



NATIONAL HEALTH REALTY, INC.

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## NHR reports third quarter results

MURFREESBORO, Tenn. -- National Health Realty, Inc., (AMEX: NHR) a long-term health care real estate investment trust, announced net income for the quarter ended September 30, 2006 of \$3,033,000 compared to \$2,805,000 last year, an increase of 8.1%.

For the three months ended September 30, 2006, net income per share was 30 cents basic and diluted compared to 28 cents basic and diluted, for the same period last year. Basic and diluted funds from operations were 43 cents per share compared to 42 cents basic and diluted, last year. Revenues for the quarter totaled \$4,999,000 compared to \$4,948,000 last year.

For the nine months ended September 30, net income was \$9,069,000 compared to \$8,416,000 for the same nine months last year. Net income per share was 91 cents basic and diluted compared to 86 cents basic and 85 cents diluted last year. Funds from operations per share were \$1.29 basic and diluted compared to \$1.25 basic and diluted in 2005. Revenues for the nine months totaled \$15,142,000 compared to \$14,786,000 for the same period of the prior year.

NHR owns the real property of 16 skilled nursing facilities, six assisted living centers and one retirement center. NHR also owns first and second mortgage notes having a carrying value of \$12.7 million. These notes are secured by operating skilled nursing facilities and other health care properties. Additional information including NHR's most recent press releases may be obtained on NHR's web site at [www.nationalhealthrealty.com](http://www.nationalhealthrealty.com). The company trades on the American Stock Exchange with the symbol NHR.

*Statements in this press release that are not historical facts are forward looking statements. NHR cautions investors that any forward-looking statements made involve risks and uncertainties and are not guarantees of future performance. All forward-looking statements represent NHR's best judgment as of the date of this release.*

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**Condensed Statements of Income (unaudited)***(in thousands except share & per share amounts)*

|   | Three Months Ended Sept. 30 |                          | Nine Months Ended Sept. 30 |                 |
|---|-----------------------------|--------------------------|----------------------------|-----------------|
|   | 2006                        | 2005                     | 2006                       | 2005            |
| <b>Revenues:</b>  |                             |                          |                            |                 |
| Rental income   | \$ 4,460                    | \$ 4,339                 | \$ 13,532                  | \$ 12,984       |
| Mortgage interest income  | 539                         | 609                      | 1,610                      | 1,802           |
|   | <u>4,999</u>                | <u>4,948</u>             | <u>15,142</u>              | <u>14,786</u>   |
| <b>Expenses:</b>  |                             |                          |                            |                 |
| Interest  | 155                         | 195                      | 456                        | 539             |
| Depreciation of real estate                                       | 1,422                       | 1,468                    | 4,268                      | 4,405           |
| General and administrative  | 224                         | 297                      | 763                        | 816             |
|   | <u>1,801</u>                | <u>1,960</u>             | <u>5,487</u>               | <u>5,760</u>    |
| Income before minority interest in subsidiaries and non-operating | 3,198                       | 2,988                    | 9,655                      | 9,026           |
| Non-operating Income (investment and interest income)             | 204                         | 156                      | 519                        | 417             |
| Minority interest in consolidated subsidiaries                    | (369)                       | (339)                    | (1,105)                    | (1,027)         |
| <b>Net Income</b>   | <u>\$ 3,033</u>             | <u>\$ 2,805</u>          | <u>\$ 9,069</u>            | <u>\$ 8,416</u> |
| Net income per common share:                                      |                             |                          |                            |                 |
| Basic   | \$ .30                      | \$ .28                   | \$ .91                     | \$ .86          |
| Diluted   | \$ .30                      | \$ .28                   | \$ .91                     | \$ .85          |
| Funds from operations   |                             |                          |                            |                 |
| Basic   | \$ 4,300                    | \$ 4,108                 | \$ 12,872                  | \$ 12,325       |
| Diluted   | \$ 4,300                    | \$ 4,108                 | \$ 12,872                  | \$ 12,325       |
| Funds from operations per common share                            |                             |                          |                            |                 |
| Basic   | \$ .43                      | \$ .42                   | \$ 1.29                    | \$ 1.25         |
| Diluted   | \$ .43                      | \$ .42                   | \$ 1.29                    | \$ 1.25         |
| Weighted average common shares                                    |                             |                          |                            |                 |
| Basic   | 9,948,756                   | 9,885,231                | 9,943,840                  | 9,824,517       |
| Diluted   | 9,954,085                   | 9,892,227                | 9,949,187                  | 9,859,813       |
| Common dividends declared per share                               | \$ .3325                    | \$ .3325                 | \$ .9975                   | \$ .9975        |
| <b>Balance Sheet Data</b><br><i>(in thousands)</i>                | <b>Sept. 30,<br/>2006</b>   | <b>Dec. 31,<br/>2005</b> |                            |                 |
| Real estate properties, net                                       | \$ 110,785                  | \$ 115,054               |                            |                 |
| Mortgages and other notes receivable                              | 12,722                      | 13,207                   |                            |                 |
| Debt  | 9,175                       | 10,450                   |                            |                 |
| Stockholders' equity  | 112,257                     | 112,390                  |                            |                 |

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Reconciliation of Funds from Operations<sup>(1)</sup>

The following table reconciles net income applicable to common stockholders to funds from operations applicable to common stockholders:

| <i>(in thousands)</i>   | Three Months Ended<br>September 30 |           | Nine Months Ended<br>September 30 |           |
|---|------------------------------------|-----------|-----------------------------------|-----------|
|   | 2006                               | 2005      | 2006                              | 2005      |
| Net income applicable to common stockholders  | \$ 3,033                           | \$ 2,805  | \$ 9,069                          | \$ 8,416  |
| Adjustments:  |                                    |           |                                   |           |
| Real estate depreciation  | 1,422                              | 1,468     | 4,268                             | 4,405     |
| Minority interest in NHR/OP, L.P. share of add back<br>for real estate related depreciation | (155)                              | (165)     | (465)                             | (496)     |
| Funds from operations applicable to common stockholders                                     | \$ 4,300                           | \$ 4,108  | \$ 12,872                         | \$ 12,325 |
| Basic funds from operations per share   | \$ .43                             | \$ .42    | \$ 1.29                           | \$ 1.25   |
| Diluted funds from operations per share   | \$ .43                             | \$ .42    | \$ 1.29                           | \$ 1.25   |
| Weighted average shares:  |                                    |           |                                   |           |
| Basic   | 9,948,756                          | 9,885,231 | 9,943,840                         | 9,824,517 |
| Diluted   | 9,954,085                          | 9,892,227 | 9,949,187                         | 9,859,813 |

<sup>(1)</sup>We believe that funds from operations is an important supplemental measure of operating performance. We, therefore, disclose funds from operations, although it is a measurement that is not defined by accounting principles generally accepted in the United States. We generally use the National Association of Real Estate Investment Trusts (NAREIT) measure of funds from operations. We define funds from operations as income before extraordinary items adjusted for certain non-cash items, primarily real estate depreciation, less gains/losses on sales of facilities. Our measure may not be comparable to similarly titled measures used by other REITs. Consequently, our funds from operations may not provide a meaningful measure of our performance as compared to that of other REITs. Funds from operations does not represent cash generated from operating activities as defined by accounting principles generally accepted in the United States (funds from operations, for example, does not include changes in operating assets and liabilities) and, therefore, should not be considered as an alternative to net income as the primary indicator of operating performance or to cash flow as a measure of liquidity.

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**National Health Realty, Inc. Portfolio Summary September 30, 2006**

**Portfolio Statistics**

|                             | <u>Properties</u> | <u>Investment</u>    | <u>Investment<br/>Percentage</u> |
|-----------------------------|-------------------|----------------------|----------------------------------|
| Equity Ownership            | 23                | \$110,786,000        | 90%                              |
| Mortgage Loan Receivables   | 5                 | 12,722,000           | 10%                              |
| Total Real Estate Portfolio | <u>28</u>         | <u>\$123,508,000</u> | <u>100%</u>                      |

**Equity Ownership**

|                  | <u>Properties</u> | <u>Beds</u>  | <u>Investments</u>   |
|------------------|-------------------|--------------|----------------------|
| Nursing Homes    | 16                | 1,913        | \$ 67,233,000        |
| Assisted Living  | 6                 | 523          | 29,599,000           |
| Retirement Homes | 1                 | 93           | 13,954,000           |
|                  | <u>23</u>         | <u>2,529</u> | <u>\$110,786,000</u> |

**Mortgage Loan Receivables**

|               | <u>Properties</u> | <u>Beds</u> | <u>Investment</u> |
|---------------|-------------------|-------------|-------------------|
| Nursing Homes | 5                 | 698         | \$12,722,000      |

**Summary of Facilities By Type:**

|                  | <u>Properties</u> | <u>Percentage of<br/>Total Dollars</u> | <u>Total<br/>Dollars</u> |
|------------------|-------------------|--|--------------------------|
| Nursing Homes    | 21                | 64.74%                                 | \$ 79,955,000            |
| Assisted Living  | 6                 | 23.97%                                 | 29,599,000               |
| Retirement Homes | 1                 | 11.30%                                 | 13,954,000               |
|                  | <u>28</u>         | <u>100.00%</u>                         | <u>\$123,508,000</u>     |

**Summary of Facilities By State:**

|                  | <u>LTC</u> | <u>Assisted<br/>Living</u> | <u>Retirement</u> | <u>Investment<br/>Amount</u> | <u>Percent<br/>Total<br/>Portfolio</u> |
|------------------|------------|----------------------------|-------------------|------------------------------|--|
| 1 Florida        | 8          | 3                          | ---               | \$ 54,752,000                | 44.33%                                 |
| 2 Tennessee      | 2          | 2                          | 1                 | 32,831,000                   | 26.58%                                 |
| 3 South Carolina | 7          | ---                        | ---               | 26,790,000                   | 21.69%                                 |
| 4 Indiana        | 3          | ---                        | ---               | 3,634,000                    | 2.94%                                  |
| 5 Alabama        | ---        | 1                          | ---               | 3,268,000                    | 2.65%                                  |
| 6 Missouri       | 1          | ---                        | ---               | 2,233,000                    | 1.81%                                  |
|                  | <u>21</u>  | <u>6</u>                   | <u>1</u>          | <u>\$123,508,000</u>         | <u>100.00%</u>                         |