time of disposition.

For the year ended December 31, 2012, the Company disposed of seven properties and one vacant land parcel for a total sales price of \$36.2 million and the Company recognized a net gain on sale of approximately \$4.4 million (included in discontinued operations). The total sales price and net gain are net of transaction costs incurred in relation to the closings at the time of disposition.

For the year ended December 31, 2011, the Company disposed of four vacant land parcels for a total sales price of \$1.5 million and the Company recognized a net gain on sale of approximately \$1.2 million. The total sales price and net gain are net of transaction costs incurred in relation to the closings at the time of disposition.

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The following summarizes the Company's construction in progress and land held for development at December 31 (in thousands):

	2013	2012	2011
Beginning Balance, January 1	\$ 4,576	\$ 28,293	\$ 2,580
Additions	20,467	25,428	25,713
Sold		(8,038)	
Placed in service	(1,751)	(41,107)	
	\$ 23,292	\$ 4,576	\$ 28,293

During 2013, 2012 and 2011, the Company capitalized expenditures for improvements related to various construction and reinvestment projects. In 2013, the Company placed into service one completed investment project at one property located in California. In 2012, the Company placed into service three additions and two remodels to three properties located in Washington and two development properties located in Connecticut. In accordance with ASC 835 *Capitalization of Interest* (ASC 835), the Company capitalizes interest based on the average cash balance of construction in progress for the period using the weighted-average interest rate on all outstanding debt, which approximated 6.9% for the year ended December 31, 2013. The balance of capitalized interest within construction in progress at December 31, 2013, 2012 and 2011 was \$0.8 million, \$0.1 million and \$0.7 million, respectively. The amount capitalized during the year ended December 31, 2013, 2012 and 2011, relative to interest incurred was \$0.8 million, \$1.1 million and \$0.4 million, respectively.

4. Secured Loan Receivables

The following summarizes the Company's secured loan receivables at December 31, 2013 and 2012 (in thousands):

	2013			2012		
	Capital Improvement Loans	Secured Operator Loans	Total Loans	Capital Improvement Loans	Secured Operator Loans	Total Loans
Beginning balance	\$ 19,360	\$ 13,279	\$ 32,639	\$ 13,606	\$ 19,425	\$ 33,031
New loans issued	380	13,360	13,740	8,707	13,365	22,072
Reserve for uncollectible secured loans					(5,589)	(5,589)
Loan write offs		(11)	(11)		(942)	(942)
Loan amortization and repayments	(2,076)	(2,606)	(4,682)	(2,953)	(12,980)	(15,933)
	\$ 17,664	\$ 24,022	\$ 41,686	\$ 19,360	\$ 13,279	\$ 32,639

Interest income on secured loans and financing leases for the years ended December 31, 2013, 2012, and 2011 (in thousands):

	2013	2012	2011
Capital improvement loan receivable	\$ 1,754	\$ 1,386	\$ 1,214
Secured operator loan receivables	1,190	1,808	2,558
Direct financing lease	1,456	1,439	1,421
	\$ 4,400	\$ 4,633	\$ 5,193

The Company's reserve on a loan-by-loan basis for uncollectible secured loan receivables balances at December 31, 2013 and 2012 was approximately \$0 and \$0.3 million, respectively and any movement in the reserve is reflected in reserve for uncollectible loan and other receivables in the consolidated statements of operations and comprehensive income. The gross balance of secured loan receivables for which a reserve on a loan-by-loan basis for uncollectible secured loan receivables has been applied was approximately \$0 and \$3.1 million, at December 31, 2013 and 2012, respectively.

During 2013 and 2012, the Company funded loans for both working capital and capital improvement purposes to various operators. All loans held by the Company accrue interest and are recorded as interest income unless the loan is deemed impaired in accordance with Company policy. The payments received from the operator cover both interest accrued as well as amortization of the principal balance due. Any payments received from the operator made outside of the normal loan amortization schedule are considered principal prepayments and reduce the outstanding loan receivables balance.

Table of Contents**5. Deferred Finance Costs**

The following summarizes the Company's deferred finance costs at December 31, 2013 and 2012 (in thousands):

	2013	2012
Gross amount	\$ 21,881	\$ 20,995
Accumulated amortization	(5,238)	(6,344)
Net	\$ 16,643	\$ 14,651

The estimated annual amortization of the deferred finance costs for each of the five succeeding years is as follows (in thousands):

2014	\$ 3,893
2015	3,893
2016	2,543
2017	2,126
2018	2,126
Thereafter	2,062
Total	\$ 16,643

During the year ended December 31, 2013, the Company wrote-off deferred financing costs of approximately \$9.7 million with approximately \$4.6 million of accumulated amortization associated with the pay downs of previous credit facilities for a net recognition as loss on extinguishment of debt of approximately \$5.1 million.

During the year ended December 31, 2012, the Company wrote-off deferred financing costs of approximately \$0.05 million with approximately \$0.01 million of accumulated amortization associated with the pay down of a previous credit facility for a net recognition as loss on extinguishment of debt of approximately \$0.04 million, including approximately \$0.01 million recognized in discontinued operations.

6. Intangible Assets and Liabilities

The following summarizes the Company's intangible assets and liabilities classified as part of other assets or other liabilities at December 31, 2013 and 2012, respectively (in thousands):

	Assets					
	2013		Net	2012		Net
	Gross Amount	Accumulated Amortization		Gross Amount	Accumulated Amortization	
Above market leases	\$ 6,437	\$ (3,452)	\$ 2,985	\$ 6,642	\$ (3,176)	\$ 3,466
In-place lease assets	652	(130)	522	652	(65)	587

Operator relationship	212	(34)	178	212	(17)	195
	\$ 7,301	\$ (3,616)	\$ 3,685	\$ 7,506	\$ (3,258)	\$ 4,248

	Liabilities					
	Gross	2013	Net	Gross	2012	Net
Amount	Accumulated	Amount		Accumulated		
Below market leases	\$ 17,623	\$ (10,059)	\$ 7,564	\$ 25,695	\$ (16,281)	\$ 9,414

Amortization expense for in-place lease assets and operator relationship was \$0.1 million, \$0.1 million, and \$0 million for the years ended December 31, 2013, 2012, and 2011 and is included as a component of depreciation and amortization in the consolidated statements of operations and comprehensive income. Amortization expense for the above market leases intangible asset for the years ended December 31, 2013, 2012, and 2011 was approximately \$0.5 million, \$0.6 million, and \$0.6 million, respectively, and is included as a component of rental income in the consolidated statements of operations and comprehensive income. Accretion for the below market leases intangible liability for the years ended December 31, 2013, 2012, and 2011 was approximately \$1.9 million, \$2.0 million, and \$2.0 million, respectively, and is included as a component of rental income in the consolidated statements of operations and comprehensive income.

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For the year ended December 31, 2013, the Company wrote-off above market leases intangible assets of approximately \$0.2 million with accumulated amortization of approximately \$0.2 million, and below market leases intangible liabilities of approximately \$8.0 million with accumulated accretion of approximately \$8.0 million, for a net recognition of \$0 in rental income from intangible amortization. These write-offs were the result of fully amortized assets and fully accreted liabilities.

For the year ended December 31, 2012, the Company wrote-off above market leases intangible assets of approximately \$0.9 million with accumulated amortization of approximately \$0.7 million, and below market leases intangible liabilities of approximately \$0.8 million with accumulated accretion of approximately \$0.7 million, for a net recognition of approximately \$19,000 gain in rental income from intangible amortization, respectively.

For the year ended December 31, 2011, the Company wrote-off above market leases intangible assets of approximately \$0.9 million with accumulated amortization of approximately \$0.3 million, and below market leases intangible liabilities of approximately \$1.7 million with accumulated accretion of approximately \$1.2 million, for a net recognition of approximately \$35,000 loss in rental income from intangible amortization, respectively.

The estimated annual amortization expense of the identified intangibles for each of the five succeeding years and thereafter is as follows:

Year ending December 31,	Assets	Liabilities
2014	\$ 472	\$ 1,066
2015	426	891
2016	392	868
2017	326	726
2018	326	721
Thereafter	1,743	3,292
	\$ 3,685	\$ 7,564

7. Leases

As of December 31, 2013, the Company's portfolio of investments consisted of 282 healthcare facilities, located in 29 states and operated by 38 third party operators. At December 31, 2013, approximately 50.3% (measured as a percentage of total assets) were leased by five private operators: Saber Health Group (15.1%), Daybreak Healthcare (12.8%), Maplewood (8.5%), EmpRes (7.9%), and SunMar (6.0%). No other operator represents more than 5.4% of our total assets. The five states in which the Company had its highest concentration of total assets were Texas (16.6%), Ohio (15.9%), California (13.0%), Connecticut (7.6%), and Pennsylvania (6.0%), at December 31, 2013.

For the year ended December 31, 2013, the Company's rental income from operations totaled approximately \$136.5 million, of which approximately \$21.9 million was from Daybreak Healthcare (16.0%), \$20.1 million from Saber Health Group (14.8%), and \$12.3 million from EmpRes (9.0%). No other operator generated more than 8.0% of the Company's rental income from operations for the year ended December 31, 2013.

The Company's real estate investments are leased under noncancelable triple-net operating leases. Under the provisions of the leases, the Company receives fixed minimum monthly rentals, generally with annual increases, and the operators are responsible for the payment of all operating expenses, including repairs and maintenance, insurance,

and real estate taxes of the property throughout the term of the leases.

At December 31, 2013, future minimum annual rentals to be received under the noncancelable lease terms are as follows (in thousands):

2014	\$ 151,552
2015	154,863
2016	155,336
2017	153,792
2018	145,824
Thereafter	587,764
	\$ 1,349,131

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The Company's secured loans, unsecured notes payable and line of credit consisted of the following (in thousands):

	December 31, 2013	December 31, 2012
HUD loan (interest rate of 5.00% on December 31, 2013 and 2012, respectively), inclusive of a \$2.4 million and \$2.5 million premium balance at December 31, 2013 and 2012, respectively)	\$ 13,654	\$ 13,882
2019 Notes (interest rate of 7.75% on December 31, 2013 and 2012, respectively), inclusive of \$2.8 million and \$3.2 million net premium balance, respectively	402,752	403,180
2021 Notes (interest rate of 6.00% on December 31, 2013)	250,000	
Revolving Credit Facility (interest rate of 2.52% at December 31, 2013)	20,000	
Term Loan (interest rate of 5.75% on December 31, 2012)		192,212
Acquisition Credit Line (interest rate of 5.75% on December 31, 2012)		18,925
2016 Revolver (interest rate of 5.25% on December 31, 2012)		69,369
Acquisition loans (interest rate of 6.00% on December 31, 2012)		7,585
Total	\$ 686,406	\$ 705,153

In conjunction with the IPO on March 26, 2013, the Company under Aviv Financing I repaid the outstanding balance of the Term Loan and the Acquisition Credit Line and under Aviv Financing V repaid the outstanding balance of the 2016 Revolver in the amounts of \$191.2 million, \$18.9 million, and \$94.4 million, respectively. The Company paid \$2.2 million in prepayment penalties which is included in loss on extinguishment of debt on the consolidated statements of operations and comprehensive income for the year ended December 31, 2013.

2019 Notes

On February 4, 2011, April 5, 2011, and March 28, 2012 Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation (the Issuers) issued \$200 million, \$100 million and \$100 million of 7 3/4% Senior Notes due in 2019 (the 2019 Notes), respectively. The REIT is a guarantor of the Issuers' 2019 Notes. The 2019 Notes are unsecured senior obligations of the Issuers and will mature on February 15, 2019, and bear interest at a rate of 7.75% per annum, payable semiannually to holders of record at the close of business on the February 1 or the August 1 immediately preceding the interest payment date on February 15 and August 15 of each year, commencing August 15, 2011. A premium of approximately \$2.75 million and \$1.0 million was associated with the offering of the \$100 million of 2019 Notes on April 5, 2011 and the \$100 million of 2019 Notes on March 28, 2012, respectively. The premium will be amortized as an adjustment to the yield on the 2019 Notes over their term. The Company used

the proceeds, amongst other things, to pay down approximately \$87.7 million of the Acquisition Credit Line, \$5.5 million of the 2016 Revolver and \$6.1 million of other indebtedness during 2012.

2021 Notes

On October 16, 2013, the Issuers issued \$250 million of 6% Senior Notes due in 2021 (2021 Notes). The REIT is a guarantor of the Issuers' 2021 Notes. The 2021 Notes are unsecured senior obligations of the Issuers and will mature on October 16, 2021, and bear interest at a rate of 6.00% per annum, payable semiannually to holders of record at the close of business on the April 1 or the October 1 immediately preceding the interest payment date on April 15 and October 15 of each year, commencing April 15, 2014. The Company used the net proceeds, amongst other things, to pay down approximately \$135.0 million of the outstanding indebtedness under the Revolving Credit Facility during 2013.

Revolving Credit Facility

On March 26, 2013, the Company, under Aviv Financing IV, entered into a \$300 million secured revolving credit facility and \$100 million term loan with Bank of America (collectively, the Revolving Credit Facility). On April 16, 2013, the Company converted the entire \$100 million term loan into a secured revolving credit facility, thereby terminating the term loan and any availability thereunder and increasing the amount available under the secured revolving credit facility from \$300 million to \$400 million. On each payment date, the Company pays interest only in arrears on any outstanding principal balance. The interest rate is based on LIBOR plus a margin of 235 basis points to 300 basis points depending on the Company's leverage ratio. The interest rate at December 31, 2013 was 2.52%. Additionally, an unused fee equal to 50 basis points per annum of the daily unused balance on the Revolving Credit Facility is payable quarterly in arrears. The initial term expires in March 2016 with a one year extension option, subject to certain conditions.

Table of Contents***Other Loans***

On November 1, 2010, a subsidiary of Aviv Financing III entered into two acquisition loan agreements on the same terms that provided for borrowings of \$7.8 million. Principal and interest payments are due monthly beginning on December 1, 2010 through the maturity date of December 1, 2015. Interest is a fixed rate of 6.00%. These loans are collateralized by a skilled nursing facility controlled by Aviv Financing III. These acquisition loans were paid off in full on May 15, 2013.

On June 15, 2012, a subsidiary of Aviv Financing III assumed a HUD loan with a balance of approximately \$11.5 million. Interest is at a fixed rate of 5.00%. The loan originated in November 2009 with a maturity date of October 1, 2044, and is based on a 35-year amortization schedule. The Company is obligated to pay the remaining principal and interest payments of the loan. A premium of \$2.5 million was associated with the assumption of debt and will be amortized as an adjustment to interest expense on the HUD loan over its term.

Future annual maturities of all debt obligations for five fiscal years subsequent to December 31, 2013 and thereafter, are as follows (in thousands):

2014	\$ 157
2015	165
2016	20,174
2017	183
2018	192
Thereafter	660,367
	681,238
Debt premiums	5,168
	\$ 686,406

9. Related Party Receivables and Payables

Related party receivables and payables represent amounts due from/to various affiliates of the Company. An officer of the Company funded approximately \$2.0 million at December 31, 2012 in connection with the distribution settlement (see Footnote 11). The amount is recognized as part of other liabilities as of December 31, 2012, and was subsequently distributed. There are no other related party receivables or payables as of December 31, 2013 and 2012.

10. Derivatives

During the periods presented, the Company was party to two interest rate swaps, with identical terms of \$100.0 million each, which were purchased to fix the variable interest rate on the denoted notional amount under the Term Loan. On March 26, 2013, in connection with the pay down of the Term Loan, the Company settled all interest rate swaps at a fair value of \$3.6 million and such amount previously recorded in accumulated other comprehensive income (loss) was recorded within loss on extinguishment of debt in the consolidated statements of operations and comprehensive income. The interest rate swaps qualified for hedge accounting and as such the amounts previously recorded in accumulated other comprehensive income in the consolidated statement of changes in equity were reversed. For presentational purposes they are shown as one derivative due to the identical nature of their economic

terms (in thousands).

Total notional amount	\$ 200,000
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
Liability balance at December 31, 2012 (included in other liabilities)	\$ (3,773)

The derivative positions were valued using models developed by the respective counterparty that used as their basis readily observable market parameters (such as forward yield curves) and were classified within Level 2 of the valuation hierarchy. The Company considered its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. As of December 31, 2013, there are no derivative instruments outstanding.

Table of Contents**11. Commitments and Contingencies**

The Company had a contractual arrangement with an operator to reimburse quality assurance fees levied by the California Department of Health Care Services from August 1, 2005 through July 31, 2008. The Company was obligated to reimburse the fees to the operator if and when the state withheld these fees from the operator's Medi-Cal reimbursements associated with five facilities that were formerly leased to Trinity Health Systems. The total possible obligation for these fees was \$1.4 million, which the Company has paid. Judicial proceedings initiated by the Company seeking declaratory relief for these fees were settled on July 24, 2012 which provided for recovery of such amounts from the State of California. The approximate settlement of \$756,000 is recognized in interest and other income for the year ended December 31, 2012.

During 2011, the Company entered into a contractual arrangement with an operator in one of its facilities to reimburse any liabilities, obligations or claims of any kind or nature resulting from the actions of the former operator in such facility, Brighten Health Care Group. The Company is obligated to reimburse the fees to the operator if and when the operator incurs such expenses associated with certain Indemnified Events, as defined therein. The total possible obligation for these fees is estimated to be \$2.3 million, of which approximately \$1.9 million has been paid to date. The remaining \$0.4 million was accrued as a component of other liabilities in the consolidated balance sheets.

In late 2011, after a dispute with certain of its limited partners, the Partnership filed a declaratory judgment motion in the Delaware Chancery Court seeking confirmation that an adjustment to the distributions of cash flows of the Partnership was made in accordance with the partnership agreement following the investment in the Partnership by the Company and related financing transactions. The dispute relates to the relative distributions among classes of limited partners that existed prior to the investment by the Company. In November 2012, certain limited partners (including Ari Ryan, one of our former directors, and other members of the estate of Zev Karkomi, one of our co-founders) filed suit in the Circuit Court of Cook County, Illinois against the REIT, the Partnership and Mr. Bernfield alleging that the adjustment described above was improper and adding certain fiduciary duty claims against the Company and Mr. Bernfield in connection with the adjustment and certain equity incentive programs implemented in connection with the investment in the Partnership by the REIT, the terms of which were approved by several of the plaintiffs in the Illinois action. In January 2013, the Company reached a settlement with the defendant in the Delaware action and the plaintiffs in the Illinois action. The settlement releases the REIT, the Partnership and Mr. Bernfield in exchange for a partial reallocation of relative distributions among classes of limited partners, which reallocation was funded by the limited partners that previously received such distributions or offset against distributions otherwise due. No additional amounts are payable by the REIT, the Partnership or Mr. Bernfield and, accordingly, the settlement is not expected to have a material impact on the REIT or the Partnership.

The Company has purchase options with one of its tenants that are not exercisable by the tenant until January 1, 2017 for five properties and January 1, 2019 for two properties. If the 2017 pool is not exercised, the tenant loses the right to exercise the 2019 option. The purchase options call for the purchase price, as defined, to be determined at a future date. In addition, the Company has purchase options with four tenants on five properties that are exercisable by the applicable tenant at various times during the terms of the respective leases. Two of such options are exercisable at a predetermined purchase price and the remaining three call for a purchase price to be determined at a future date.

The Company is involved in various unresolved legal actions and proceedings, which arise in the normal course of our business. Although the outcome of a particular proceeding can never be predicted, we do not believe that the result of any of these other matters will have a material adverse effect on our business, operating results, liquidity or financial position.

12. Noncontrolling Interests Operating Partnership / Partnership Units

Noncontrolling interests operating partnership, as presented on AVIV's consolidated balance sheets, represent the OP units held by individuals and entities other than AVIV. Accordingly, the following discussion related to noncontrolling interests operating partnership of the REIT refers equally to partnership units of the Partnership.

Holders of OP units are entitled to receive distributions in a per unit amount equal to the per share dividends made with respect to each share of AVIV's common stock, if and when AVIV's Board of Directors declares such a dividend. Holders of OP units have the right to tender their units for redemption, in an amount equal to the fair market value of AVIV's common stock. AVIV may elect to redeem tendered OP units for cash or for shares of AVIV's common stock. During the year ended December 31, 2013, OP unitholders redeemed a total of 322,137 OP units in exchange for an equal number of shares of common stock of AVIV.

Table of Contents**13. Stockholders Equity of the REIT and Partners Capital of the Partnership**

Distributions accrued in accordance with declaration to the Partnership's partners are summarized as follows for the years ended December 31 (in thousands):

	Class A	Class B	Class C	Class D	Class F	OP Units	REIT Shares
2013	\$ 2,797	\$ 97	\$ 146	\$	\$ 554	\$ 13,064	\$ 60,276
2012	\$ 9,002	\$ 1,879	\$ 2,541	\$	\$ 2,215	\$	\$ 27,955
2011	\$ 6,734	\$ 2,894	\$ 7,041	\$	\$ 2,215	\$	\$ 23,163

In connection with the IPO, Class A through F Units were converted into OP units and are no longer outstanding as of December 31, 2013. The weighted-average Units outstanding are summarized as follows for the years ended December 31:

	Class A	Class B	Class C	Class D	Class F	OP Units	REIT Shares
2013	3,136,203	1,053,335		1,875	625,251	9,091,974	33,700,834
2012	13,467,223	4,523,145	2	8,050	2,684,900		20,006,538
2011	13,467,223	4,523,145	2	8,050	2,684,900		14,487,565

In connection with the IPO each class of limited partnership units of the Partnership were converted into an aggregate of 21,653,813 OP units held by the REIT and 11,938,420 OP units held by limited partners of the Partnership. As a result, the Partnership has a single class of OP units as of March 26, 2013. As noted above, the OP units held by limited partners of the Partnership are redeemable for cash or, at the REIT's election, unregistered shares of the REIT's common stock on a one-for-one basis.

During the years ended December 31, 2013, 2012 and 2011:

AVIV issued an aggregate of 70,500, 0, and 0 shares of common stock in connection with the Company's annual grant of unrestricted and restricted stock to its Board of Directors;

AVIV reserved for issuance an aggregate of 226,585, 0, and 0 shares of common stock in connection with the Company's annual grant of restricted stock to employees, the hiring of new employees and grants and retainers for its Board of Directors. During the year ended December 31, 2013, 17,470 shares reserved for restricted stock were forfeited;

AVIV also issued 15,180,000 shares in connection with the IPO on March 26, 2013 that resulted in proceeds to the Company, net of underwriting discounts, commissions, advisory fees and other offering costs of \$282.3 million; and

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OP unitholders redeemed a total of 322,137, 0, and 0 OP units in exchange for an equal number of shares of AVIV's common stock.

For the year ended December 31, 2013, AVIV declared and paid the following cash dividends totaling \$1.40 per share on its common stock, of which the Partnership paid equivalent distributions on OP units:

Record Date	Payment Date	Cash Dividend	Ordinary Taxable Dividend (unaudited)	Nontaxable Return of Capital Distributions (unaudited)
3/25/2013	3/29/2013	\$ 0.30	\$ 0.024	\$ 0.276
6/3/2013	6/17/2013	0.38	0.065	0.319
8/30/2013	9/16/2013	0.36	0.061	0.299
1/3/2014	1/17/2014	0.36	0.000	0.000
		\$ 1.40	\$ 0.150	\$ 0.894

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Of the \$0.36 dividend paid in January 2014, \$0.36 will be included in 2014 taxable common dividends.

14. Equity Compensation Plan

Prior to September 2010, 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 settled on December 31, 2012 in Class C Units or, at the Company's discretion, cash. For accounting purposes, expense recognition under the program commenced in 2008, and the related expense for the years ended December 31, 2013, 2012 and 2011 was \$0, \$0.4 million, and \$0.4 million, respectively.

Class D units were periodically granted to employees of Aviv Asset Management (AAM), a subsidiary of the Operating Partnership. Part of the Class D Units are defined as performance-based awards under ASC 718 and require employment of the recipient on the date of sale, disposition, or refinancing (Liquidity Event). If the employee is no longer employed on such date, the award is forfeited. The remainder of the Class D Units were time-based awards under ASC 718 and such fair value determined on the grant date was recognized over the vesting period. During 2013, 2012, and 2011 0, 0 and 3,220 of the time-based Class D Units vested, respectively resulting in the recognition of approximately \$0, \$0, and \$0.4 million, respectively, in expense. On March 26, 2013, the performance component Class D Units were converted to OP units in connection with the IPO, and \$0.9 million of expense was recognized.

Restricted Stock Grants

On March 26, 2013 the Company adopted the Aviv REIT, Inc. 2013 Long-Term Incentive Plan (the LTIP). The purpose of the LTIP is to attract and retain qualified persons upon who, in large measure, the Company's sustained progress, growth and profitability depend, to motivate the participants to achieve long-term Company goals and to align the participants' interests with those of other stockholders by providing them with a proprietary interest in the Company's growth and performance. The Company's executive officers, employees, consultants and non-employee directors are eligible to participate in the LTIP. Under the plan, 2,000,000 shares of the Company's common stock are available for issuance. The shares can be issued as restricted stock awards (RSAs) or as restricted stock units (RSUs).

During 2013, the Company issued 70,500 RSAs, of which 23,250 shares were issued, vested, and are unrestricted and 47,250 shares were issued and are subject to a vesting period. Additionally, the Company issued 226,585 RSUs, of which 17,470 were subsequently forfeited prior to the year ended December 31, 2013. Some of these RSUs are subject to time vesting and some are subject to performance vesting. The time-based equity RSUs generally vest over a period of two to three years, subject to the employee's continued employment with the Company. The performance-based RSUs vest on the basis of Total Shareholder Return TSR on the Company's stock compared to the TSR of its peer companies, as defined. The first installment of the performance based RSUs are based on the companies comprising the NAREIT Equity Index and the companies comprising the Bloomberg Healthcare REIT Index for the performance period beginning on the date of the IPO and ending December 31, 2014. The second installment is based on the companies comprising the NAREIT Equity Index and the companies comprising the Bloomberg Healthcare REIT Index for the performance period beginning on the date of the IPO and ending December 31, 2015. If the service and performance conditions are met, approximately half of the RSUs will vest on December 31, 2014 and the remaining will vest on December 31, 2015. The RSUs carry dividend equivalent rights and are subject to the same vesting terms as the underlying RSUs.

For the year ended December 31, 2013, the Company recognized total non-cash stock-based compensation expense related to the LTIP of \$1.9 million.

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Restricted stock awards vest over specified periods of time as long as the employee remains with the Company. The following table sets forth the number of unvested shares of restricted stock and the weighted average fair value of these shares at the date of grant:

	Shares of Restricted Stock	Weighted Average Fair Value of Date of Grant
Unvested balance at January 1, 2013	\$	\$
Granted	273,835	\$ 30.47
Vested		\$
Forfeited	(17,470)	\$ 39.14
Unvested balance at December 31, 2013	\$ 256,365	\$ 29.93

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As of December 31, 2013, total unearned compensation on restricted stock was \$6.2 million, and the weighted average vesting period was 1.94 years.

Option Awards

On September 17, 2010, the Company adopted the 2010 Management Incentive Plan (the MIP), which provides for the grant of option awards. Two thirds of the options granted under the MIP were performance based awards whose criteria for vesting is tied to a future liquidity event (as defined) and also contingent upon meeting certain return thresholds (as defined). The grant date fair value associated with all performance-based award options of the Company aggregated to approximately \$7.4 million at the time of the IPO. One third of the options granted under the MIP were time based awards and the service period for these options is four years with shares vesting at a rate of 25% ratably from the grant date.

In connection with the IPO, all options outstanding under the MIP, representing options to purchase 5,870,138 shares with a weighted average exercise price of \$17.47 per share, became fully-vested. In addition, recipients were entitled to receive dividend equivalents on their options awarded under the MIP. Dividend equivalents were paid on time-based options on (i) the date of vesting, with respect to any portion of a time-based option that was unvested on the date the dividend equivalent was accrued, and (ii) the last day of the calendar quarter in which such dividends were paid to stockholders, with respect to any portion of a time-based option vested as of the date the dividend equivalent was accrued. Dividend equivalents accrued and unpaid prior to the consummation of the IPO in the approximate amount of \$14.8 million were paid in shares of common stock, net of applicable withholding of approximately \$6.8 million, in an amount based on the IPO price of common stock. No dividend equivalents will be paid for any MIP options with respect to periods after the date of the IPO by the Company.

In connection with the IPO, the holders of option awards under the MIP received a new class of units of LG Aviv L.P., the legal entity through which Lindsay Goldberg holds its interest in the REIT, equal to the number of options held by such persons immediately prior to the consummation of the IPO. Under the limited partnership agreement of LG Aviv L.P., the units are entitled to receive an aggregate distribution amount equal to 14.9% of the dividend distributions declared and received by LG Aviv L.P. after the consummation of the IPO in respect of its shares of common stock. The distribution amount will be paid by LG Aviv L.P. ratably to each holder of such units on the distribution date in the proportion that the total number of units held by such holder bears to the total outstanding units of the same class. Any unit payments will be paid, if at all, on the earlier of (i) the last day of the calendar quarter in which dividends were paid to the Company stockholders and (ii) three business days following the holder's termination of employment with the Company. For the year ended December 31, 2013, \$2.4 million was paid by LG Aviv L.P. to the holders of such units.

The following table represents the time and performance-based option awards activity for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Outstanding at January 1	1,956,805	1,417,228	1,320,041
Granted		701,550	97,187
Awards vested at IPO	3,913,333		
Cancelled/Forfeited		(161,973)	
Outstanding at December 31	5,870,138	1,956,805	1,417,228

Options exercisable at end of period				
Weighted average fair value of options granted	\$	2.20	\$	2.20
			\$	1.87

The following table represents the time and performance based option awards outstanding cumulatively life-to-date for the years ended December 31, 2013, 2012, and 2011 as well as other MIP data:

	2013	2012	2011
Range of exercise prices	\$ 16.56 - \$18.87	\$ 16.56 - \$18.87	\$ 16.56 - \$18.87
Outstanding	5,870,138	1,956,805	1,417,228
Remaining contractual life (years)	7.06	8.06	8.78
Weighted average exercise price	\$ 17.47	\$ 17.42	\$ 16.75

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The Company has used the Black-Scholes option pricing model to estimate the grant date fair value of the options. In connection with the IPO, all options outstanding under the MIP became fully-vested and the plan was retired. There were no options awarded in 2013. The following table includes the assumptions that were made in estimating the grant date fair value for options awarded in 2012 and 2011.

	2012 Grants	2011 Grants
Weighted average dividend yield	7.54%	8.13%
Weighted average risk-free interest rate	1.31%	2.02%
Weighted average expected life	7 years	7 years
Weighted average estimated volatility	38.24%	38.10%
Weighted average exercise price	\$ 18.78	\$ 18.80
Weighted average fair value of options granted (per option)	\$ 2.88	\$ 2.78

The Company recorded non-cash compensation expenses of approximately \$9.0 million, \$1.3 million and \$1.1 million for the years ended December 31, 2013, 2012 and 2011, related to the time and performance based stock options accounted for as equity awards, as a component of general and administrative expenses in the consolidated statements of operations and comprehensive income, respectively.

At December 31, 2013, 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 \$0.

Dividend equivalent rights associated with the Plan that became payable upon vesting amounted to \$15.4 million, \$2.3 million, and \$2.2 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Table of Contents**15. Earnings Per Common Share of the REIT**

The following table shows the amounts used in computing the basic and diluted earnings per common share (in thousands except for share and per share amounts).

	For the Year Ended December 31,		
	2013	2012	2011
Numerator for earnings per share basic:			
Income from continuing operations	\$ 23,071	\$ 4,007	\$ 11,547
Income from continuing operations allocable to noncontrolling interests	(6,010)	(1,611)	(5,213)
Income from continuing operations allocable to common stockholders, net of noncontrolling interests	17,061	2,396	6,334
Discontinued operations, net of noncontrolling interests		2,742	(128)
Numerator for earnings per share basic	\$ 17,061	\$ 5,138	\$ 6,206
Numerator for earnings per share diluted:			
Numerator for earnings per share basic	\$ 17,061	\$ 2,396	\$ 6,334
Income from continuing operations allocable to noncontrolling interests OP Units	4,610		
Subtotal	21,671	2,396	6,334
Discontinued operations, net of noncontrolling interests		2,742	(128)
Numerator for earnings per share diluted	\$ 21,671	\$ 5,138	\$ 6,206
Denominator for earnings per share basic and diluted:			
Denominator for earnings per share basic	33,700,834	20,006,538	14,487,565
Effect of dilutive securities:			
Noncontrolling interests OP Units	9,091,974		
Stock options	1,518,838	129,151	145,789
Restricted stock units	12,568		
Denominator for earnings per share diluted	44,324,214	20,135,689	14,633,354

Basic earnings per share

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Income from continuing operations allocable to common stockholders	\$	0.51	\$	0.12	\$	0.44
Discontinued operations, net of noncontrolling interests				0.14		(0.01)
Net income allocable to common stockholders	\$	0.51	\$	0.26	\$	0.43
Diluted earnings per share						
Income from continuing operations allocable to common stockholders	\$	0.49	\$	0.12	\$	0.43
Discontinued operations, net of noncontrolling interests				0.14		(0.01)
Net income allocable to common stockholders	\$	0.49	\$	0.26	\$	0.42

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Table of Contents**16. Earnings Per Unit of the Partnership**

The following table shows the amounts used in computing the basic and diluted earnings per unit (in thousands except for unit and per unit amounts).

	For the Year Ended December 31,		
	2013	2012	2011
Numerator for earnings per unit basic:			
Income from continuing operations	\$ 23,071	\$ 4,007	\$ 11,547
Income from continuing operations allocable to limited partners	(1,400)	(1,611)	(5,213)
Income from continuing operations allocable to units	21,671	2,396	6,334
Discontinued operations		2,742	(128)
Numerator for earnings per unit basic:	\$ 21,671	\$ 5,138	\$ 6,206
Numerator for earnings per unit diluted:			
Income from continuing operations allocable to units	\$ 21,671	\$ 2,396	\$ 6,334
Discontinued operations		2,742	(128)
Numerator for earnings per unit diluted	\$ 21,671	\$ 5,138	\$ 6,206
Denominator for earnings per unit basic and diluted:			
Denominator for basic earnings per unit basic	42,792,808	20,006,538	14,487,565
Effective dilutive securities:			
Stock options	1,518,838	129,151	145,789
Restricted stock units	12,568		
Denominator for earnings per unit diluted	44,324,214	20,135,689	14,633,354
Basic earnings per unit:			
Income from continuing operations allocable to units	\$ 0.51	\$ 0.12	\$ 0.44
Discontinued operations		0.14	(0.01)
Net income allocable to units	\$ 0.51	\$ 0.26	\$ 0.43
Diluted earnings per unit:			
	\$ 0.49	\$ 0.12	\$ 0.43

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Income from continuing operations
allocable to units

Discontinued operations			0.14		(0.01)
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Net income allocable to units	\$	0.49	\$	0.26	\$	0.42
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Table of Contents**17. Discontinued Operations**

ASC 205-20 requires that the operations and associated gains and/or losses from the sale or planned disposition of components of an entity, as defined, be reclassified and presented as discontinued operations in the Company's consolidated financial statements for all periods presented. In April 2012, the Company sold three properties in Arkansas and one property in Massachusetts to unrelated third parties. All other sales were immaterial to the consolidated financial statements. Below is a summary of the components of the discontinued operations for the respective periods:

	Year Ended December 31,		
	2013	2012	2011
	<i>(in thousands)</i>		
Total revenues	\$	\$ 270	\$ 1,261
Expenses:			
Interest expense incurred		(27)	
Amortization of deferred financing costs		(2)	(8)
Depreciation and amortization		(34)	(575)
Gain on sale of assets, net		4,425	
Loss on extinguishment of debt		(13)	
Other expenses		(33)	(912)
Total gains (expenses)		4,316	(1,495)
Discontinued operations		4,586	(234)
Discontinued operations allocation to noncontrolling interests		1,844	(106)
Discontinued operations allocation to controlling interests	\$	\$ 2,742	\$ (128)

Table of Contents**18. Quarterly Results of Operations (Unaudited)**

The following is a summary of our unaudited quarterly results of operations for the years ended December 31, 2013 and 2012 (in thousands) including the effects of discontinued operations. The sum of individual quarterly amounts may not agree to the annual amounts included in the consolidated statements of income due to rounding.

	Year Ended December 31, 2013			
	1 st Quarter ⁽¹⁾	2 nd Quarter	3 rd Quarter ⁽²⁾	4 th Quarter
Total revenues	\$ 34,700	\$ 35,033	\$ 32,873	\$ 38,461
Net income	\$ (11,440)	\$ 13,405	\$ 10,067	\$ 11,039
Net income allocable to stockholders	\$ (7,477)	\$ 10,147	\$ 7,621	\$ 6,770
Earnings per common share allocable to stockholders				
Basic	\$ (0.33)	\$ 0.27	\$ 0.20	\$ 0.22
Diluted	\$ (0.33)	\$ 0.26	\$ 0.20	\$ 0.22
	Year Ended December 31, 2012			
	1 st Quarter ⁽³⁾	2 nd Quarter ⁽⁴⁾	3 rd Quarter ⁽⁵⁾	4 th Quarter ⁽⁶⁾
Total revenues	\$ 29,268	\$ 32,813	\$ 32,273	\$ 32,618
Income (loss) from continuing operations	\$ 5,847	\$ (804)	\$ 1,767	\$ (2,803)
Net income	\$ 6,016	\$ 3,613	\$ 1,767	\$ (2,803)
Net income allocable to stockholders	\$ 3,560	\$ 2,255	\$ 1,130	\$ (1,807)
Earnings per common share allocable to stockholders				
Basic	\$ 0.18	\$ 0.11	\$ 0.05	\$ (0.08)
Diluted	\$ 0.18	\$ 0.11	\$ 0.05	\$ (0.08)

- (1) The results include \$11.0 million loss on extinguishment of debt and \$9.9 million of non-cash stock-based compensation as a result of the IPO in the first quarter.
- (2) The results include \$2.9 million of straight-line rent receivable write-offs due to early termination of leases and replacement of operators in the third quarter.
- (3) The results include \$0.7 million of impairment in the first quarter.
- (4) The results include \$3.7 million of impairment in the second quarter.
- (5) The results include \$1.8 million of impairment and \$2.8 million of reserve for uncollectible loan receivables in the third quarter.
- (6)

The results include \$5.0 million of impairment and \$0.2 million of reserve for uncollectible loan receivables in the fourth quarter.

19. Subsequent Events

On January 1, 2014, the Company acquired three properties in Minnesota for a purchase price of \$40.0 million from an unrelated third party. The Company used available cash to fund this acquisition.

On January 31, 2014, the Company acquired a property in Texas for a purchase price of \$15.9 million from an unrelated third party. The Company used available cash to fund this acquisition.

The following table illustrates the effect on total revenues and net income as if the Company had consummated the above acquisition, as well as those noted in Footnote 3, as of January 1, 2012 (in thousands, unaudited):

	For the Year Ended	
	December 31,	
	2013	2012
Total revenues	\$ 161,699	\$ 154,165
Net income	39,580	28,895

The Company's \$1,000,000,000 universal shelf registration statement was declared effective by the SEC on January 28, 2014. The registration includes shares that may become issuable as a result of redemptions of 5,450,576 of the 11,616,283 OP units outstanding as of December 31, 2013.

Table of Contents**20. Condensed Consolidating Information**

AVIV and certain of the Partnership's direct and indirect wholly owned subsidiaries (the Unencumbered Subsidiary Guarantors and Encumbered Subsidiary Guarantors) fully and unconditionally guaranteed, on a joint and several basis, the obligation to pay principal and interest with respect to our 2019 Notes and 2021 Notes issued in February 2011, April 2011, March 2012 and October 2013. The 2019 Notes and 2021 Notes were issued by Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation. 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 Unencumbered Subsidiary Guarantors or Encumbered Subsidiary Guarantors were not obligated with respect to the 2019 Notes and 2021 Notes. The Non-Guarantor Subsidiaries are subject to mortgages. The following summarizes the Partnership's condensed consolidating information as of December 31, 2013, and 2012 and for the years ended December 31, 2013, 2012, and 2011.

CONDENSED CONSOLIDATING BALANCE SHEET**As of December 31, 2013****(in thousands)**

	Unencumbered Subsidiary Issuers	Encumbered Subsidiary Guarantors	Non- Subsidiary Guarantors	Non- Subsidiaries	Eliminations	Consolidated
Assets						
Net rental properties	\$ 55	\$ 712,443	\$ 192,489	\$ 258,501	\$	\$ 1,163,488
Cash and cash equivalents	50,709	(600)	(69)	724		50,764
Deferred financing costs, net	12,681		3,948	14		16,643
Other	25,260	50,520	19,353	4,405		99,538
Investment in and due from related parties, net	1,168,729				(1,168,729)	
Total assets	\$ 1,257,434	\$ 762,363	\$ 215,721	\$ 263,644	\$ (1,168,729)	\$ 1,330,433
Liabilities and equity						
Secured loan	\$	\$	\$	\$ 13,654	\$	\$ 13,654
Unsecured notes payable	652,752					652,752
Line of credit			20,000			20,000
Accrued Interest Payable	14,750		487	47		15,284
Dividends	17,694					17,694
Accounts payable and accrued expenses	2,082	3,056	3,547	1,870		10,555
Tenant security and escrow deposits	765	13,115	3,625	4,081		21,586
Other liabilities	946	7,520	1,132	865		10,463
Total liabilities	688,989	23,691	28,791	20,517		761,988
Total equity	568,445	738,672	186,930	243,127	(1,168,729)	568,445

Total liabilities and equity	\$ 1,257,434	\$ 762,363	\$ 215,721	\$ 263,644	\$ (1,168,729)	\$ 1,330,433
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Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

As of December 31, 2012

(in thousands)

		Unencumbered Subsidiary Issuers	Encumbered Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Net rental properties	\$	54	\$ 731,036	\$ 197,221	\$ 55,150	\$ 983,461
Cash and cash equivalents		16,869	(1,746)	(68)	479	15,534
Deferred financing costs, net		8,965		5,673	13	14,651
Other		15,738	50,373	14,121	3,309	83,541
Investment in and due from related parties, net		711,028			(711,028)	
Total assets		\$ 752,654	\$ 779,663	\$ 216,947	\$ 58,951	\$ 1,097,187
Liabilities and equity						
Secured loan	\$		\$	\$ 192,212	\$ 21,467	\$ 213,679
Unsecured notes payable		403,180				403,180
Line of credit				88,294		88,294
Accrued Interest Payable		11,625		1,593	47	13,265
Dividends		13,687				13,687
Accounts payable and accrued expenses		2,077	6,153	2,396	317	10,943
Tenant security and escrow deposits		50	14,203	3,560	465	18,278
Other liabilities		1,534	9,090	4,735		15,359
Total liabilities		432,153	29,446	292,790	22,296	776,685
Total equity		320,501	750,217	(75,843)	36,655	(711,028)
Total liabilities and equity		\$ 752,654	\$ 779,663	\$ 216,947	\$ 58,951	\$ 1,097,187

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME****For the Year Ended December 31, 2013****(in thousands)**

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues						
Rental income	\$	\$ 96,532	\$ 29,234	\$ 10,747	\$	\$ 136,513
Interest on secured loans and financing lease	1,104	3,008	288			4,400
Interest and other income	5	116	33			154
Total revenues	1,109	99,656	29,555	10,747		141,067
Expenses						
Interest Expense	33,390		6,617	778		40,785
Amortization of deferred financing costs	1,592		1,867			3,459
Depreciation and amortization	6	24,629	5,840	2,751		33,226
General and administrative	15,662	172	10,937	115		26,886
Transaction costs	832	458	516	1,308		3,114
Loss on impairment		500				500
Reserve for uncollectible secured loan receivables and other receivables	(10)	(11)	89			68
Gain on sale of assets, net		(1,016)				(1,016)
Loss on extinguishment of debt			10,974			10,974
Total expenses	51,472	24,732	36,840	4,952		117,996
Net (loss) income	(50,363)	74,924	(7,285)	5,795		23,071
Equity in income (loss) of subsidiaries	73,434				(73,434)	
Net income (loss) allocable to units	\$ 23,071	\$ 74,924	\$ (7,285)	\$ 5,795	\$ (73,434)	\$ 23,071

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME****For the Year Ended December 31, 2012****(in thousands)**

	Unencumbered Subsidiary Issuers	Encumbered Subsidiary Guarantors	Non- Subsidiary Guarantors	Elimination	Consolidated	
Revenues						
Rental income	\$	\$ 89,971	\$ 28,295	\$ 2,944	\$ 121,210	
Interest on secured loans and financing lease	1,490	2,802	341		4,633	
Interest and other income	4	963	162		1,129	
Total revenues	1,494	93,736	28,798	2,944	126,972	
Expenses						
Interest Expense	28,734		17,981	725	47,440	
Amortization of deferred financing costs	1,375		2,168		3,543	
Depreciation and amortization		20,554	5,600	738	26,892	
General and administrative	6,434	361	9,111	49	15,955	
Transaction costs	4,171	1,665	1,040	383	7,259	
Loss on impairment		11,117			11,117	
Reserve for uncollectible secured loan receivables and other receivables	6,532	3,643	156		10,331	
Loss on extinguishment of debt			28		28	
Other expenses			400		400	
Total expenses	47,246	37,340	36,484	1,895	122,965	
(Loss) income from continuing operations	(45,752)	56,396	(7,686)	1,049	4,007	
Discontinued operations		332		4,254	4,586	
Net (loss) income	(45,752)	56,728	(7,686)	5,303	8,593	
Equity in income (loss) of subsidiaries	54,345			(54,345)		
Net income (loss) allocable to units	\$ 8,593	\$ 56,728	\$ (7,686)	\$ 5,303	\$ (54,345)	\$ 8,593
Unrealized loss on derivative instruments			(476)		(476)	
Total comprehensive income allocable to units	\$ 8,593	\$ 56,728	\$ (8,162)	\$ 5,303	\$ (54,345)	\$ 8,117

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME****For the Year Ended December 31, 2011****(in thousands)**

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues						
Rental income	\$	\$ 70,128	\$ 19,578	\$ 1,385	\$	\$ 91,091
Interest on secured loans and financing lease	2,234	2,652	307			5,193
Interest and other income	18	818	8			844
Total revenues	2,252	73,598	19,893	1,385		97,128
Expenses						
Interest Expense	19,543		16,003	464		36,010
Amortization of deferred financing costs	916		1,741			2,657
Depreciation and amortization		16,111	3,833	328		20,272
General and administrative	4,117	192	7,109	4		11,422
Transaction costs	1,399	2,968	1,126			5,493
Loss on impairment		5,233				5,233
Reserve for uncollectible secured loan receivables and other receivables	1,505	86				1,591
Gain on sale of assets, net		(1,171)				(1,171)
Loss on extinguishment of debt			3,807			3,807
Other expenses			267			267
Total expenses	27,480	23,419	33,886	796		85,581
(Loss) income from continuing operations	(25,228)	50,179	(13,993)	589		11,547
Discontinued operations		(84)		(150)		(234)
Net (loss) income	(25,228)	50,095	(13,993)	439		11,313
Equity in income (loss) of subsidiaries	36,541				(36,541)	
Net income (loss) allocable to units	\$ 11,313	\$ 50,095	\$ (13,993)	\$ 439	\$ (36,541)	\$ 11,313
			(7,392)			(7,392)

Unrealized loss on derivative instruments

Total comprehensive income allocable to units	\$ 11,313	\$ 50,095	\$ (21,385)	\$ 439	\$ (36,541)	\$ 3,921
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Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the Year Ended December 31, 2013****(in thousands)**

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities	\$ (59,358)	\$ 8,938	\$ (92,735)	\$ 212,850	\$	\$ 69,695
Investing activities						
Purchase of real estate investments				(197,389)		(197,389)
Sale of real estate investments		15,549				15,549
Capital improvements	(8)	(10,104)	(1,086)	(805)		(12,003)
Development Projects		(12,290)	(51)	(6,397)		(18,738)
Secured loan receivables received from others	2,446	1,235	354	52		4,087
Secured loan receivables funded to others	(7,739)	(2,182)	(156)	(330)		(10,407)
Net used in investing activities	(5,301)	(7,792)	(939)	(204,869)		(218,901)
Financing activities						
Borrowings of debt	250,000		220,000			470,000
Repayment of debt			(480,506)	(7,735)		(488,241)
Payment of financing costs	(5,145)		(5,302)	(1)		(10,448)
Capital contributions	575					575
Initial Public Offering	303,600					303,600
Cost of raising capital	(385,310)		359,481			(25,829)
Cash distributions to partners	(65,221)					(65,221)
Net cash provided by (used in) financing activities	98,499		93,673	(7,736)		184,436
Net (decrease) increase in cash and cash equivalents	33,840	1,146	(1)	245		35,230
Cash and cash equivalents:						
Beginning of period	16,869	(1,746)	(68)	479		15,534
End of period	\$ 50,709	\$ (600)	\$ (69)	\$ 724	\$	\$ 50,764

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the Year Ended December 31, 2012****(in thousands)**

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities	\$ (152,298)	\$ 157,728	\$ 16,305	\$ 22,056	\$	\$ 43,791
Investing activities						
Purchase of real estate investments		(135,796)	(4,800)	(32,177)		(172,773)
Sale of real estate investments		14,775		17,158		31,933
Capital improvements	(54)	(8,095)	(5,342)	(67)		(13,558)
Development Projects		(25,473)	(334)	(2,260)		(28,067)
Secured loan receivables received from others	12,754	1,426	452			14,632
Secured loan receivables funded to others	(13,065)	(3,436)	(356)			(16,857)
Net cash used in investing activities	(365)	(156,599)	(10,380)	(17,346)		(184,690)
Financing activities						
Borrowings of debt	101,000		164,224	2,537		267,761
Repayment of debt			(167,878)	(6,249)		(174,127)
Payment of financing costs	(2,562)		(2,581)			(5,143)
Payment of swap termination						
Capital contributions	109,000					109,000
Deferred contributions	(35,000)					(35,000)
Cash distributions to partners	(45,262)					(45,262)
Net cash provided by (used in) financing activities	127,176		(6,235)	(3,712)		117,229
Net decrease in cash and cash equivalents	(25,487)	1,129	(310)	998		(23,670)
Cash and cash equivalents:						
Beginning of period	42,356	(2,875)	242	(519)		39,204
End of period	\$ 16,869	\$ (1,746)	\$ (68)	\$ 479	\$	\$ 15,534

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****For the Year Ended December 31, 2011****(in thousands)**

	Issuers	Unencumbered Subsidiary Guarantors	Encumbered Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net cash (used in) provided by operating activities	\$ (300,872)	\$ 114,901	\$ 236,140	\$ 262	\$	\$ 50,431
Investing activities						
Purchase of real estate investments		(98,048)	(83,166)			(181,214)
Sale of real estate investments		1,510				1,510
Capital improvements		(5,303)	(4,061)			(9,364)
Development Projects		(15,990)		(5,416)		(21,406)
Secured loan receivables received from others	7,332	6,552	454			14,338
Secured loan receivables funded to others	(2,700)	(7,357)	(863)			(10,920)
Net cash provided by (used in) investing activities	4,632	(118,636)	(87,636)	(5,416)		(207,056)
Financing activities						
Borrowings of debt	302,750		97,417	4,761		404,928
Repayment of debt			(244,727)	(105)		(244,832)
Payment of financing costs	(8,594)		(1,000)	(14)		(9,608)
Capital contributions	40,420					40,420
Deferred contributions	35,000					35,000
Cash distributions to partners	(43,107)					(43,107)
Net cash provided by (used in) financing activities	326,469		(148,310)	4,642		182,801
Net decrease in cash and cash equivalents	30,229	(3,735)	194	(512)		26,176
Cash and cash equivalents:						
Beginning of period	12,127	860	48	(7)		13,028
End of period	\$ 42,356	\$ (2,875)	\$ 242	\$ (519)	\$	\$ 39,204

Table of Contents**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS****Accounts Receivable and Secured Loans Receivable Allowance for Doubtful Accounts (in thousands)**

	Balance at Beginning of Year	Charged to (Recovered from) Costs and Expenses	Deductions and Write-offs	Balance at End of Year
Allowance for uncollectible accounts receivable				
Year ended December 31, 2013	\$ 803	\$ 57	\$ (534)	\$ 326
Year ended December 31, 2012	80	3,948	(3,225)	803
Year ended December 31, 2011		80		80
Allowance for uncollectible secured loan receivable				
Year ended December 31, 2013	\$ 317	\$ 11	\$ (328)	\$
Year ended December 31, 2012	2,176	6,532	(8,391)	317
Year ended December 31, 2011	750	1,512	(86)	2,176

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Table of Contents**SCHEDULE III****Real Estate and Investments (in thousands)**

Type of Asset	Encumbrances	City	State	Costs Capitalized Subsequent to Initial Cost to Company Acquisition				Amount Carried at December 31, 2013 (c)				Year of Construction
				Buildings & Improvements	Land	Adjustments	Impairment / Dispositions	Buildings & Improvements	Land	Accumulated Depreciation	Net	
	(1)	Chicago	IL	\$	\$	\$ 62	\$	\$	\$ 62	\$ (6)	\$ 56	
						62			62	(6)	56	
(a)	(2)	Methuen	MA	31	496		(527)					1910
(a)	(2)	Lawrence	MA	63	959	21	(225)	63	755	(367)	451	1963
(c)	(2)	Fall River	MA	91	1,309	(1)	(1,399)					
(a)	(2)	Lowell	MA	82	1,211		(253)	82	958	(479)	561	1964
(a)	(2)	Worcester	MA	42	664	489	(664)	42	489	(250)	281	1965
(a)	(2)	North Reading	MA	113	1,567	151	(253)	113	1,465	(657)	921	1966
(c)	(2)	Quincy	MA	66	1,052		(1,118)					
(a)	(2)	Fall River	MA	32	513	1	(284)	13	249	(184)	78	1882
(a)	(2)	Oxford	MA	64	941	556	(193)	64	1,304	(459)	909	1966
(a)	(2)	Worcester	MA	71	1,031	75	(205)	71	901	(413)	559	1960
(c)	(2)	Lawrence	MA	90	1,306	(1)	(1,395)					
(a)	(2)	Lawrence	MA	61	946		(235)	61	711	(356)	416	1965
(c)	(2)	Worcester South	MA	93	1,375	(1)	(1,467)					
(a)	(2)	Haven	MI	221	4,239	13		221	4,252	(1,080)	3,393	1975
(a)	(2)	Pepin	WI	318	1,570	333		318	1,903	(424)	1,797	1978

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(a)	(2)	Highland	IL	190	1,724		190	1,724	(475)	1,440	1963	
(a)	(2)	Omaha	NE	211	6,695		(2)	209	6,695	(1,917)	4,987	1971
(a)	(2)	Santa Fe	NM	1,030	2,692	772		1,030	3,464	(938)	3,556	1985
(a)	(2)	Clayton	NM	41	790	35		41	825	(297)	569	1960
(a)	(2)	Hobbs	NM	9	672			9	672	(292)	389	1963
(a)	(2)	Bloomfield	NM	344	4,736	19		344	4,755	(1,250)	3,849	1985

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Type of Asset	Encumbrances	City	State	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition	Amount Carried at December 31, 2013 (c)			Year of Construction	Date Acquired
				Land	Buildings & Improvements	Adjustments	Impairment / Dispositions	Land	Buildings & Accumulated Depreciation	Net		
(a)	(2)	Espanola	NM	216	4,143	17	216	4,160	(1,200)	3,176	1984	2005
(a)	(2)	Lordsburg	NM	57	1,882		57	1,882	(459)	1,480	1972	2005
(a)	(2)	Silver City	NM	305	5,844		305	5,844	(1,496)	4,653	1984	2005
(a)	(2)	Bonham	TX	63	2,583		63	2,583	(703)	1,943	1970	2005
(a)	(2)	Cooper	TX	96	2,727	8	96	2,735	(729)	2,102	1966	2005
(a)	(2)	Wolfe City	TX	49	1,010	(8)	49	1,002	(309)	742	1946	2005
(a)	(2)	Clifton	TX	125	2,975		125	2,975	(865)	2,235	1995	2005
(a)	(2)	Stanton	TX	261	1,018	11	261	1,029	(301)	989	1972	2005
(a)	(2)	Valley Mills	TX	34	1,091	(9)	34	1,082	(305)	811	1971	2005
(a)	(2)	Moody	TX	13	328							2005
(a)	(2)	Bellingham	WA	61	491	1,984	61	2,475	(416)	2,120	1965	2005
(a)	(2)	Orange	TX	98	1,948	18	98	1,966	(550)	1,514	1973	2005
(a)	(2)	Orange	TX	99	2,072	23	99	2,095	(605)	1,589	1955	2005
(a)	(2)	Wheeler	TX	17	1,369		17	1,369	(407)	979	1982	2005
(a)	(2)	Harrisonville	MO	144	1,922	226	144	2,148	(512)	1,780	1970	2005

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(a)	(2)	Harrisonville	MO	189	2,532	221	189	2,753	(638)	2,304	1977	2005
(a)	(2)	Rayton	MO	252	3,376	245	252	3,621	(931)	2,942	1978	2005
(a)	(2)	Monett	MO	259	3,470	23	259	3,493	(899)	2,853	1976	2005
(a)	(2)	Lee s Summit	MO	292	3,915	50	292	3,965	(1,005)	3,252	1986	2005
(a)	(2)	Lewiston	ID	201	4,319	506	201	4,825	(1,380)	3,646	1958	2005
(a)	(2)	Payette	ID	179	3,166	(27)	179	3,139	(728)	2,590	1964	2005
(b)	(2)	Wendell	ID	177	405	1,006	177	1,411	(241)	1,347	1911	2005

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e	et Encumbrances	City	State	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)		Year of Construction	Date Acquired
				Land	Buildings & Improvements	Land Improvements	Intangible Assets / Dispositions	Land	Buildings & Accumulated Depreciation	Net		
(2)	McCall	ID	213	676	(6)	(883)					1965	2005
(2)	Portland	OR	112	2,205	221		112	2,426	(757)	1,781	1959	2005
(2)	Burlington	WA	115	1,170	86		115	1,256	(315)	1,056	1930	2005
(2)	Cathlamet	WA	49	505		(554)					1965	2005
(2)	Grandview	WA	19	1,155	15		19	1,170	(438)	751	1964	2005
(2)	Sunnyside	WA	102	1,639	6,895		102	8,534	(972)	7,664	1970	2005
(2)	Hot Springs	MT	104	1,943	19		104	1,962	(504)	1,562	1963	2005
(2)	Polson	MT	121	2,358	(20)		121	2,338	(644)	1,815	1971	2005
(2)	The Dalles	OR	200	3,832	92		200	3,924	(951)	3,173	1964	2005
(2)	LaGrande	OR	281	4,784	248		281	5,032	(1,167)	4,146	1961	2005
(2)	Colfax	WA	231	6,271	38		231	6,309	(1,455)	5,085	1985	2005
(2)	Youngtown	AZ	101	1,940	170	(2,211)					1971	2005
(2)	Gilmer	TX	257	2,993	367		257	3,360	(826)	2,791	1967	2005
(2)	Columbus	WI	352	3,477	302		352	3,779	(869)	3,262	1950	2005

(2)	Faribault	MN	70	1,485	102		70	1,587	(467)	1,190	1958	2005
(2)	Owatonna	MN	125	2,321	(19)		125	2,302	(615)	1,812	1963	2005
(2)	Wilmar	MN	70	1,341	20		70	1,361	(396)	1,035	1998	2005
(2)	Omaha	NE	413	3,516	4	(3,933)					1999	2005
(2)	Ogden	UT	234	4,478	601		234	5,079	(1,161)	4,152	1977	2005
(2)	Prescott	AR	44	1,462	209		44	1,671	(553)	1,162	1965	2005
(2)	Star City	AR	28	1,069	80		28	1,149	(304)	873	1969	2005
(2)	Peabody	KS	22	502	140		22	642	(139)	525	1963	2005
(2)	Benton Harbor	MI	166	3,185	457	(3,808)			(0)	(0)	1971	2005
(2)	Marysville	CA	281	1,320		(1,601)						2005
(2)	Yuba City	CA	177	2,130		(2,307)						2005
(2)	Lexington	MO	151	2,943	325		151	3,268	(886)	2,533	1970	2005

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Encumbrances	City	State	Costs Capitalized				Amount Carried at			Year of Construction	Date Acquired	
			Initial Cost to Company	Subsequent to Acquisition	Impairment / Dispositions	Buildings & Improvements	Buildings & Accumulated Depreciation	Net				
(2)	Twin Falls	ID	448	5,145			448	5,145	(1,313)	4,280	1961	2008
(2)	Fullerton	CA	2,982	3,648			2,982	3,648	(916)	5,714	1966	2008
(2)	Baldwin Park	CA	868	1,748	7		868	1,755	(510)	2,113	1938	2008
(2)	Long Beach	CA	140	767	(1)	(906)						2008
(2)	Oakland	CA	246	685	11		246	696	(183)	759	1961	2008
(2)	Oakland	CA	246	1,416	45		246	1,461	(499)	1,208	1960	2008
(2)	Ponoma	CA	1,393	2,426			1,393	2,426	(627)	3,192	1964	2008
(2)	Hutchinson	KS	180	2,547	92		180	2,639	(708)	2,111	1963	2008
(2)	Little Rock	AR	270	4,006		(4,276)					1979	2008
(2)	Little Rock	AR	1,411		7,330	(8,741)					2008	2008
(2)	St. Charles	MO	1,300	10,777	14		1,300	10,791	(2,154)	9,937	1994	2008
(2)	St. Louis	MO	1,600	9,525	51		1,600	9,576	(1,971)	9,205	1979	2008
(2)	Rolla	MO	1,200	7,841	2,507		1,200	10,348	(1,628)	9,920	1993	2008
(2)	Ballwin	MO	550	3,995	66		550	4,061	(836)	3,775	2004	2008
(2)	Olney	IL	350	2,484			350	2,484	(578)	2,256	2004	2008
(2)	Bonham	TX	76	1,130			76	1,130	(233)	973	1969	2008
(2)	Columbus	TX	150	1,809		(1,959)					1974	2008
(2)	Denison	TX	178	1,945			178	1,945	(404)	1,719	1958	2008

(2)	Falfurias	TX	92	1,065		92	1,065	(241)	916	1974	20
(2)	Kingsville	TX	315	3,689	2,732	315	6,421	(832)	5,904	1947	20
(2)	Mount Vernon	TX	180	1,971		180	1,971	(482)	1,669	2004	20
(2)	Clarkston	WA	162	7,038	5,518	162	12,556	(2,055)	10,663	1970	20
(2)	Camas	WA	593	3,921	6,277	593	10,198	(1,580)	9,211	1970	20

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Mortgage Encumbrances	City	State	Costs				Amount Carried at				Year of Construction	Acquired
			Initial Cost to Company	Capitalized Subsequent to Acquisition	Impairment / Dispositions	Adjustments	Land	Buildings & Accumulated Depreciation	Net			
(2)	Richland	WA	693	9,307	153		693	9,460	(1,824)	8,329	2004	2004
(2)	Milton Freewater	OR	700	5,404			700	5,404	(1,129)	4,975	1965	2004
(2)	Yorkville	IL	560	3,074	(1)	(3)	560	3,070	(697)	2,933	1963	2004
(2)	Zion	IL	147	5,235	131	(5,513)					1970	2004
(2)	Irving	TX	1,746	11,419	114	(143)	1,746	11,390	(2,279)	10,857	1964	2004
(2)	Madison	WI	480	1,861	6		480	1,867	(462)	1,885	1974	2004
(2)	Cincinnati	OH	125	6,278	448	(340)	123	6,388	(1,542)	4,969	1969	2004
(2)	West Chester	OH	375	5,663	369	(6,407)					1965	2004
(2)	Willmington	OH	125	6,078	673		125	6,751	(1,551)	5,325	1951	2004
(2)	Riverside	CA	1,091	5,647	(1)	(26)	1,091	5,620	(1,711)	5,000	1967	2004
(2)	Monterey Park	CA	1,586	9,274		(23)	1,586	9,251	(2,495)	8,342	1965	2004
(2)	Santa Ana	CA	1,076	5,984	596		1,076	6,580	(1,325)	6,331	1967	2004
(2)	Tujunga	CA	614	5,031		(25)	614	5,006	(1,206)	4,414	1967	2004
(2)	Medford	MA	2,366	6,613	291	(9,270)					1978	2004
(2)	Ambler	PA	370	5,112	(653)		370	4,459	(824)	4,005	1963	2004
(2)	Broomall	PA	608	3,930	591		608	4,521	(922)	4,207	1955	2004
(2)	Bryn Mawr	PA	708	6,352	1,469		708	7,821	(1,428)	7,101	1972	2004

(2)	Lake Ariel	PA	369	7,560	730		369	8,290	(1,585)	7,074	1980	2
(2)	Avon	OH	394	8,856	456		394	9,312	(1,854)	7,852	1964	2
(2)	Belleville	IL	670	3,431			670	3,431	(625)	3,476	1978	2
(2)		TX	345	4,353	6		345	4,358	(796)	3,908		2
(2)	Searcy	AR	773	2,413	132	(2,398)	25	895	(420)	500	1961	2
(2)	Arvin	CA	900	4,765	784		1,029	5,420	(860)	5,589	1984	2
(2)	Bakersfield	CA	1,000	12,154	1,839		1,153	13,840	(1,979)	13,014	1987	2

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Encumbrances	City	State	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition	Amount Carried at December 31, 2013 (c)			Year of Construction	Date Acquired	
			Land	Buildings & Improvements	Adjustments	Impairment / Dispositions	Land	Buildings & Accumulated Depreciation	Net			
(2)	Lakeport	CA	1,100	5,237	877		1,257	5,957	(967)	6,247	1987	2009
(2)	Tracy	CA	1,900	10,294	1,687		2,172	11,709	(1,707)	12,174	1987	2009
(2)	Oroville	CA	800	8,609	2,298		922	10,785	(1,579)	10,128	1987	2009
(2)	Chico	CA	1,300	8,398	1,394		1,488	9,604	(1,523)	9,569	1988	2009
(2)	LaGrande	OR	1,400	808	307		1,591	924	(186)	2,329	1975	2009
(2)	Bremerton	WA	650	1,366		(2,016)					1969	2009
(2)	Belleville	IL	989	5,007			989	5,007	(714)	5,282	1972	2009
(2)	Little Rock	AR	751	4,421	1,614		751	6,035	(931)	5,855	1969	2009
(2)	Jonesboro	AR	417	7,007	148		417	7,155	(1,116)	6,456	1973	2009
(2)	Benton	AR	250	3,170	313		250	3,483	(555)	3,178	1968	2009
(2)	Trumann	AR	167	3,587	104		167	3,691	(565)	3,293	1971	2009
(2)	McPherson	KS	92	1,875	148		92	2,023	(282)	1,833	1970	2009
(2)	Riverside	CA	230	1,210			230	1,210	(187)	1,253	1957	2009
(2)	Searcy	AR		10,213	630		630	10,213	(1,531)	9,312	2009	2009

(2)	Mount Pleasant	TN	67	3,313		67	3,313	(315)	3,065	1979	20
(2)	Portageville	MO	224	3,089		224	3,089	(283)	3,030	1995	20
(2)	Greenville	MO	119	2,219		119	2,219	(208)	2,130	1990	20
(2)	Senath	MO	109	2,773	266	109	3,039	(284)	2,864	1980	20
(2)	Senath	MO	73	1,855		73	1,855	(177)	1,751	1980	20
(2)	Lynchburg	VA	706	4,294		706	4,294	(359)	4,641	1994	20
(2)	Arma	KS	57	2,898		57	2,898	(258)	2,697	1970	20
(2)	Yates	KS	54	2,990		54	2,990	(265)	2,779	1967	20
(2)	Great Bend	KS	111	4,589	299	111	4,888	(528)	4,471	1965	20

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e et Encumbrances	City	State	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition	Amount Carried at December 31, 2013 (c)			Year of Construction	Date Acquired	
			Land	Buildings & Improvements	Adjustments	Impairment / Dispositions	Hand Improvements	Buildings & Accumulated Depreciation Net				
(2)	Norwalk	CT	1,590	1,010		15,793	1,590	16,803	(545)	17,848	1983	2010
(2)	Carrizo Springs	TX	45	1,955			45	1,955	(189)	1,811	1965	2010
(2)	Wellington	KS				2,000		2,000	(236)	1,764	1957	2010
(2)	Carrabelle	FL	1,144	8,856			1,144	8,856	(788)	9,212	2009	2011
(2)	Cleveland	OH	886	8,695			886	8,695	(674)	8,907	1982	2011
(2)	Grand Rapids	OH	288	1,517			288	1,517	(121)	1,684	1993	2011
(2)	Bellevue	OH	282	3,440			282	3,440	(253)	3,469	1988	2011
(2)	Bellevue	OH	282	3,440			282	3,440	(253)	3,469	1998	2011
(2)	Conroe	TX	577	2,091		280	577	2,371	(216)	2,732	1975	2011
(2)	Fredericksburg	TX	327	3,046		30	327	3,076	(237)	3,166	1970	2011
(2)	Jasper	TX	113	2,554		29	113	2,583	(187)	2,509	1972	2011
(2)	Peabody	KS	33	1,267		463	33	1,730	(104)	1,659	1963	2011
(2)	Commerce	TX	225	1,868		444	225	2,312	(184)	2,353	1963	2011
(2)	Moberly	MO	913	4,557		6	913	4,563	(357)	5,119	1987	2011

(2)	Gettysburg	PA	242	5,858	347	242	6,205	(427)	6,020	1950	2011
(2)	Darien	CT	2,430	3,070	12,263	2,430	15,333	(601)	17,162	2012	2011
(2)	Scranton	PA	1,120	5,537		1,120	5,537	(314)	6,343	2002	2011
(2)	Davis	OK	80	3,220		80	3,220	(186)	3,114	1969	2011
(2)	Santa Ana	CA	220	1,129		220	1,129	(74)	1,275	1989	2011
(2)	La Habra	CA	200	1,339		200	1,339	(86)	1,453	1990	2011
(2)	Oxnard	CA	100	1,219		100	1,219	(80)	1,239	1994	2011
(2)	Fairfax	CA	320	2,149		320	2,149	(131)	2,338	2000	2011
(2)	Artesia	CA	180	1,389		180	1,389	(89)	1,480	2002	2011
(2)	Las Vegas	NV	760	7,776	324	760	8,100	(463)	8,397	2004	2011

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Type of Asset	Encumbrances	City	State	Initial Cost to Complete Acquisition			Costs Capitalized Subsequent to Acquisition				Amount Carried at December 31, 2013 (c)		Year of Construction	Date Acquired
				Land	Buildings & Improvements	Adjustments	Land	Buildings & Improvements	Depreciation	Net				
	(2)	Cuyahoga Falls	OH										2013	2012
(a)	(2)	Germantown	OH	330	2,170	278	330	2,448	(138)	2,640			1996	2012
(b)	(2)	North Platte	NE	237	2,129	77	237	2,206	(158)	2,285			1984	2012
(b)	(2)	Shenandoah	IA	68	402		68	402	(21)	449			1997	2012
(a)	(2)	Creston	IA	72	1,467	117	72	1,584	(84)	1,572			1964	2012
(b)	(2)	Rock Rapids	IA	83	2,282		83	2,282	(119)	2,246			1998	2012
(a)	(2)	Rock Rapids	IA	113	2,349	151	113	2,500	(127)	2,486			1976	2012
(b)	(2)	Onawa	IA	227	1,733	190	227	1,923	(114)	2,036			1961	2012
(a)	(2)	Rockwell City	IA	62	2,092		62	2,092	(110)	2,044			1966	2012
(a)	(2)	New Hampton	IA	144	2,739	31	144	2,770	(155)	2,759			1967	2012
(a)	(2)	Austin	TX	770	5,230		770	5,230	(275)	5,725			1964	2012
(a)	(2)	Bastrop	TX	480	3,120		480	3,120	(205)	3,395			1987	2012
(a)	(2)	Beaumont	TX	300	700		300	700	(45)	955			1969	2012
(a)	(2)	Boerne	TX	480	3,470	300	780	3,470	(216)	4,034			1994	2012
(a)	(2)	Karnes City	TX	420	3,130		420	3,130	(206)	3,344			1994	2012
(a)	(2)	Denton	TX	240	2,060		240	2,060	(119)	2,181			1969	2012
(a)	(2)	Floresville	TX	780	6,120		780	6,120	(365)	6,535			1995	2012
(a)	(2)	DeLeon	TX	200	2,800		200	2,800	(154)	2,846			1974	2012
(a)	(2)	Lampasas	TX	360	4,640		360	4,640	(268)	4,732			1990	2012
(a)	(2)	Levelland	TX	300	3,800		300	3,800	(245)	3,855			1990	2012
(a)	(2)	Odessa	TX	350	8,050		350	8,050	(417)	7,983			1974	2012
(a)	(2)	Odessa	TX	280	8,420	140	280	8,560	(444)	8,396			1975	2012
(a)	(2)	Midland	TX	440	5,860		440	5,860	(332)	5,968			1975	2012
(a)	(2)	Lake Worth	TX	650	4,610		650	4,610	(267)	4,993			1977	2012
(a)	(2)	Sweetwater	TX	190	4,210		190	4,210	(274)	4,126			2010	2012
(b)	(2)	Bradenton	FL	390	4,546	180	390	4,726	(233)	4,883			1985	2012

(b)	(2)	Eau Claire	WI	1,040	1,460	352	1,040	1,812	(93)	2,759	1930	2012
(a)	(2)	Louisville	KY	441	9,484	127	441	9,611	(381)	9,671	1977	2012
(a)	(2)	Glendale	WI	1,620	5,980		1,620	5,980	(202)	7,398	1994	2012
(a)	(2)	Seguin	TX	600	4,400		600	4,400	(168)	4,832	1958	2012
(b)	(2)	Dunnellon, FL	FL	690	3,510	285	690	3,795	(127)	4,358	1993	2012
(b)	(2)	Ocala, FL	FL	500	2,800	37	500	2,837	(93)	3,244	1984	2012

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Leases	City	State	Costs Capitalized Subsequent to Initial Cost to Company Acquisition				Amount Carried at December 31, 2013 (c)			Year of Construction	
			Land	Buildings & Improvements	Repair / Adjustments	Dispositions	Land	Buildings & Accumulated Depreciation	Net		
(2)	Dunnellon, FL	FL	490	2,610	98		490	2,708	(88)	3,110	1991
(2)	Ormond Beach, FL	FL	630	2,870	80		630	2,950	(107)	3,473	1996
(2)	Hot Springs	AR			166			166	(5)	161	2007
(2)	Little Rock	AR	465	3,012	55	(3,532)					1969
			81,604	675,605	94,612	(69,437)	75,217	707,167	(110,868)	671,517	
(3)	Raton	NM	128	1,509	47		128	1,556	(544)	1,140	1985
(3)	Gallup	NM	329	3,953	17		329	3,970	(1,101)	3,198	1978
(3)	Dayton	TX	18	436	9		18	445	(140)	323	1964
(3)	Ft. Worth	TX	137	1,147	(9)		137	1,138	(373)	902	1963
(3)	San Antonio	TX	342	1,931	971		342	2,902	(762)	2,482	1969
(3)	Ft. Worth	TX	88	1,764		(1,852)					
(3)	Garland	TX	57	1,058	1,358		57	2,416	(452)	2,021	1964
(3)	Wylie	TX	210	2,684	528		210	3,212	(750)	2,672	1975
(3)	Mansfield	TX	487	2,143	(18)		487	2,125	(615)	1,997	1964
(3)	Lancaster	TX	626	1,848	(16)		626	1,832	(570)	1,888	1973
(3)	Brownwood	TX	140	3,464	1,502		140	4,966	(1,002)	4,104	1968
(3)	Irving	TX	137	1,248	(10)		137	1,238	(376)	999	1972

(3)	Watauga	TX	1,061	3,846			1,061	3,846	(996)	3,911	1999
(3)	Phoenix	AZ	500	4,538			500	4,538	(1,515)	3,523	1997
(3)	Sun City	AZ	476	5,698	60		476	5,758	(1,566)	4,668	1985
(3)	Mesa	AZ	123	1,641	(14)		123	1,627	(424)	1,326	1974
(3)	Mesa	AZ	466	6,231	(47)	(615)	466	5,569	(1,724)	4,311	1973

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Mortgage Encumbrances	City	State	Initial Cost to Company				Costs Capitalized Subsequent to Acquisition				Amount Carried at December 31, 2013 (c)		Year of Construction	Date Acquired
			Land	Buildings & Improvements	Adjustments	Disposition	Land	Buildings & Improvements	Accumulated Depreciation	Net				
(3)	Anacortes	WA	625	1,185	2,041		625	3,226	(853)	2,998	1965	2007		
(3)	Ponoma	CA	403	955			403	955	(279)	1,079	1959	2007		
(3)	Baldwin Park	CA	1,308	486			1,308	486	(165)	1,629	1963	2007		
(3)	Effingham	IL	317	3,462			317	3,462	(913)	2,866	1974	2007		
(3)	Salem	IL	125	4,664	900		125	5,564	(1,288)	4,401	1972	2007		
(3)	Willis	TX	212	2,407			212	2,407	(526)	2,093	1975	2007		
(3)	Matoon	IL	250	2,391	1,292	(13)	250	3,670	(569)	3,351	1963	2007		
(3)	San Diego	CA	1,425	9,653	65	(57)	1,425	9,661	(2,015)	9,071	1994	2007		
(3)	Austin	TX	1,501	4,505	2,319		1,501	6,824	(960)	7,365	2007	2007		
(3)	Hamilton	TX	58	5,781			58	5,781	(1,026)	4,813	1998	2007		
(3)	Petaluma	CA	749	2,460			749	2,460	(463)	2,746	1969	2007		
(3)	Carson City	NV	3,455	5,942			3,455	5,942	(804)	8,593	1977	2007		
(3)	Orange	CT	1,134	11,155	2,132		1,134	13,287	(1,108)	13,313	1999	2011		

(3)	Pratt	KS	19	503	312	19	815	(59)	775	1964	201
(3)	Wichita	KS	94	897	151	94	1,048	(96)	1,046	1977	201
(3)	Haviland	KS	112	649	16	112	665	(63)	714	1971	201
(3)	Newtown	CT	4,942	7,058	3,333	6,314	9,019	(719)	14,614	2000	201
(3)	Cleveland	OH	120	3,080		120	3,080	(192)	3,008	1994	201
(3)	New Philadelphia	PA	451	3,264		451	3,264	(188)	3,527	1962	201
(3)	Coroapolis	PA	1,546	10,018		1,546	10,018	(578)	10,986	1983	201

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Tract Number	City	State	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)		Year of Construction	
			Land	Buildings & Improvements	Adjustments	Impairment / Dispositions	Land	Buildings & Accumulated Depreciation	Net		
(3)	Dunmore	PA	398	6,813			398	6,813	(397)	6,814	2002
(3)	West Union	OH	1,056	5,774	20		1,056	5,794	(335)	6,515	1981
(3)	New Castle	PA	393	8,246			393	8,246	(482)	8,157	1982
(3)	Euclid	OH	853	8,425			853	8,425	(486)	8,792	1989
(3)	Marysville	OH	736	2,169			736	2,169	(128)	2,777	1968
(3)	Colby	KS	569	2,799			569	2,799	(158)	3,210	1974
(3)	Kensington	KS	280	1,419			280	1,419	(85)	1,614	1967
(3)	Onaga	KS	87	2,866			87	2,866	(162)	2,791	1959
(3)	Oswego	KS	183	840			183	840	(52)	971	1960
(3)	Smith Center	KS	106	1,650			106	1,650	(96)	1,660	1960
(3)	Little Rock	AR	1,040	3,710	866		1,040	4,576	(295)	5,321	1996

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(3)	Gardnerville	NV	1,238	3,562			1,238	3,562	(191)	4,609	2000
(3)	Chicago	IL			1,209			1,209	(410)	799	
			31,110	173,927	19,034	(2,537)	32,394	189,140	(29,048)	192,486	
(4)	Little Rock	AR	471	4,779	7,613	(12,863)					1971
(4)	Riverside	CA	1,648	9,852			1,648	9,852	(1,039)	10,461	1965
(4)	Mishawaka	IN	328	8,072			328	8,072	(374)	8,026	1991
(4)	Pocatello	ID	470	5,530	835		470	6,365	(267)	6,568	1970
(4)	Pleasanton	CA	411	751	1,475		411	2,226	(59)	2,578	2012
(4)	Inola	OK	520	2,480			520	2,480	(88)	2,913	1990
(4)	Pryor	OK	100	400			100	400	(12)	489	2000

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Type of Asset	Encumbrances	City	State	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition	Amount Carried at December 31, 2013 (c)			Year of Construction	Date Acquired
				Land	Buildings & Improvements	Leases / Intangible Assets	Buildings & Improvements	Accumulated Depreciation	Net			
(4)		Ravenna	OH	660	6,940		660	6,940	(217)	7,383	2000	2012
(4)		Gonzales	TX	560	1,840	182	560	2,022	(41)	2,541	1963	2013
(4)		Knox North	IN	137	1,063		137	1,063	(18)	1,182	2008	2013
(4)		Royalton	OH	1,330	13,020		1,330	13,020	(242)	14,108	1979	2013
(4)		Oklahoma City	OK	580	2,420		580	2,420	(50)	2,950	1971	2013
(4)		Oklahoma City	OK	370	2,830		370	2,830	(61)	3,139	1967	2013
(4)		Louisville	KY	880	8,120		880	8,120	(104)	8,896	1960	2013
(4)		Luling	TX	272	3,178		272	3,178	(38)	3,412	1972	2013
(4)		Haines City	FL	510	2,990		510	2,990	(22)	3,478	1954	2013
(4)		Lakeland	FL	330	2,270		330	2,270	(17)	2,583	1980	2013
(4)		Brooksville	FL	702	6,198		702	6,198	(45)	6,855	1925	2013
(4)		Hamilton	OH	1,066	8,862		1,066	8,862	(68)	9,860	1971	2013
(4)		New Albany	IN	1,152	15,578		1,152	15,578	(113)	16,617	1999	2013

)	(4)	Dayton	OH	1,158	3,455	1,158	3,455	(28)	4,585	1966	2013
)	(4)	Cincinnati	OH	1,287	3,341	1,287	3,341	(27)	4,601	1929	2013
)	(4)	Pickerington	OH	550	9,810	550	9,810	(49)	10,311	1978	2013
)	(4)	Cincinnati	OH	530	12,260	530	12,260	(63)	12,727	1967	2013
)	(4)	Edgerton	OH	390	5,050	390	5,050	(26)	5,414	1920	2013
)	(4)	Columbus	OH	2,070	10,340	2,070	10,340	(55)	12,355	1964	2013
)	(4)	Ola	AR	78	1,085	78	1,085	(6)	1,157	1965	2013
)	(4)	Bremen	IN	400	8,900	400	8,900	(19)	9,281	1988	2013
)	(4)	Chardon	OH	1,650	13,865	1,650	13,865	(34)	15,481	1955	2013
)	(4)	Chardon	OH	630	9,585	630	9,585	(22)	10,193	1999	2013
)	(4)	Chardon	OH	1,100	8,770	1,100	8,770	(19)	9,851	1955	2013
)	(4)	Richardson	TX	1,470	11,530	1,470	11,530		13,000	1980	2013

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City	State	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)			Net	C
		Land	Buildings & Improvements	Adjustments	Impairment / Dispositions	Land	Buildings & Improvements	Accumulated Depreciation			
Champaign	IL	350	2,450			350	2,450		2,800		
Energy	IL	100	3,300			100	3,300		3,400		
West Frankfort	IL	50	750			50	750		800		
Fort Stockton	TX	480	2,870			480	2,870		3,350		
Seattle	WA		360		(360)						
North Richland Hills	TX	980		5,068	(6,048)						
Mt. Vernon	WA			422	(422)						
		25,770	214,894	15,595	(19,693)	24,319	212,247	(3,222)	233,344		
Danbury	CT	1,919	14,081			1,919	14,081	(625)	15,375		
		1,919	14,081			1,919	14,081	(625)	15,375		
		\$ 140,403	\$ 1,078,507	\$ 129,303	\$ (91,667)	\$ 133,849	\$ 1,122,697	\$ (143,769)	\$ 1,112,778		
Direct financing leases											
Type of Asset	Encumbrances	City	State	Initial Cost to Company	Accretion/ Amortization	Impairment/ Dispositions	Assets Under Direct Financing Leases	Net	Year of Construction		
(a)	(2)	Hot Springs	AR	10,419	756		\$ 11,175	11,175	2007		
				\$ 10,419	\$ 756	\$	\$ 11,175	\$ 11,175			

Property	Mortgage	Net Encumbrances	City	State	Land	Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)			Net	Year of Construction	Date Acquired	
						Buildings Improvements	Construction in Progress	Buildings & Land Improvements	Accumulated Depreciation	Development				
(2)		Houston	TX	228	2,452		88	228	2,452	(508)	88	2,260	1976	2008
(2)		Mansfield	OH	146	2,686	20	160	146	2,706	(523)	160	2,489	1980	2008
(2)		Chatham	PA	203	1,997		9,734	203	1,997	(1,997)	9,734	9,937	1873	2008
(2)		Escondido	CA	170	1,139		51	170	1,139	(76)	51	1,284	1990	2008
(2)		Fresno	CA	270	1,709		50	270	1,709	(109)	50	1,920	1990	2008
(2)		Elk Grove	CA	220	1,649		84	220	1,649	(106)	84	1,847	1992	2008

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City	State	Initial Cost to Company			Costs Capitalized Subsequent to Acquisition		Amount Carried at December 31, 2013 (c)			Net	
		Land	Buildings & Improvements	Adjustments	Construction in Progress	Land	Buildings & Improvements	Accumulated Depreciation	Construction in Progress and Land Held for Development		
Silverado	CA	550	1,039		51	550	1,039	(76)	51	1,564	
Gilroy	CA	1,089	1,759		58	1,089	1,759	(112)	58	2,794	
Eagle Lake Granite	TX	93			5,565				5,658	5,658	
Bay	CA	540	435		624	540	435	(14)	624	1,585	
Bethel	CT	2,400			3,415				5,815	5,815	
Chatsworth	CA	416	281		364	416	281	(5)	364	1,056	
Northridge	CA	469	310		555	469	310	(6)	555	1,328	
		\$ 6,794	\$ 15,457	\$ 20	\$ 20,799	\$ 4,301	\$ 15,476	\$ (3,533)	\$ 23,292	\$ 39,536	
GRAND TOTAL						\$ 138,150	\$ 1,138,173	\$ 11,175	\$ (147,302)	\$ 23,292	\$ 1,163,488

(a) Skilled Nursing Facilities (SNFs)

(b) Assisted Living Facilities (ALFs)

(c) Vacant Land

(d) Assets relating to corporate office space

(e) Developmental asset

(f) Includes six properties all located in Texas

(g) The aggregate cost for federal income tax purposes of the real estate as of December 31, 2013 is \$1.1 billion (unaudited).

(h) Traumatic Brain Injury Center (TBIs)

(i) Long Term Acute Care

(j) Medical Office Building

(k) Hospital

Encumbrances:

- (1) Issuer
- (2) Unencumbered guarantors
- (3) Encumbered guarantors
- (4) Non guarantors
- (5) Non guarantor, HUD loan

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	For the Years Ended December 31,		
	2013	2012	2011
Reconciliation of real estate:			
Carrying cost:			
Balance at beginning of period	\$ 1,102,832	\$ 919,383	\$ 703,049
Additions during the period:			
Acquisitions	199,789	184,326	186,078
Development of rental properties and capital expenditures	28,415	42,448	36,687
Dispositions:			
Sale of assets	(19,746)	(32,208)	(339)
Impairment (i)	(500)	(11,117)	(6,092)
Balance at end of period	\$ 1,310,790	\$ 1,102,832	\$ 919,383
Accumulated depreciation:			
Balance at beginning of period	\$ 119,371	\$ 96,796	75,949
Additions during the period:			
Depreciation expense	33,144	26,810	20,847
Dispositions:			
Sale of assets	(5,213)	(4,235)	
Balance at end of period	\$ 147,302	\$ 119,371	\$ 96,796

- (i) Represents the write-down of carrying cost and accumulated depreciation on assets where impairment charges were taken.