AVIV REIT, INC.
Form 10-K
February 26, 2015
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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, 2014

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 001-35841 (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 Incorporation or Organization)	**(I.R.S. Employer 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 x 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 x

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 x 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 x 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 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 x	Accelerated Filer ¨
Non-Accelerated Filer ¨ (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 30, 2014 was $705,868,310. The aggregate market value of units of beneficial interest (OP units) in Aviv Healthcare Properties Limited Partnership held by non-affiliates as of June 30, 2014 was $69,062,345.

As of February 2, 2015, Aviv REIT, Inc. had 48,479,146 shares of common stock outstanding, $0.01 par value per share. As of February 2, 2015, Aviv Healthcare Properties Limited Partnership had 10,249,952 OP units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in Aviv REIT, Inc. s Proxy Statement for the 2015 Annual Meeting of Stockholders (the Annual Meeting Proxy Statement) is incorporated by reference into Part III hereof. In the event Aviv REIT, Inc. does not file the Annual Meeting Proxy Statement, this information will be provided instead by an amendment to this report not later than 120 days after the end of Aviv REIT, Inc. s fiscal year.

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.

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, 2014, AVIV owned 82.5% 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 for the operation of 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, 2014. 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

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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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 t words does not necessarily mean that a statement is not forward-looking.

These forward-looking statements are made based on our current expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include those disclosed under Part 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, 2014 included 290 of the 313 properties in our portfolio as of September 30, 2014.

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.

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, 2014, our portfolio consisted of 346 properties in 30 states leased to 37 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 204 properties with 31 tenants in 82 separate transactions ranging in size from less than $1 million to $305 million, for a total of $1.3 billion, returning a 26% 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 $218.7 million of contractual rent for the twelve months ending December 31, 2015 based on leases in place as of December 31, 2014. We also receive income from loan receivables and an asset under a direct financing lease, which together had a book value of $54.0 million as of December 31, 2014. Our leases provide us with long-term cash rental streams, with a weighted-average remaining lease term of approximately 8.7 years as of December 31, 2014 and 14.4% 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 1.8x and 1.4x, respectively, for the twelve months ended September 30, 2014. 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 77.4% and 49.8%, respectively, for the trailing twelve months ended September 30, 2014. See Presentation of Portfolio Metrics for additional information regarding our coverage ratios and other portfolio metrics.

Merger Agreement

On October 31, 2014, we announced that our Board of Directors had unanimously approved a definitive merger agreement with Omega Healthcare Investors, Inc. (Omega) pursuant to which Omega will acquire all of the outstanding shares of common stock of AVIV in a stock-for-stock merger. Under the terms of the agreement, stockholders of AVIV will receive a fixed exchange ratio of 0.90 shares of common stock of Omega for each share of

AVIV common stock they own. Upon closing of the proposed merger transaction, Omega stockholders are expected to own approximately 70% of the combined company and AVIV stockholders together with the limited partners of the Partnership, are expected to own approximately 30% of the combined company. The proposed merger transaction is intended to be tax-free to stockholders. Upon completion of the proposed merger transaction, Taylor Pickett, current Omega CEO, will serve as CEO of the combined company, and Craig Bernfield, current Chairman and CEO of AVIV, will join the board of directors of the combined company.

Completion of the transaction is subject to satisfaction of customary closing conditions, including the approval of stockholders of both AVIV and Omega. The proposed merger transaction is currently expected to close in the first half of 2015.

Additional information about the proposed merger transaction and the special meeting of stockholders to consider and vote on, among other things, a proposal to approve the proposed merger transaction, is included in the preliminary joint proxy statement/prospectus filed by Omega with the SEC on January 5, 2015, as amended on February 17, 2015 and the definitive joint proxy statement/prospectus which was mailed to stockholders of record after the related registration statement was declared effective by the SEC.

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, 2014, 285 of our 346 properties were SNFs, representing 82.8% 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 30 states that are triple-net leased on a long-term basis to 37 tenants. We focus on strategically limiting our concentration of properties with tenants and states, with no single tenant representing more than 12.1% of our contractual rent and no state representing more than 16.8% of our contractual rent as of December 31, 2014. We have a strategically balanced portfolio of Medicare and Medicaid revenue which comes from many different reimbursement systems including from the federal government and 29 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.

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 represent 73.4% of our contractual rent as of December 31, 2014. 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 14.6% and 1.39x, respectively, for our properties, for the twelve months ended September 30, 2014. 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 46.2% of our $1.3 billion 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, 2014 were 1.77x and 1.39x, 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 cash flows. 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 89% supported by master leases or leases with cross-default provisions as of December 31, 2014. Our leases also typically require security deposits of several months rent.

Platform Built for Growth with Proven Investment Track Record. We employ 34 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, 2014 by 176% 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 $170.7 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 ten 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.

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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 15,600 facilities and 1.6 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. 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 46.2% of our $1.3 billion 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 1,400 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 53.8% of our acquisitions over the last five years being completed with 17 new tenants who now operate 145 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. Insoft, our President and Chief Operating 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 13.7% of our contractual rents as of December 31, 2014. In addition, we have also acquired long-term acute-care hospital and traumatic brain injury facilities, which collectively represented 3.5% of our contractual rents as of December 31, 2014, 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.

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Our Portfolio

As of December 31, 2014, our portfolio consisted of 346 properties, comprised of 285 skilled nursing facilities, 35 assisted living facilities, 14 traumatic brain injury facilities, two long-term acute care hospitals, one neuro hospital, two independent living facilities, two medical office buildings, and five land parcels for development, with approximately 29,646 beds in 30 states triple-net leased to 37 operators. Our portfolio consisted of 339 owned properties (including five properties under development), three properties that we lease and sublease to a third-party operator, three properties in which we hold a leasehold security interest from third-party operators 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, 2014 were 1.77x and 1.39x, respectively, and our operators EBITDAR margins at our properties averaged 15%. For the twelve months ended September 30, 2014, our portfolio occupancy was 77.4% and our quality mix was 49.8%.

We lease our properties to a diversified group of 37 operators with no single operator representing more than 12.1% of our contractual rent as of December 31, 2014. 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, 2014:

Operator Diversification

Operator (1)	Number of properties	Number of Operating beds	Percentage of Contractual Rent
Laurel	29	2,777	12.1%
Daybreak	50	4,304	10.0%
Saber	30	2,659	9.8%
EmpRes	23	2,081	9.3%
Maplewood	14	768	8.6%
Fundamental	19	2,091	7.7%
Preferred Care	17	1,617	4.9%
Diversicare	13	1,787	4.4%
Sun Mar	13	1,345	4.2%
Providence	10	868	2.4%
Top Ten	218	20,297	73.4%
Deseret	17	853	2.3%
Prestige Care	9	542	2.1%
Mission Health	6	751	2.1%
Genesis	7	549	2.0%
Peregrine	4	624	1.9%
Trillium	11	773	1.8%
Bridgemark	7	789	1.5%
Reliance	4	436	1.5%
CareMeridian	15	166	1.4%
Trinity	11	835	1.3%
Cardinal Care	2	185	1.2%
New Beginnings	3	313	0.8%
HI-Care	3	278	0.8%
Markleysburg	3	259	0.7%
Physician s Hospital Group	3	57	0.6%
Safe Haven	2	124	0.6%
Hope Healthcare	4	371	0.5%
Covenant Care	2	224	0.5%
Lion	1	162	0.4%
Better Senior Living	3	310	0.4%
JK&L	2	104	0.4%
UltraCare	3	136	0.4%
NuCare	1	94	0.4%
Transitions	1	135	0.4%
Orion	1	93	0.3%
LTP Generations	2	96	0.2%
Health Dimensions	1	90	0.1%

Total	346	29,646	100.0%

(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 30 states with no state representing more than 16.8% of our contractual rent as of December 31, 2014.

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The following table sets forth information about our properties as of December 31, 2014:

State Diversification

State	Number of properties	Number of Operating beds	Percentage of Contractual Rent (1)
Texas	68	6,443	16.8%
Ohio	38	3,672	14.0%
California	39	2,543	9.6%
Connecticut	6	407	5.1%
Michigan	12	1,117	4.9%
Washington	15	1,065	4.8%
Massachusetts	10	746	4.5%
Pennsylvania	10	1,134	4.3%
Missouri	18	1,649	4.3%
Kentucky	11	1,044	3.2%
Top Ten	227	19,820	71.5%
North Carolina	7	725	2.8%
Arkansas	10	1,018	2.7%
Illinois	11	1,169	2.5%
New Mexico	9	782	2.4%
Idaho	6	459	2.2%
Minnesota	5	658	2.2%
Florida	10	826	2.1%
Kansas	16	845	2.0%
Indiana	5	330	1.5%
Arizona	4	400	1.4%
Oregon	6	394	1.3%
Iowa	9	535	1.3%
Nevada	3	241	0.9%
Wisconsin	5	387	0.8%
Oklahoma	5	326	0.7%
Nebraska	2	242	0.5%
Virginia	2	217	0.4%
Montana	2	110	0.4%
Tennessee	1	102	0.2%
Utah	1	60	0.2%
Total	346	29,646	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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Lease Expiration

The following table sets forth information regarding the expiration dates of our leases as of December 31, 2014:

Year	Number of Properties with Leases Expiring	Percent of Total Rent
2015	4	1.0%
2016	3	1.2%
2017	11	2.8%
2018	29	8.3%
2019	4	1.1%
2020	18	5.7%
2021	82	17.5%
2022	44	11.7%
2023	32	9.3%
2024	59	18.2%
2025	1	0.4%
Thereafter:	55	22.8%
Total (1):	342	100%

(1) Excludes five development properties with rent start dates in the future, and includes one office building with two leases.

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 sixteen publicly-traded healthcare REITs representing an aggregate public market capitalization of approximately $126 billion based on publicly available data as of December 31, 2014. 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 15,600 facilities and 1.6 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 and regulations that govern 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 anti-kickback and false claims laws. Violations of these laws or regulations can result in criminal or civil sanctions, including substantial fines and, in some cases, exclusion from participation in federal health care programs such as Medicare and Medicaid. 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.

Fraud and Abuse Laws and Regulations. There are various highly complex federal and state laws and regulations governing a wide array of referrals, financial relationships and arrangements, which prohibit fraud by healthcare providers, including SNFs, among others. These laws include, but are not limited to, civil and criminal provisions that generally prohibit soliciting, offering, receiving, or providing remuneration for referrals; filing false claims or making false statements to receive payment or certification under Medicare, Medicaid, or other federal health care programs; 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 knowingly and willfully offering, providing, soliciting, or receiving remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual or the purchasing, ordering, recommending, furnishing, or arrangement of a good or service for which payment may be made under a federal health care 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 the submission of false claims apply with respect to state Medicaid programs, and may also apply with respect 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 as well as the Federal False Claims Act, which impose liability on any person or entity that, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment by a federal health care program. Private enforcement of healthcare fraud has increased due in large part to amendments to the *qui tam* provisions of the Federal False Claims Act that encourage private individuals with knowledge of fraud to sue on behalf of the federal government, alleging that the defendant has submitted a false claim to the federal 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 may result in exclusion from participation in Medicare, Medicaid and other federal health care 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 (OIG) has announced a number of initiatives to study instances of potential Medicare and Medicaid overbilling and/or fraud in SNFs. For example, in February 2014, OIG released a report focusing on the rate of adverse events in SNFs, and in the OIG s March 2014 Compendium of Priority Recommendations, a report that highlights OIG s priority issues for which corrective action has not been completed, the OIG cited prior reports addressing questionable billing practices by SNFs.

The Impact of Health Reform Laws on Fraud and Abuse Laws and Regulations. The Health Reform Laws (discussed in greater detail below) revised the healthcare fraud and abuse provisions that affect our operators. For example, the Health Reform Laws allow for up to treble damages under the Federal False Claims Act for violations related to the state based health insurance exchanges that were created in 2014 pursuant to the Health Reform Laws. The Health Reform Laws also imposed 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 have required 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 health care 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. As of February 10, 2015, CMS has yet to publish a final rule applicable to healthcare providers. The Health Reform Laws also amended 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 provided 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, and which OIG has referred to for purposes of establishing its priorities, as of March 2014.

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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 (PHI) (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 (as that term is defined under HIPAA) often must undertake significant operational and technical implementation efforts and may also face significant financial exposure and reputational damage if they fail to maintain the privacy and security of medical records, and other PHI, including for breaches of PHI. HITECH, which strengthened the HHS Secretary s authority to impose civil money penalties for HIPAA violations occurring after February 18, 2009, provides that the HHS Secretary must conduct periodic audits to ensure covered entities and their business associates (as that term is defined under HIPAA) comply with the applicable HITECH requirements, which may increase the probability that a HIPAA violation will result in an enforcement action. Further, 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, and HIPAA violations are also potentially subject to criminal penalties. On January 25, 2013, OCR promulgated a final rule that made considerable changes to HIPAA and HITECH, including expanding the applicability of and requirements under HIPAA and HITECH and strengthening the government s enforcement with respect to 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. A proposed rule addressing accounting of disclosures of PHI, if finalized, could impose a significant burden on our operators, as it would require covered entities and their business associates to develop systems to monitor (1) which employees access an individual s electronic PHI contained in a designated record set, (2) the time and date such access occurs, and (3) the action taken during the access session (*e.g.*, modification, deletion, viewing). 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. 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, may have a significant impact on Medicare, Medicaid, other federal health care 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. 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 laws include a large number of health-related provisions that have taken and will continue 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 decline or 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, a number of states have expanded their Medicaid programs, which could increase our operators revenues. However, 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. Similarly, certain legislative, regulatory, and political changes aimed at regulating health care have been proposed in recent years and could affect healthcare-related research, development, coverage, and reimbursement issues and potentially impose further limitations on government and private payments to healthcare providers. 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, there have been multiple attempts (through legislative action and legal challenge) to repeal or dismantle the Health Reform Laws in full, including the case that is currently pending before the U.S. Supreme Court, *King v. Burwell*, the outcome of which, depending on how the Supreme Court rules, could result in significant changes to the implementation of the Health Reform Laws. 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.

Increased Transparency and Program Integrity for SNFs. 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 10, 2015, 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 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. Two of our properties have been identified by CMS as SFFs, both of which are classified as showing significant improvement.

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.

Employees

As of December 31, 2014, we had 34 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

We maintain a website, http://www.avivreit.com, which contains additional information about us. We make available, free of charge through our website, our 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 we electronically file such material with, or furnish it to, the SEC. AVIV 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 our 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 our 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 our operations, please refer to our 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 Annual Report on Form 10-K 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 on Form 10-K.

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 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, 2014, approximately 12.1% of our contractual rent was from Laurel, which operates 29 of our properties in Ohio, Michigan, North Carolina, Indiana, and Virginia, approximately 10.0% of our contractual rent was from Daybreak, which operates 50 of our properties in Texas, and approximately 9.8% of our contractual rent was from Saber, which operates 30 of our properties in Florida, Ohio, and Pennsylvania. No other operator generated more than 9.3% of our total contractual rent as of December 31, 2014. 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, 2014, the three states from which we derived the largest amount of contractual rent were Texas (16.8%), Ohio (14.0%) and California (9.6%). 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.

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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.

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 $1.2 billion of indebtedness outstanding as of December 31, 2014, 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, 2014, we had total indebtedness of $1.2 billion outstanding, including $400.0 million of indebtedness with respect to our 2019 Notes (excluding $2.3 million of net debt premium balance related to the 2019 Notes), $250.0 million of indebtedness with respect to our 2021 Notes, $355.0 million of indebtedness with respect to our Credit Facility with Bank of America, $180.0 million of indebtedness with respect to our Credit Agreement with GECC, and $11.1 million of other indebtedness (excluding $2.3 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.

Risks Relating 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.

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 2014, 2013 and 2012, we recorded a charge of approximately $2.3 million, $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, 2014, we had 34 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.

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 and regulations governing a wide array of referrals, financial relationships and arrangements, which prohibit fraud by healthcare providers, including SNFs, among others. These laws include, but are not limited to, civil and criminal provisions that generally prohibit soliciting, offering, receiving, or providing remuneration for referrals, filing false claims or making false statements to receive payment or certification under Medicare, Medicaid, or other federal health care programs, 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 knowingly and willfully offering, providing, soliciting, or receiving remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual or the purchasing, ordering, recommending, furnishing, or arrangement 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 the submission of false claims apply with respect to state Medicaid programs, and may also apply with respect to private payors under state laws. Violations of these laws may result in exclusion from participation in Medicare, Medicaid and other federal health care programs or result in the imposition of treble damages and fines or other penalties. SNFs may also be subject to medical record reviews from a host of government agencies and contractors, including the Department of Health and Human Services Office of the Inspector General (OIG), 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, as well as similar statements from OIG identifying improper Medicare billing by SNFs as an area of priority for the government.

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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 (PHI) (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 (as that term is defined under HIPAA) often must undertake significant operational and technical implementation efforts. Operators also may face significant financial exposure and reputational damage if they fail to maintain the privacy and security of medical records or other PHI, including breaches of PHI. HITECH strengthened the HHS Secretary s authority to impose civil money penalties for HIPAA violations occurring after February 18, 2009. HITECH provides that the HHS Secretary must conduct periodic audits to ensure covered entities and their business associates (as that term is defined under HIPAA) comply with the applicable HITECH requirements, which may increase the probability that a HIPAA violation will result in an enforcement action. Further 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, and HIPAA violations are also potentially subject to criminal penalties. On January 25, 2013, OCR promulgated a final rule that made considerable changes to HIPAA and HITECH, including expanding the applicability of and requirements under HIPAA and HITECH and strengthening the government s enforcement with respect to 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. A proposed rule addressing accounting of disclosures of PHI, if finalized, could impose a significant burden on our operators, as it would require covered entities and their business associates to develop systems to monitor (1) which employees access an individual s electronic PHI contained in a designated record set, (2) the time and date such access occurs, and (3) the action taken during the access session (*e.g.*, modification, deletion, viewing). 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, may have a significant impact on Medicare, Medicaid, other federal health care 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. 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 laws include a large number of health-related provisions that have taken and will continue 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. Similarly, certain legislative, regulatory, and political changes aimed at regulating health care have been proposed in recent years and could affect healthcare-related research, development, coverage, and reimbursement issues. 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 decline or 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, there have been multiple attempts (through legislative action and legal challenge) to repeal or dismantle the Health Reform Laws in part and in full, including the case that is currently pending before the U.S. Supreme Court, *King v. Burwell*, the outcome of which, depending on how the Supreme Court rules, could result in significant changes to the implementation of the Health Reform Laws. We cannot predict whether ongoing 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. The 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 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 legislative, regulatory and political 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. At the federal level, on April 1, 2014, the President signed into law the Access to Medicare Act, which implements value-based purchasing for SNFs and provides that, beginning in fiscal year 2019, 2% of skilled nursing payments will be withheld and approximately 50% to 70% of the amount withheld will be paid to SNFs through value-based payments, based on readmissions rates. Additionally, on October 6, 2014, the President signed into law the Improving Medicare Post-Acute Transformation Act of 2014 (IMPACT Act), which requires certain providers, including SNFs, to report standardized data to allow the Medicare program to compare quality across different post-acute care settings. The IMPACT Act also requires the Medicare Payment Advisory Committee to provide Congress with a report that recommends a technical prototype for a post-acute prospective payment system and that analyzes the impact of the recommended payment system. More recently, in January 2015, the Department of Health and Human Services (HHS) announced a plan to shift the Medicare program and the healthcare system at large, toward paying providers based on quality, rather than the quantity of care provided to patients, and, in February 2016, the President s budget for fiscal year 2016 proposed certain reductions in Medicare spending. Notwithstanding these measures, however, on July 31, 2014, CMS issued its final rate for fiscal year 2015 Medicare payment rates for SNFs. Based on the changes contained in the final rule, CMS estimated that total Medicare payments to SNFs would increase by $750 million, or 2.0%, for fiscal year 2015, beginning on October 1, 2014. 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.

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.

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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.

Some 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.

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 44.7%, 11.5% and 8.2% 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 44.7%, 11.5% and 8.2%, 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 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 comply with additional laws, regulations and requirements, including the requirements of the NYSE, with which we had not previously been required to comply. 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 now that we are no longer an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. 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.

Since we previously qualified as an emerging growth company as defined in the JOBS Act, we were able to take advantage of certain exemptions from various requirements that are applicable to public companies. These exemptions included not being required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. Our inability to continue to take advantage of these exemptions may place additional strain on our resources and divert our management s attention from other business concerns which could harm our business and operating results.

In connection with our implementation of the necessary procedures and practices related to internal control over financial reporting, we are now required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act as we are no longer an emerging growth company . Complying with Section 404 requires a rigorous compliance program as well as adequate time and resources. If we or our independent registered public accounting firm identify deficiencies, we may not be able to assert that our internal controls are effective. 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.

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.

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, our Credit Facility with Bank of America, and our Credit Agreement with GECC 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.

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.

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.

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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.

Legislative or other actions affecting REITs could have a negative impact on us.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department. No assurance can be given as to whether, or in what form, any proposals affecting REITs or their stockholders will be enacted. Changes to the federal tax laws (including, if enacted, proposals in draft legislation recently released by the Chairman of the Ways and Means Committee of the U.S. House of Representatives) and interpretations thereof could materially adversely affect an investment in 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;
- 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.

Risks Relating to Proposed Merger Transaction with Omega

Completion of the proposed merger transaction with Omega is subject to many conditions and if these conditions are not satisfied or waived, the merger will not be completed. Failure to complete the merger could have material adverse effects on us.

The completion of the merger is subject to a number of conditions, including approvals by Omega s and AVIV s respective stockholders, which make the completion and the timing of the completion of the merger uncertain. In addition, either we or Omega may terminate the merger agreement if the merger is not completed by May 31, 2015, subject to extension as described in the merger agreement, so long as its failure to perform the merger agreement has not resulted in the failure of the merger to be completed by such date.

There can be no assurance that the conditions to closing of the merger will be satisfied or waived or that the merger will be completed. Failure to consummate the merger may adversely affect our results of operations and business prospects for the following reasons, among others:

- we will incur certain transaction costs, regardless of whether the proposed merger closes;

- the proposed merger, whether or not it closes, will divert the attention of certain management and other key employees from ongoing business activities, including the pursuit of other opportunities that could be beneficial to us; and

- the market price of shares of AVIV common stock could decline to the extent that the current market price reflects, and is positively affected by, a market assumption that the transactions contemplated by the merger agreement will be completed.

There may be unexpected delays in the consummation of the merger, which could impact the ability to timely achieve the benefits associated with the merger.

The merger agreement provides that either we or Omega may terminate the merger agreement if the merger has not occurred by May 31, 2015, subject to extension as described in the merger agreement. Certain events may delay the consummation of the merger. Some of the events that could delay the consummation of the merger include failure to timely receive stockholder approval, failure to consummate the partnership combination or failure to satisfy the other closing conditions to which the merger is subject. Neither Omega nor we can assure you that the conditions to the completion of the merger will be satisfied or waived, if permitted, or that any adverse effect, event, development or change will not occur, or provide any assurances as to whether or when the merger will be completed. Any delay in the completion of the merger could materially reduce the benefits we expect to obtain in the merger.

The merger agreement contains provisions that could discourage a potential competing acquirer of us from making a favorable proposal and, in specified circumstances, could require us to pay a termination fee of $65 million to Omega.

The merger agreement contains certain provisions that restrict our ability to solicit, initiate, knowingly encourage or facilitate or, subject to certain exceptions, engage in discussions or negotiations with respect to, or enter into any acquisition agreement with respect to, a competing acquisition proposal. Further, even if the AVIV Board of Directors withdraws or qualifies its recommendation with respect to approval of the merger and the other transactions contemplated by the merger agreement, unless the merger agreement has been terminated in accordance with its terms, AVIV will still be required to submit the merger and the other transactions contemplated by the merger agreement to a vote at the AVIV special meeting. In addition, Omega generally has an opportunity to offer to modify the terms of the transactions contemplated by the merger agreement in response to any competing acquisition proposal before the AVIV Board of Directors may withdraw or qualify its recommendation with respect to the merger.

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We will be required to pay to Omega a termination fee of $65 million in certain circumstances, including if Omega terminates the merger agreement because the AVIV Board of Directors changes its recommendation with respect to the merger prior to the approval of the merger by AVIV stockholders, if we breach the non-solicitation provisions of the merger agreement in any material respect or if we terminate the merger agreement to enter into a definitive agreement that constitutes a superior proposal.

These provisions could discourage a potential competing acquirer or merger partner that might have an interest in acquiring all or a significant portion of our portfolio from considering or proposing such a transaction, even if it were prepared to pay consideration with a higher per share cash or market value than the per share market value proposed to be received or realized in the transactions contemplated by the merger agreement. These provisions also might result in a potential competing acquirer or merger partner proposing to pay a lower price to holders of AVIV common stock than it might otherwise have proposed to pay because of the added expense of the $65 million termination fee that may become payable to Omega.

If the merger agreement is terminated and after the termination we determine to seek another business combination, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the transactions contemplated by the merger agreement.

The pendency of the merger could adversely affect our business and operations.

In connection with the proposed merger, some tenants, operators, borrowers, managers or vendors may delay or defer decisions related to their business dealings with us, which could negatively impact our revenues, earnings, cash flows or expenses, regardless of whether the proposed merger is completed. Similarly, our employees of may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect our ability to attract and retain key personnel during the pendency of the merger. In addition, due to operating covenants in the merger agreement, we may be unable, during the pendency of the merger, to pursue certain strategic transactions, undertake certain significant capital projects, undertake certain significant financing transactions and otherwise pursue other actions that are not in the ordinary course of business without the consent of Omega, even if such actions would prove beneficial to us.

Item 1B. *UNRESOLVED STAFF COMMENTS*

None.

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, except as set forth below.

As of the date of this filing, four putative class actions have been filed by purported stockholders of AVIV against AVIV, its directors, Omega and Omega s merger sub challenging the merger of AVIV and Omega in the Circuit Court of Maryland, Baltimore County. The class actions were filed on November 10, 2014, November 17, 2014, November 24, 2014 and December 2, 2014. Each plaintiff filed an amended complaint on January 22, 2015. The lawsuits seek injunctive relief preventing the parties from consummating the merger, rescission of the transactions contemplated by the merger agreement, imposition of a constructive trust in favor of the class upon any benefits improperly received by the defendants, compensatory damages, and litigation costs including attorneys fees. The four lawsuits were consolidated on January 28, 2015 under the title In Re Aviv REIT Inc. Stockholder Litigation, Case No. 24-C-14-006352.

In addition, AVIV s Board of Directors has received a stockholder litigation demand letter dated November 17, 2014, from a law firm representing Gary Danley, who is the named plaintiff in the putative class action filed on November 24, 2014 in Circuit Court of Maryland, Baltimore County. The letter alleges that the directors of AVIV violated fiduciary duties to AVIV, and demands that the AVIV Board of Directors take action to ensure that the consideration provided in the merger is fair to AVIV and its stockholders and otherwise seek appropriate remedies for AVIV.

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We believe that these actions have no merit and intend to defend vigorously against them.

Item 4. ***MINE SAFETY DISCLOSURES***

Not applicable.

PART II

Item 5. ***MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

Holders; 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 2, 2015, AVIV had approximately 28 holders of record of Common Stock and the Partnership had 175 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 Declared Per Share(2)
	High	Low	
2014			
First Quarter	$ 25.98	$ 23.00	$ 0.36
Second Quarter	$ 29.21	$ 24.22	$ 0.36
Third Quarter	$ 29.26	$ 26.35	$ 0.36
Fourth Quarter	$ 35.57	$ 26.29	$ 0.36
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

(1) On March 26, 2013, AVIV 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.

(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 our qualification as a REIT, we intend to make annual distributions to our stockholders of at least 90% of our 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. Our ability to pay dividends to our stockholders is dependent on our receipt of distributions from the Partnership, which in turn is dependent on our healthcare properties generating operating income. The indenture that governs our 7 3/4 % senior unsecured notes due 2019, the indenture that governs our 6% senior unsecured notes due 2021, the Credit Facility (as defined herein) with Bank of America and the Credit Agreement (as defined herein) with General Electric Credit Corporation limit our ability to pay dividends, but allows us to pay the minimum necessary to meet our 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, 2014.

Unregistered Sales of Equity Securities

During 2014, AVIV issued 9.2 million shares of its Common Stock in an underwritten 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.

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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 2014, AVIV, as general partner of the Partnership, redeemed 1,343,908 OP units in exchange for shares of Common Stock.

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, 2014, 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.

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.

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, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 have been derived from our audited historical consolidated financial statements appearing elsewhere in this report. The selected historical financial data as of December 31, 2012, 2011 and 2010 and for the years ended December 31, 2011 and 2010 have been derived from our audited historical consolidated financial statements, 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 the 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:

- FFO is defined by the National Association of Real Estate Investment Trusts, or NAREIT, 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 (loss) gain 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 (unit)-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 loss on impairment, (loss) gain on sale of assets (net), transaction costs, write off of straight-line rents, non-cash stock (unit)-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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Aviv REIT, Inc. (AVIV)

Operating Information	2014	2013	2012	2011	2010
	Year Ended December 31, (in thousands, except share and per share data)				
Revenues					
Rental income	$ 177,947	$ 136,513	$ 121,210	$ 91,091	$ 84,097
Interest on loans and financing lease	4,483	4,400	4,633	5,193	5,172
Interest and other income	1,612	154	1,129	844	133
Total revenues	184,042	141,067	126,972	97,128	89,402
Expenses					
Interest expense incurred	49,680	40,785	47,440	36,010	22,722
Amortization of deferred financing costs	3,942	3,459	3,543	2,657	1,008
Depreciation and amortization	44,023	33,226	26,892	20,272	17,246
General and administrative	24,039	26,886	15,955	11,422	9,823
Transaction costs	8,601	3,114	7,259	5,493	1,578
Loss on impairment	2,341	500	11,117	5,233	96
Reserve for uncollectible loan and other receivables	3,523	68	10,331	1,591	750
Change in fair value of derivatives					(2,931)
Loss (gain) on sale of assets, net	2,518	(1,016)		(1,171)	(512)
Loss on extinguishment of debt	501	10,974	28	3,807	2,296
Other expense			400	267	
Total expenses	139,168	117,996	122,965	85,581	52,076
Income from continuing operations	44,874	23,071	4,007	11,547	37,326
Discontinued operations			4,586	(234)	656
Net income	44,874	23,071	8,593	11,313	37,982
Distributions and accretion on Class E Preferred Units					(17,372)
Net income allocable to noncontrolling interests/limited partnership units of the Partnership	(9,082)	(6,010)	(3,455)	(5,107)	(16,780)
Net income allocable to common stockholders	$ 35,792	$ 17,061	$ 5,138	$ 6,206	$ 3,830
Earnings per common share:					
Basic:					
Income from continuing operations allocable to common stockholders	$ 0.80	$ 0.51	$ 0.12	$ 0.44	
Discontinued operations, net of noncontrolling interest			0.14	(0.01)	

Net income allocable to common stockholders	$	0.80	$	0.51	$	0.26	$	0.43
Diluted:								
Income from continuing operations allocable to common stockholders	$	0.77	$	0.49	$	0.12	$	0.43
Discontinued operations, net of noncontrolling interest						0.14		(0.01)
Net income allocable to common stockholders	$	0.77	$	0.49	$	0.26	$	0.42
Weighted average common shares outstanding:								
Basic		44,629,901		33,700,834		20,006,538		14,487,565
Diluted		58,166,924		44,324,189		20,135,689		14,633,354
Dividends declared per common share	$	1.44	$	1.40	$	1.25	$	1.18

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Balance Sheet Information	As of December 31, 2014	2013	2012	2011	2010
	(in thousands)				
Gross real estate investments	$ 2,070,733	$ 1,310,790	$ 1,102,832	$ 919,384	$ 703,049
Cash and cash equivalents	10,036	50,764	17,876	40,862	13,029
Loan receivables, net	42,697	41,686	32,639	33,031	36,610
Total assets	2,020,430	1,330,433	1,099,529	951,421	731,400
Debt	1,200,710	686,406	705,153	600,474	440,576
Total liabilities	1,270,482	761,988	779,026	704,162	486,244
Stockholders equity	618,707	434,292	326,568	241,712	223,767
Noncontrolling interests	131,241	134,153	(6,065)	5,547	21,389
Total equity	749,948	568,445	320,503	247,259	245,156
Total liabilities and equity	2,020,430	1,330,433	1,099,529	951,421	731,400

Other Information	Year Ended December 31, 2014	2013	2012	2011	2010
	(in thousands except ratios)				
Cash flows provided by operating activities	$ 104,842	$ 67,353	$ 44,475	$ 52,088	$ 54,680
Cash flows used in investing activities	(767,507)	(218,901)	(184,690)	(207,056)	(75,117)
Cash flows provided by financing activities	621,937	184,436	117,229	182,801	17,923
FFO (1)	93,756	55,781	42,177	35,647	54,812
Normalized FFO (1)	106,264	70,156	55,995	46,459	56,505
AFFO (1)	109,613	79,520	52,085	50,197	52,408
EBITDA (2)	142,519	100,540	86,464	70,241	78,931
Adjusted EBITDA (2)	166,296	128,762	110,215	94,180	84,743
Ratio of earnings to fixed charges (3)	1.83x	1.51x	1.17x	1.29x	2.60x

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

Funds from Operations	Year Ended December 31, 2014	2013	2012	2011	2010
	(in thousands)				
Net Income	$ 44,874	$ 23,071	$ 8,593	$ 11,313	$ 37,982
Depreciation and amortization	44,023	33,226	26,892	20,272	17,246
Loss on impairment	2,341	500	11,117	5,233	96
Loss (gain) on sale of assets, net	2,518	(1,016)	(4,425)	(1,171)	(512)
FFO	93,756	55,781	42,177	35,647	54,812
Loss on extinguishment of debt	501	10,974	28	3,807	2,296
Reserve for uncollectible loan receivables	3,406	11	6,531	1,512	750
Transaction costs	8,601	3,114	7,259	5,493	1,578
Severance costs		276			
Change in fair value of derivatives					(2,931)
Normalized FFO	106,264	70,156	55,995	46,459	56,505
Amortization of deferred financing costs	3,942	3,459	3,543	2,665	1,008

Non-cash stock (unit)-based compensation	4,861	11,752	1,689	1,972	1,632
Straight-line rental income, net	(4,788)	(4,478)	(7,656)	467	(3,056)
Rental income from intangible amortization, net	(666)	(1,369)	(1,486)	(1,366)	(3,681)
AFFO	$ 109,613	$ 79,520	$ 52,085	$ 50,197	$ 52,408

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

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Cash flows provided by operating activities	$ 104,842	$ 67,353	$ 44,475	$ 52,088	$ 54,680
Depreciation from discontinued operations			(43)	(575)	(608)
Reserve for uncollectible loan and other receivables	(3,523)	(68)	(10,331)	(1,512)	(750)
Non-cash stock (unit)-based compensation	(4,861)	(11,752)	(1,689)	(1,972)	(1,632)
Amortization of deferred financing costs	(3,942)	(3,459)	(3,543)	(2,665)	(1,008)
Straight-line rental income (expense), net	4,788	4,478	7,656	(467)	3,056
Rental income from intangible amortization, net	666	1,369	1,486	1,366	3,681
Changes in operating assets and liabilities	(4,259)	2,514	4,194	(5,967)	(4,101)
Change in fair value of derivatives					2,931
Discontinued operations				(773)	
Non-cash loss on extinguishment of debt	(494)	(5,161)	(42)	(3,807)	(1,437)
Other	539	507	14	(69)	
FFO	93,756	55,781	42,177	35,647	54,812
Loss on extinguishment of debt	501	10,974	28	3,807	2,296
Reserve for uncollectible loan receivables	3,406	11	6,531	1,512	750
Transaction costs	8,601	3,114	7,259	5,493	1,578
Severance costs		276			
Change in fair value of derivatives					(2,931)
Normalized FFO	106,264	70,156	55,995	46,459	56,505
Amortization of deferred financing costs	3,942	3,459	3,543	2,665	1,008
Non-cash stock (unit)-based compensation	4,861	11,752	1,689	1,972	1,632
Straight-line rental income, net	(4,788)	(4,478)	(7,656)	467	(3,056)
Rental income from intangible amortization, net	(666)	(1,369)	(1,486)	(1,366)	(3,681)
AFFO	$ 109,613	$ 79,520	$ 52,085	$ 50,197	$ 52,408

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

	Year Ended December 31,				
EBITDA	2014	2013	2012	2011	2010
	(in thousands)				
Net income	$ 44,874	$ 23,071	$ 8,593	$ 11,313	$ 37,982
Interest expense, net	49,680	40,784	47,436	35,991	22,695
Amortization of deferred financing costs	3,942	3,459	3,543	2,665	1,008
Depreciation and amortization	44,023	33,226	26,892	20,272	17,246

EBITDA	142,519	100,540	86,464	70,241	78,931
Loss on impairment	2,341	500	11,117	5,233	96
Loss (gain) on sale of assets, net	2,518	(1,016)	(4,425)	(1,171)	(512)
Transaction costs	8,601	3,114	7,259	5,493	1,578
Write off of straight-line rents	1,549	2,887	1,552	7,093	2,903
Non-cash stock (unit)-based compensation	4,861	11,752	1,689	1,972	1,632
Loss on extinguishment of debt	501	10,974	28	3,807	2,296
Reserve for uncollectible loan receivables	3,406	11	6,531	1,512	750
Change in fair value of derivatives					(2,931)
Adjusted EBITDA	$ 166,296	$ 128,762	$ 110,215	$ 94,180	$ 84,743

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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,				
	2014	2013	2012	2011	2010
	(in thousands)				
Cash flows provided by operating activities	$ 104,842	$ 67,353	$ 44,475	$ 52,088	$ 54,680
Interest expense, net	49,680	40,784	47,436	35,991	22,695
Depreciation from discontinued operations			(43)	(575)	(608)
Straight-line rental income (expense), net	4,788	4,478	7,656	(467)	3,056
Rental income from intangible amortization, net	666	1,369	1,486	1,366	3,681
Non-cash stock (unit)-based compensation	(4,861)	(11,752)	(1,689)	(1,972)	(1,632)
(Loss) gain on sale of assets, net	(2,518)	1,016	4,425	1,171	512
Loss on impairment	(2,341)	(500)	(11,117)	(6,092)	(96)
Reserve for uncollectible loan and other receivables	(3,523)	(68)	(6,531)	(1,426)	(750)
Changes in operating assets and liabilities	(4,259)	2,514	396	(5,967)	(4,101)
Non-cash loss on extinguishment of debt	(494)	(5,161)	(42)	(3,807)	(1,437)
Other	539	507	12	(69)	57
EBITDA	142,519	100,540	86,464	70,241	78,931
Loss on impairment	2,341	500	11,117	5,233	96
Loss (gain) on sale of assets, net	2,518	(1,016)	(4,425)	(1,171)	(512)
Transaction costs	8,601	3,114	7,259	5,493	1,578
Write-off of straight-line rents	1,549	2,887	1,552	7,093	2,903
Non-cash stock(unit)-based compensation	4,861	11,752	1,689	1,972	1,632
Loss on extinguishment of debt	501	10,974	28	3,807	2,296
Reserve for uncollectible loan receivables	3,406	11	6,531	1,512	750
Change in fair value of derivatives					(2,931)
Adjusted EBITDA	$ 166,296	$ 128,762	$ 110,215	$ 94,180	$ 84,743
Cash flow used in investing activities	$ (767,507)	$ (218,901)	$ (184,690)	$ (207,056)	$ (75,117)
Cash flow provided by financing activities	$ 621,937	$ 184,436	$ 117,229	$ 182,801	$ 17,923

(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.

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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, 2014, our portfolio consisted of 346 properties in 30 states leased to 37 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 16.8% of our contractual rent as of December 31, 2014. Our properties are leased to a diversified group of operators, with no single operator representing more than 12.1% of our contractual rent as of December 31, 2014.

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, 2014, 54% 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% of our contractual rent as of December 31, 2014 are supported by personal and/or corporate guarantees and leases representing 89% of our contractual rent are 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, 2014, 14.4% of our leases are scheduled to expire before 2020.

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 2014

April 2014 Public Offering of Shares of Common Stock of AVIV

On April 9, 2014, AVIV priced an underwritten public offering of 8,000,000 shares of common stock of AVIV at a public offering price of $24.10 per share. The underwriters had a 30-day option to purchase up to an additional 1,200,000 shares of common stock, which was exercised in full on April 10, 2014. We received net proceeds from the offering of approximately $211.3 million, after deducting discounts, commissions and other offering costs. On April 15, 2014, we used approximately $118.0 million of the net proceeds from the offering to repay all outstanding indebtedness under the Revolving Credit Facility (as defined herein). The remaining proceeds of approximately $93.7 million were used for general corporate purposes, which may include acquisition of additional properties.

Credit Facility with Bank of America

On May 14, 2014, we, through the Partnership and Aviv Healthcare Capital Corporation, with certain of our subsidiaries as guarantors, entered into a $600 million unsecured revolving credit facility with Bank of America, N.A. (as amended from time to time, the Credit Facility). The Credit Facility has an accordion feature that may allow us to increase the availability thereunder by an additional $200 million to a total availability of $800 million. See Liquidity and Capital Resources Indebtedness Outstanding Credit Facility with Bank of America.

Credit Agreement with General Electric Capital Corporation

On December 17, 2014, we, through certain subsidiaries of the Partnership, entered into a credit agreement (the Credit Agreement) with the financial institutions party thereto, as lenders, and General Electric Capital Corporation (GECC), as administrative agent and a lender. The GECC Credit Agreement provides for a secured term loan in an initial principal amount of $180.0 million. The term loan proceeds were used to fund a portion of the purchase price for the acquisition of a portfolio of 28 healthcare properties and one office building from Diamond Senior Living, LLC, an indirect subsidiary of GECC. See Liquidity and Capital Resources Indebtedness Outstanding Credit Agreement with General Electric Capital Corporation.

Merger Agreement

On October 31, 2014, we announced that AVIV s Board of Directors had unanimously approved a definitive merger agreement with Omega Healthcare Investors, Inc. (Omega) pursuant to which Omega will acquire all of the outstanding shares of common stock of AVIV in a stock-for-stock merger. Under the terms of the agreement, stockholders of AVIV will receive a fixed exchange ratio of 0.90 shares of common stock of Omega for each share of AVIV common stock they own. Upon closing of the proposed merger transaction, Omega stockholders are expected to own approximately 70% of the combined company and AVIV stockholders, together with the limited partners of the Partnership, are expected to own approximately 30% of the combined company. The transaction is intended to be tax-free to stockholders. Upon the completion of the proposed merger transaction, Taylor Pickett, current Omega CEO, will serve as CEO of the combined company, and Craig Bernfield, current Chairman and CEO of AVIV, will join the board of directors of the combined company.

Completion of the proposed merger transaction is subject to satisfaction of customary closing conditions, including the approval of stockholders of AVIV and Omega. The proposed merger transaction is currently expected to close in the first half of 2015.

Additional information about the proposed merger transaction and the special meeting of stockholders to consider and vote on, among other things, a proposal to approve the proposed merger transaction, is included in the preliminary joint proxy statement/prospectus filed by Omega with the SEC on January 5, 2015, as amended on February 17, 2015, and the definitive joint proxy statement/prospectus which was mailed to stockholders of record after the related registration statement was declared effective by the SEC.

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.

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 $2.8 trillion in 2012 to approximately $5.0 trillion in 2022. Furthermore, according to CMS, national expenditures for SNFs are expected to grow from approximately $151 billion in 2011 to approximately $264 billion in 2022, representing a compound annual growth rate, or CAGR, of 5.7%. On July 31, 2014, CMS issued its final rate for fiscal year 2015 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 $750 million, or 2.0%, for fiscal year 2015, which began on October 1, 2014.

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, our Credit Facility with Bank of America and our Credit Agreement with GECC, each described in further detail under Liquidity and Capital Resources Indebtedness Outstanding . Substantially all of such indebtedness is scheduled to mature in 2018 or thereafter.

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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 Cash Flow Operating Activities.

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.

Interest on Loans

We earn interest on mortgage loans, working capital loans, and capital expenditure advances we make to our operators for which we receive additional rent. 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, Credit Facility with Bank of America and Credit Agreement with GECC 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 initial public offering (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 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.

Loss (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.

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

Operating Activities

Cash provided by operating activities 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.

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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 Loan Receivable

We incur an expense estimate for a reserve based upon our historical collection record of billed rental income and collections of 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 operator loans offset by cash provided by investing activities from net loan receivables and sales of real estate investments.

Financing Activities

Cash provided by financing activities consists of cash we receive from issuances of debt and equity capital. This cash provides the primary basis for the investments in new properties, capital expenditures and 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.

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, 2014, owned 82.5% 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, 2014 Compared to Year Ended December 31, 2013

Revenues

Revenues increased $42.9 million, or 30.5%, from $141.1 million for the year ended December 31, 2013 to $184.0 million for the same period in 2014. The increase in revenue generally resulted from additional rent associated with the acquisitions and investments made during 2013 and 2014 and the factors set forth below.

Detailed changes in revenues for the year ended December 31, 2014 compared to the same period in 2013 were as follows:

Rental income increased $41.4 million, or 30.4%, from $136.5 million for the year ended December 31, 2013 to $177.9 million for the same period in 2014. The increase is primarily due to additional cash rent of approximately $40.3 million associated with acquisitions and investments made during 2013 and 2014.

Interest on loans remained materially consistent for the year ended December 31, 2013 compared to the same period in 2014.

Interest and other income increased $1.5 million from $0.1 million for the year ended December 31, 2013 to $1.6 million for the same period in 2014. The increase is primarily due to non-recurring income from the sale of bed licenses at two facilities during 2014.

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Expenses

Expenses increased $21.2 million, or 17.9%, from $118.0 million for the year ended December 31, 2013 to $139.2 million for the same period in 2014. The increases were primarily due to an increase of $10.8 million in depreciation and amortization expense incurred, $8.9 million in interest expense incurred, $5.5 million in transaction costs, $3.5 million in reserve for uncollectible loan and account receivables, $1.8 million in loss on impairment of assets and $3.5 million in net loss on sale of assets in the current year partially offset by a decrease of $10.5 million in loss on extinguishment of debt and $2.8 million in general and administrative expenses.

Detailed changes in our expenses for the year ended December 31, 2014 compared to the same period in 2013 were as follows:

Interest expense incurred increased $8.9 million, or 21.8%, from $40.8 million for the year ended December 31, 2013 to $49.7 million for the same period in 2014. The majority of the increase was due to an increase in bond interest costs as a result of the bonds issued in October 2013 for which an entire year of interest was incurred for 2014, an increase in line of credit interest costs due to the increased revolver balance during 2014, offset by a decrease in mortgage interest expense as a result of the paydown related to line of credit borrowings.

Amortization of deferred financing costs remained materially consistent for the year ended December 31, 2013 compared to the same period in 2014.

Depreciation and amortization expense increased $10.8 million, or 32.5%, from $33.2 million for the year ended December 31, 2013 to $44.0 million for the same period in 2014. The increase was a result of $4.3 million in additional depreciation expense incurred in 2014 for properties acquired during 2013 for which a full 12 months of depreciation was incurred in 2014, and $6.5 million in additional depreciation expense incurred in 2014 for properties acquired during the year.

General and administrative expense decreased $2.8 million, or 10.6%, from $26.9 million for the year ended December 31, 2013 to $24.0 million for the same period in 2014. This decrease was primarily due to a decrease in share-based compensation of $6.9 million from 2013 to 2014 due to vesting at IPO in 2013, partially offset by a total increase in office salaries, office bonuses, employment expenses, legal fees, and audit expenses during 2014.

Transaction costs increased $5.5 million, from $3.1 million for the year ended December 31, 2013 to $8.6 million for the same period in 2014. This increase was primarily due to an increase to 28 acquisitions (72 individual properties) completed during 2014 compared to 18 acquisitions (31 individual properties) during 2013 as well as transaction costs incurred as a result of the pending merger with Omega.

Loss on impairment of assets expense increased $1.8 million from $0.5 million for the year ended December 31, 2013 to $2.3 million for the same period in 2014. Loss on impairment expense is the non-recurring loss on one facility in 2013 and two facilities in 2014 where a portion of the carrying value was not deemed recoverable.

Reserve for uncollectible loan and accounts receivable increased $3.5 million from $0.07 million for the year ended December 31, 2013 to $3.5 million for the same period in 2014. This increase was primarily due to additional expense incurred to reserve against outstanding loans and other receivable balances related to two operators in 2014.

Net loss on sale of assets increased $3.5 million from a net gain of $1.0 million for the year ended December 31, 2013 to a net loss of $2.5 million for the same period in 2014. This increase was due to the sale of eight non-strategic assets in 2014 compared to seven non-strategic assets in 2013.

Loss on extinguishment of debt decreased $10.5 million from $11.0 million for the year ended December 31, 2013 to $0.5 million for the same period in 2014. The decrease was due to the non-cash write-offs related to debt that was settled in conjunction with the IPO during 2013 which is a non-recurring event.

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.

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Interest on 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 partially 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 partially offset by an increase in a full year of interest associated with the 2019 Notes and the interest related to the line of credit borrowings.

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.

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.

Transaction costs decreased $4.1 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.

Reserve for uncollectible loan and accounts receivable decreased $10.3 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.

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 Credit Facility with Bank of America 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 Credit Facility with Bank of America 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 Credit Facility with Bank of America).

Cash Flows

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

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

Cash provided by operations increased $37.5 million, or 55.6%, from $67.4 million for the year ended December 31, 2013 to $104.8 million for the same period in 2014. The increase was primarily due to a $30.7 million increase in net income, adjusted for non-cash components related to properties acquired in 2013 and 2014, a $3.9 million increase in cash from the change in other assets, and a $3.4 million increase in cash as a result of the change in tenant security deposits and other liabilities for the year ended December 31, 2014 as compared to the same period in 2013.

Cash used in investing activities increased $548.4 million from $218.9 million for the year ended December 31, 2013 to $767.3 million for the same period in 2014. This increase was largely due to the increase in funds used for the purchase of real estate investments and cash used in development projects and capital improvements for the year ended December 31, 2014, as compared to the same period in 2013.

Cash provided by financing activities increased $437.5 million from $184.4 million for the year ended December 31, 2013 to $621.9 million for the same period in 2014. The increase was primarily due to a $335.0 million increased borrowings under our line of credit and repayments of debt in early 2013 related to the IPO.

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, partially offset by $20.0 million in additional cash spent to pay dividends/distributions in 2013 as compared to 2012 and $117.2 million in additional net cash used to pay down debt in 2013 as compared to 2012 in connection with the IPO.

Indebtedness Outstanding

Our indebtedness outstanding consists principally of borrowings under our 2019 Notes, our 2021 Notes, our Credit Facility with Bank of America and our Credit Agreement with GECC. We had total indebtedness of approximately $1.2 billion (inclusive of our debt premium) outstanding as of December 31, 2014. Substantially all of such indebtedness is scheduled to mature in 2018 or thereafter.

As of December 31, 2014, 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.

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.

Credit Facility with Bank of America

On May 14, 2014, we, through the Partnership and Aviv Healthcare Capital Corporation, with certain of our subsidiaries as guarantors, entered into a $600 million unsecured revolving credit facility with Bank of America, N.A. (as amended from time to time, the Credit Facility). The Credit Facility has an accordion feature that may allow us to increase the availability thereunder by an additional $200 million to a total availability of $800 million. The Credit Facility had an outstanding balance of $355.0 million as of December 31, 2014.

On each payment date, we pay interest only in arrears on any outstanding principal balance of the Credit Facility. The Credit Facility bears interest at the rate of LIBOR plus a margin of 170 basis points to 225 basis points, depending on our leverage ratio, and the applicable margin was 180 basis points as of December 31, 2014. If the Partnership achieves an investment grade rating on senior unsecured long-term debt from at least two of S&P, Fitch and Moody s, or investment grade status, then the margin reduces to 90 basis points to 170 basis points, depending on the quality of the investment grade rating. The initial term of the Credit Facility expires on May 14, 2018, with a one-year extension option provided that certain conditions precedent are satisfied. The proceeds from the Credit Facility are available for general corporate purposes.

The Credit Facility may be repaid from time to time at our option, and amounts repaid under the Credit Facility may be redrawn. Prior to when the Partnership achieves investment grade status, an unused fee equal to 25 basis points to 35 basis points of the unused balance on the Credit Facility is due quarterly. When the Partnership achieves investment grade status, a facility fee equal to 12.5 basis points to 30 basis points on the aggregate committed amount under the Credit Facility is due quarterly.

The amount available for us to borrow and our ability to borrow under the 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%,
- an unencumbered leverage ratio (defined as consolidated total unsecured indebtedness to total unencumbered asset value) of less than or equal to 60%,
- a consolidated secured leverage ratio (defined as consolidated total secured indebtedness to total asset value) of less than or equal to 30%,

- a consolidated unsecured interest coverage ratio (defined as net revenue from unencumbered assets to interest expense on unsecured indebtedness) equal to or greater than 2.00 to 1.00,

- 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 $539.2 million plus 75% of the net proceeds of any additional equity issuances, and

- if the Partnership has not then achieved investment grade status, secured recourse indebtedness less than or equal to 10% of the consolidated total asset value.

Under the 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.

Credit Agreement with General Electric Capital Corporation

On December 17, 2014, we, through certain subsidiaries of the Partnership, entered into the Credit Agreement with GECC with the financial institutions party thereto, as lenders, and GECC, as administrative agent and a lender. The Credit Agreement with GECC provides for a secured term loan in an initial principal amount of $180.0 million.

The Credit Agreement with GECC provides for a secured term loan in an initial principal amount of $180.0 million. Borrowings under the term loan will bear interest at the rate of: (a) the greater of (i) 0.50% per annum or (ii) LIBOR or a comparable rate with respect to Eurodollar loans plus (b) an applicable percentage of 3.50%. The term loan requires interest payments only for the first 24 months and payments thereafter amortize on a 30-year amortization schedule. Subject to certain exceptions, no prepayment of the term loan is permitted until January 1, 2016, and thereafter prepayment is permitted with a prepayment premium of 1% of the outstanding amount of the term loan through January 1, 2017. After January 1, 2017, the term loan may be prepaid without prepayment premium. The maturity date for the term loan under the Credit Agreement is December 17, 2019.

The Credit Agreement with GECC contains customary covenants that include restrictions on the Borrowers ability to make acquisitions and other investments, pay dividends, incur additional indebtedness, and sell or otherwise transfer certain assets as well as customary events of default. The Credit Agreement with GECC incorporates certain financial covenants set forth in the Credit Facility with Bank of America discussed above. In the event of a default under the Credit Agreement with GECC, the lenders have customary remedies that include the right to terminate their obligations under the Credit Agreement with GECC and to accelerate the payment on any unpaid principal amount of all outstanding loans and all interest accrued and unpaid thereon, and to exercise all rights and remedies available to lenders under the Credit Agreement with GECC and related documents or applicable law, including realizing on the real property collateral.

The term loan proceeds were used to fund a portion of the purchase price for the acquisition of a portfolio of 28 healthcare properties and one office building from Diamond Senior Living, LLC, an indirect subsidiary of GECC. Each of the fee-owned properties (other than the office building) and one leasehold interest are generally encumbered by a security instrument and provide collateral for the term loan.

Other Loans

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, 2014, the balance of such loan was $11.1 million (excluding $2.3 million of net debt premium balance). The loan was paid in full on January 30, 2015.

Contractual Obligations

The following table shows the amounts due in connection with the contractual obligations described below as of December 31, 2014 (including future interest payments):

	Payments Due by Period				
	Less than 1 Year	**1-3 Years**	**3-5 Years**	**More than 5 Years**	**Total**
			(in thousands)		
Secured loans(1)	$ 7,916	$ 17,819	$ 193,468	$ 17,769	$ 236,972
Credit facility (2)	6,958	13,935	357,879		378,772
6% Senior Notes due 2021(3)	15,000	30,000	30,000	276,250	351,250
7 ¾% Senior Notes due 2019 (4)	31,000	62,000	436,167		529,167

Total	$ 60,874	$ 123,754(1)	$ 1,017,514	$ 294,019	$ 1,496,161

(1) Reflects $180.0 million Credit Agreement with GECC and $11.1 million HUD loan. The HUD loan was paid in full on January 30, 2015.
(2) Reflects indebtedness under our Credit Facility with Bank of America. Does not give effect to any future amounts which may be drawn under the Credit Facility with Bank of America which would also mature in May 2018.
(3) Reflects $250 million outstanding for our 2021 Notes.
(4) Reflects $400 million outstanding for our 2019 Notes.

Off-Balance Sheet Arrangements

As of December 31, 2014, 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 Annual Report on 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 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 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 (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 (above/below-market leases) or depreciation and amortization (in-place lease assets). 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 potential losses 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, 2014, $535.0 million of our consolidated borrowings bore interest at variable rates (representing borrowings under our Credit Facility with Bank of America and Credit Agreement with GECC). 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 $535.0 million on our variable rate indebtedness during the year ended December 31, 2014, our interest expense would have increased by $5.35 million for the year ended December 31, 2014. We believe that we have effectively managed interest rate exposure because, as of December 31, 2014, 55.4% of our indebtedness was fixed rate debt.

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, 2014 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.

Management s Assessment of Internal Control over Financial Reporting of AVIV. AVIV s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. AVIV s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Aviv s management carried out an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of Aviv s internal control over financial reporting.

Based on its assessment, AVIV s management concluded that AVIV s internal control over financial reporting was effective as of December 31, 2014. In making this assessment, AVIV management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework). The effectiveness of AVIV s internal control over financial reporting as of December 31, 2014 has been audited by our independent registered public accounting firm, as stated in their report on Page F-3 of the Consolidated Financial Statements.

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Changes in Internal Control over Financial Reporting of AVIV. Management s assessment of the overall effectiveness of our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) has historically been based on the framework set forth in the Internal Control-Integrated Framework (1992) issued by COSO. In May 2013, COSO issued an updated framework (the 2013 COSO Framework). We have integrated the changes prescribed by the 2013 COSO Framework into our internal control over financial reporting during fiscal year 2014.

There were no other changes that occurred during the fourth quarter of the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our 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, 2014 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.

Management s Assessment of Internal Control over Financial Reporting of the Partnership. The Partnership s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Partnership s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Partnership s management carried out an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Partnership s internal control over financial reporting.

Based on the Partnership s assessment, the Partnership s management concluded that its effective internal control over financial reporting was effective as of December 31, 2014. In making this assessment, the Partnership s management used the criteria established by COSO in the 2013 COSO framework. The effectiveness of the Partnership s internal control over financial reporting as of December 31, 2014 has been audited by our independent registered public accounting firm, as stated in their report on Page F-5 of the Consolidated Financial Statements.

Changes in Internal Control over Financial Reporting of the Partnership. Management s assessment of the overall effectiveness of our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) has historically been based on the framework set forth in the Internal Control-Integrated Framework (1992) issued by COSO. In May 2013, COSO issued the 2013 COSO Framework . We have integrated the changes prescribed by the 2013 COSO Framework into our internal control over financial reporting during fiscal year 2014.

There were no other changes that occurred during the fourth quarter of the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***OTHER INFORMATION***

None.

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 will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from AVIV s Definitive Proxy Statement with respect to the 2015 Annual Meeting of Stockholders, to the extent required, in either case to be filed with the SEC no later than April 30, 2015.

We have adopted a code of ethics that applies to every employee, officer and director. 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.

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Item 11. ***EXECUTIVE COMPENSATION***

This information will be included (under the headings Compensation of Directors, Executive Officer Compensation, Compensation Committee Interlocks and Insider Participation and Compensation Committee Report) in an amendment to this Annual Report on Form 10-K or incorporated by reference from AVIV s Definitive Proxy Statement with respect to the 2015 Annual Meeting of Stockholders, to the extent required, in either case to be filed with the SEC no later than April 30, 2015.

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

This information will be included (under the headings Security Ownership of Certain Beneficial Owners and Management and Executive Officer Compensation Equity Compensation Plan Information) in an amendment to this Annual Report on Form 10-K or incorporated by reference to AVIV s Definitive Proxy Statement with respect to the 2015 Annual Meeting of Stockholders, to the extent required, in either case to be filed with the SEC no later than April 30, 2015.

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

This information will be included (under the headings Information About Our Board of Directors and its Committees and Certain Relationships and Related Transactions) in an amendment to this Annual Report on Form 10-K or incorporated by reference from AVIV s Definitive Proxy Statement with respect to the 2015 Annual Meeting of Stockholders, to the extent required, in either case to be filed with the SEC no later than April 30, 2015.

Item 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES***

This information will be included (under the heading Relationship with Independent Registered Public Accounting Firm-Principal Accountant Fees and Services) in an amendment to this Annual Report on Form 10-K or incorporated by reference from AVIV s Definitive Proxy Statement with respect to the 2015 Annual Meeting of Stockholders, to the extent required, in either case to be filed with the SEC no later than April 30, 2015.

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, 2014 and 2013 for each of AVIV and the Partnership;

Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2014, 2013, and 2012 for each of AVIV and the Partnership;

Consolidated Statements of Changes in Equity for the Years Ended December 31, 2014, 2013, and 2012 for AVIV, and Consolidated Statements of Changes in Partners Capital for the Partnership;

Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2013, and 2012 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 26, 2015	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 26, 2015	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 26, 2015.

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

Mark J. Parrell	
/s/ Ben W. Perks	Director
Ben W. Perks	
/s/ James H. Roth	Director
James H. Roth	
/s/ J. Russell Triedman	Director
J. Russell Triedman	

EXHIBIT INDEX

2.1	Asset Purchase Agreement, dated as of November 5, 2014, between Financing VI Healthcare Property, L.L.C. and Diamond Senior Living, LLC, included as Exhibit 2.1 to Registrant s Current Report on Form 8-K filed with the SEC on November 5, 2014 and incorporated by reference thereto.
2.2	Agreement and Plan of Merger, dated as of October 30, 2014, among Omega Healthcare Investors, Inc., OHI Healthcare Properties Holdco, Inc., OHI Healthcare Properties Limited Partnership, L.P., Aviv REIT, Inc. and Aviv Healthcare Properties Limited Partnership, included as Exhibit 2.1 to Registrant s Current Report on Form 8-K filed the SEC on November 5, 2014 and incorporated by reference thereto.
3.1	Articles of Amendment and Restatement of Aviv REIT, Inc., included as Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed with the SEC on March 29, 2013and 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	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.
4.1.6	Sixth Supplemental Indenture, dated as of May 15, 2014, 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 to Registrant s Current Report on Form 8-K filed with the SEC on May 16, 2014.

4.1.7	Seventh Supplemental Indenture, dated as of September 30, 2014, 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 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 and incorporated by reference thereto.
4.1.8*	Eighth Supplemental Indenture, dated as of December 30, 2014, 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.
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.
4.2.1	First Supplemental Indenture, dated as of May 15, 2014, 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 4.2 to Registrant s Current Report on Form 8-K filed with the SEC on May 16, 2014.
4.2.2	Second Supplemental Indenture, dated as of September 30, 2014, 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 4.2 to Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 and incorporated by reference thereto.
4.2.3*	Third Supplemental Indenture, dated as of December 30, 2014, 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.
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	Credit Agreement, dated as of May 14, 2014, among Aviv Healthcare Properties Limited Partnership and Aviv Healthcare Capital Corporation, as borrowers, Aviv REIT, Inc. and the other Guarantors party thereto, as guarantors, the financial institutions party thereto, as lenders, and Bank of America, N.A., as Administrative Agent and a lender, included as Exhibit 10.1 to Registrant s Current Report on Form 8-K filed with the SEC on May 16, 2014 and incorporated herein by reference thereto.

10.4	Credit Agreement, dated December 17, 2014, among Aviv Financing VI, L.L.C. and Financing VI Healthcare Property, L.L.C., as borrowers, the financial institutions party thereto, as lenders, and General Electric Capital Corporation, as administrative agent and a lender, included as Exhibit 10.1 to Registrant s Current Report on Form 8-K filed with the SEC on December 23, 2014 and incorporated herein by reference thereto.
10.5	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.
10.5.1	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.
10.5.2	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.
10.5.3	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.
10.6	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.
10.6.1	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.
10.6.2	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.
10.6.3	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.
10.6.4	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.
10.7	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.
10.8	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.
10.9	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.
10.10	

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.

10.11	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.
10.12	Employment Agreement, dated as of October 30, 2014, among Aviv Asset Management, L.L.C., Aviv REIT, Inc. and Steven J. Insoft, included as Exhibit 10.1 to Registrant s Current Report on Form 8-K filed with the SEC on November 5, 2014 and incorporated herein by reference thereto.
10.13	Transition Agreement, dated as of October 31, 2014, between Aviv REIT, Inc. and Craig M. Bernfield, included as Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed with the SEC on November 5, 2014 and incorporated herein by reference thereto.

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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, 2014, 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.

Item 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

INDEX TO THE FINANCIAL STATEMENTS

AVIV REIT, INC.

AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

FINANCIAL STATEMENT SCHEDULES

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, 2014 and 2013, 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, 2014. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 the Company at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
February 26, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and the Stockholders

Aviv REIT, Inc.

We have audited Aviv REIT, Inc. s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2014 and 2013 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, 2014, and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
February 26, 2015

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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 Partnership) as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income, changes in partners capital, and cash flows for each of the three years in the period ended December 31, 2014. 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 Partnership 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 the Partnership at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Partnership s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
February 26, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and the Partners

Aviv Healthcare Properties Limited Partnership

We have audited Aviv Healthcare Properties Limited Partnership s (the Partnership) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Partnership s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Partnership s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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

In our opinion, the Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Partnership as of December 31, 2014 and 2013 and the related consolidated statements of operations and comprehensive income, changes in partners capital, and cash flows for each of the three years in the period ended December 31, 2014, and our report dated February 26, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois
February 26, 2015

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AVIV REIT, INC.

Consolidated Balance Sheets

(in thousands except share data)

	December 31, 2014	December 31, 2013
Assets		
Income producing property		
Land	$ 190,300	$ 138,150
Buildings and improvements	1,845,992	1,138,173
Assets under direct financing leases	11,291	11,175
	2,047,583	1,287,498
Less accumulated depreciation	(188,286)	(147,302)
Construction in progress and land held for development	23,150	23,292
Net real estate	1,882,447	1,163,488
Cash and cash equivalents	10,036	50,764
Straight-line rent receivable, net	45,368	40,580
Tenant receivables, net	4,095	1,647
Deferred finance costs, net	19,024	16,643
Loan receivables, net	42,697	41,686
Other assets	16,763	15,625
Total assets	$ 2,020,430	$ 1,330,433
Liabilities and equity		
Secured loans	$ 193,418	$ 13,654
Unsecured notes payable	652,292	652,752
Line of credit	355,000	20,000
Accrued interest payable	15,126	15,284
Dividends and distributions payable		17,694
Accounts payable and accrued expenses	18,582	10,555
Tenant security and escrow deposits	26,259	21,586
Other liabilities	9,805	10,463
Total liabilities	1,270,482	761,988
Equity:		
Stockholders equity		
Common stock (par value $0.01; 48,425,224 and 37,593,910 shares issued and outstanding, respectively)	484	376
Additional paid-in capital	737,262	523,658
Accumulated deficit	(119,039)	(89,742)

Total stockholders equity	618,707	434,292
Noncontrolling interests operating partnership	131,241	134,153
Total equity	749,948	568,445
Total liabilities and equity	$ 2,020,430	$ 1,330,433

See accompanying notes.

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AVIV REIT, INC.

Consolidated Statements of Operations and Comprehensive Income

(in thousands except share and per share data)

	Year Ended December 31 2014	2013	2012
Revenues			
Rental income	$ 177,947	$ 136,513	$ 121,210
Interest on loans and financing lease	4,483	4,400	4,633
Interest and other income	1,612	154	1,129
Total revenues	184,042	141,067	126,972
Expenses			
Interest expense incurred	49,680	40,785	47,440
Amortization of deferred financing costs	3,942	3,459	3,543
Depreciation and amortization	44,023	33,226	26,892
General and administrative	24,039	26,886	15,955
Transaction costs	8,601	3,114	7,259
Loss on impairment	2,341	500	11,117
Reserve for uncollectible loans and other receivables	3,523	68	10,331
Loss (gain) on sale of assets, net	2,518	(1,016)	
Loss on extinguishment of debt	501	10,974	28
Other expenses			400
Total expenses	139,168	117,996	122,965
Income from continuing operations	44,874	23,071	4,007
Discontinued operations			4,586
Net income	44,874	23,071	8,593
Net income allocable to noncontrolling interests operating partnership	(9,082)	(6,010)	(3,455)
Net income allocable to common stockholders	$ 35,792	$ 17,061	$ 5,138
Net income	$ 44,874	$ 23,071	$ 8,593
Unrealized loss on derivative instruments			(476)
Total comprehensive income	$ 44,874	$ 23,071	$ 8,117
Net income allocable to common stockholders	$ 35,792	$ 17,061	$ 5,138
Unrealized loss on derivative instruments, net of noncontrolling interest operating partnership portion of $0, $0, and $192, respectively			(284)

Total comprehensive income allocable to common stockholders	$	35,792	$	17,061	$	4,854
Earnings per common share:						
Basic:						
Income from continuing operations allocable to common stockholders	$	0.80	$	0.51	$	0.12
Discontinued operations, net of noncontrolling interests operating partnership						0.14
Net income allocable to common stockholders	$	0.80	$	0.51	$	0.26
Diluted:						
Income from continuing operations allocable to common stockholders	$	0.77	$	0.49	$	0.12
Discontinued operations, net of noncontrolling interests operating partnership						0.14
Net income allocable to common stockholders	$	0.77	$	0.49	$	0.26
Weighted average common shares outstanding:						
Basic		44,629,901		33,700,834		20,006,538
Diluted		58,166,924		44,324,189		20,135,689
Dividends declared per common share	$	1.44	$	1.40	$	1.25

See accompanying notes.

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AVIV REIT, INC.

Consolidated Statements of Changes in Equity

(in thousands except share data)

	Stockholders Equity						Noncontrolling Interests	
	Common Stock Shares	Common Stock Amount	Additional Paid-In-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Operating Partnership	Total Equity
Balance at January 1, 2012	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
Balance at December 31, 2012	21,653,813	217	375,030	(46,527)	(2,152)	326,568	(6,065)	320,503
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					2,152	2,152	1,622	3,774

instrument								
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
Non-cash stock-based compensation			4,861			4,861		4,861
Shares issued for settlement of management vested stock and exercised options, net	287,406	3	1,704			1,707		1,707
Distributions to partners							(16,072)	(16,072)
Capital contributions							60	60
Proceeds from issuance of common stock	9,200,000	92	221,628			221,720		221,720
Cost of raising capital			(10,558)			(10,558)		(10,558)
Dividends to stockholders				(65,089)		(65,089)		(65,089)
Conversion of OP Units	1,343,908	13	17,146			17,159	(17,159)	
Adjustment of noncontrolling interest-operating partnership ownership of operating partnership			(21,177)			(21,177)	21,177	
Net income				35,792		35,792	9,082	44,874
Balance at December 31,2014	48,425,224	$ 484	$ 737,262	$ (119,039)	$	$ 618,707	$ 131,241	$ 749,948

See accompanying notes.

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AVIV REIT, INC.

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Operating activities			
Net income	$ 44,874	$ 23,071	$ 8,593
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	44,023	33,226	26,935
Amortization of deferred financing costs	3,942	3,459	3,543
Accretion of debt premium	(539)	(507)	(414)
Straight-line rental income, net	(4,788)	(4,478)	(7,656)
Rental income from intangible amortization, net	(666)	(1,369)	(1,486)
Non-cash stock-based compensation	4,861	11,752	1,689
Loss (gain) on sale of assets, net	2,518	(1,016)	(4,425)
Non-cash loss on extinguishment of debt	494	5,161	42
Loss on impairment	2,341	500	11,117
Reserve for uncollectible loan and other receivables	3,523	68	10,331
Accretion of earn-out provision for previously acquired real estate investments			400
Changes in assets and liabilities:			
Tenant receivables	(2,577)	(3,511)	(4,572)
Other assets	(1,123)	(5,229)	(5,873)
Accounts payable and accrued expenses	2,880	3,949	5,021
Tenant security deposits and other liabilities	5,079	2,277	1,230
Net cash provided by operating activities	104,842	67,353	44,475
Investing activities			
Purchase of real estate	(706,970)	(197,388)	(172,773)
Proceeds from sales of real estate, net	2,277	15,549	31,933
Capital improvements	(14,997)	(12,003)	(13,558)
Development projects	(43,083)	(18,738)	(28,067)
Loan receivables received from others	19,642	4,086	14,632
Loan receivables funded to others	(24,376)	(10,407)	(16,857)
Net cash used in investing activities	(767,507)	(218,901)	(184,690)

See accompanying notes.

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AVIV REIT, INC.

Consolidated Statements of Cash Flows (continued)

(in thousands)

	Year Ended December 31, 2014	2013	2012
Financing activities			
Borrowings of debt	$ 668,000	$ 470,000	$ 267,761
Repayment of debt	(153,157)	(488,241)	(174,127)
Payment of financing costs	(6,980)	(10,448)	(5,143)
Capital contributions	60	575	109,000
Deferred contribution			(35,000)
Proceeds from issuance of common stock	221,720	303,600	
Cost of raising capital	(10,558)	(25,829)	
Shares issued from settlement of vested stock and exercised stock options, net	1,707		
Cash distributions to partners	(20,215)	(16,314)	(16,484)
Cash dividends to stockholders	(78,640)	(48,907)	(28,778)
Net cash provided by financing activities	621,937	184,436	117,229
Net (decrease) increase in cash and cash equivalents	(40,728)	32,888	(22,986)
Cash and cash equivalents:			
Beginning of year	50,764	17,876	40,862
End of year	$ 10,036	$ 50,764	$ 17,876
Supplemental cash flow information			
Cash paid for interest	$ 50,972	$ 40,008	$ 46,711
Supplemental disclosure of noncash activity			
Accrued dividends payable to stockholders	$	$ 13,551	$ 9,888
Accrued distributions payable to partners	$	$ 4,143	$ 3,799
Write-off of straight-line rent receivable, net	$ 1,549	$ 2,887	$ 1,552
Write-off of in-place lease intangibles, net	$	$	$ 19
Write-off of deferred financing costs, net	$ 501	$ 5,161	$ 42
Assumed debt	$	$	$ 11,460

See accompanying notes.

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

Consolidated Balance Sheets

(in thousands)

	December 31, 2014	December 31, 2013
Assets		
Income producing property		
Land	$ 190,300	$ 138,150
Buildings and improvements	1,845,992	1,138,173
Assets under direct financing leases	11,291	11,175
	2,047,583	1,287,498
Less accumulated depreciation	(188,286)	(147,302)
Construction in progress and land held for development	23,150	23,292
Net real estate	1,882,447	1,163,488
Cash and cash equivalents	10,036	50,764
Straight-line rent receivable, net	45,368	40,580
Tenant receivables, net	4,095	1,647
Deferred finance costs, net	19,024	16,643
Loan receivables, net	42,697	41,686
Other assets	16,763	15,625
Total assets	$ 2,020,430	$ 1,330,433
Liabilities and partners capital		
Secured loans	$ 193,418	$ 13,654
Unsecured notes payable	652,292	652,752
Line of credit	355,000	20,000
Accrued interest payable	15,126	15,284
Distributions payable		17,694
Accounts payable and accrued expenses	18,582	10,555
Tenant security and escrow deposits	26,259	21,586
Other liabilities	9,805	10,463
Total liabilities	1,270,482	761,988
Partners capital:		
Partners capital	749,948	568,445
Total liabilities and partners capital	$ 2,020,430	$ 1,330,433

See accompanying notes.

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AVIV HEALTHCARE PROPERTIES LIMITED PARTNERSHIP

Consolidated Statements of Operations and Comprehensive Income

(in thousands except unit and per unit data)

	Year Ended December 31,		
	2014	2013	2012
Revenues			
Rental income	$ 177,947	$ 136,513	$ 121,210
Interest on loans and financing lease	4,483	4,400	4,633
Interest and other income	1,612	154	1,129
Total revenues	184,042	141,067	126,972
Expenses			