

**THREE DECADES STRONG +  
A SUSTAINABLE FUTURE**



# 30

**HCP is proud to announce that 2015 marks our 30th anniversary as a public company.** We have produced superior results for three decades, averaging a compound annual total shareholder return of **15.8% since our inception** while increasing our dividend every single year. With over \$24 billion of assets under management, HCP has grown to become an industry-leading REIT and an important capital partner to numerous healthcare companies and providers.

This year, we continue our record of innovation by producing our **first** Combined Annual + Sustainability Report, which includes a timeline of major events that have contributed to HCP's growth and success since our IPO in 1985. We would like to thank each of our dedicated professionals and business partners for helping us reach these significant milestones.

**Cover Image:**

**GATEWAY MEDICAL OFFICE BUILDING  
3535 Market Street, Philadelphia, PA**

- Fully modernized building with ENERGY STAR Certification
- Located near three major universities in the Philadelphia Science Center, the largest urban research park in the U.S.
- Leased to investment grade tenants University of Pennsylvania and Children's Hospital of Philadelphia



**INDEX**

# Annual Report

|                                    |           |
|------------------------------------|-----------|
| Introduction                       | <b>1</b>  |
| HCP's 30-Year Timeline             | <b>3</b>  |
| Letter to Stakeholders             | <b>5</b>  |
| Celebrating Our Partners           | <b>7</b>  |
| Performance + Financial Highlights | <b>9</b>  |
| 2014 Form 10-K Cover Page          | <b>10</b> |
| Appendix – 2014 Form 10-K          |           |

# Sustainability Report

|                                       |           |
|---------------------------------------|-----------|
| 2014 Sustainability Report Cover Page | <b>11</b> |
| CEO Statement                         | <b>12</b> |
| Strategy + Sustainability             | <b>17</b> |
| Corporate Governance                  | <b>22</b> |
| Environmental Stewardship             | <b>26</b> |
| Sustainable Assets                    | <b>31</b> |
| Social Responsibility                 | <b>36</b> |
| Our Environmental Performance         | <b>45</b> |

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2014 Total  
Shareholder  
Return



HCP



S&P 500 INDEX

## Notable Events in HCP's History

### Timeline 1985 - 2015

**1985**

HCP became a public company listed on the NYSE through our IPO on May 30, 1985, which raised \$90 million at \$20 per share. Our original portfolio was comprised of 24 skilled nursing facilities and hospitals that were operated by National Medical Enterprises.

**1988**

Acquired 25 skilled nursing facilities through a \$60 million sale lease-back with Beverly Enterprises, bringing our total assets under management to over \$300 million.

**1999**

Completed \$1 billion merger with American Health Properties, representing the largest transaction ever achieved in the health-care REIT sector at that time and resulting in HCP becoming the largest diversified health-care REIT with \$2.5 billion of assets under management.

**2003**

Established a larger medical office platform through our acquisition of 113 MOBs for \$575 million from MedCap Properties.

**2006**

Acquired CNL Retirement Properties for \$5.3 billion, effectively doubling the size of our Company.

**2007**

Created our life science platform through our \$2.9 billion acquisition of Slough Estates, comprised of 83 properties representing 5 million square feet in the San Francisco Bay Area and San Diego.

Sunrise Senior Living  
The Quadrangle  
Haverford, PA

Britannia Oyster Point  
South San Francisco, CA

**2006**

**2007**

# 30 YEARS STRONG

**2008**

Became the first healthcare REIT to be included in the S&P 500 Index.

**2011**

Completed \$6.1 billion acquisition of 334 post-acute/ skilled nursing facilities from HCR ManorCare.

**2012**

Acquired \$1.7 billion senior housing portfolio of 129 communities from a joint venture between Emeritus and Blackstone.

**2013**

Named to CDP's Climate Disclosure Leadership Index (2013-2014).



**2014**

Completed \$1.9 billion of acquisitions, including the formation of a \$1.2 billion CCRC joint venture with Brookdale

**2015**

Increased our annualized dividend rate by 3.7%, marking our 30th consecutive year of dividend growth.

Became the first and only REIT named to the prestigious S&P 500 Dividend Aristocrats Index. HCP continues to be the only REIT in this elite index.

Completed our first international debt investment in the U.K. to help fund Terra Firma's recapitalization of Four Seasons Health Care.

Launched our inaugural Sustainability Report.

Named GRESB's Healthcare Leader and achieved Green Star designation (2012-2014).



Maria Mallaband  
Hope Green Care Home  
Adlington, U.K.

HCR ManorCare  
Voorhees, NJ

**2011**



**2014**



# Letter to Stakeholders



**Dear Stakeholders,**

2014 represented a successful and productive year of HCP professionals creating value for our stakeholders. We have highlighted a few of our significant achievements below:

- Delivered a strong **Total Shareholder Return of 28%**
- Generated 3.3% same store cash NOI growth – the 6th consecutive year above 3%
- Completed **\$1.9 billion of accretive acquisitions** at a blended 7.8% cash yield
- Diversified internationally, growing our U.K. investments to over \$1 billion
- Produced FFO as adjusted of \$3.04 per share and FAD of \$2.57 per share, exceeding our business plan and representing all-time highs for the Company
- Increased our dividend by 3.8% in 2014 and announced another 3.7% annualized increase in January 2015, representing our **30th consecutive year of dividend growth**
- Continue as the **only REIT** in the S&P 500 Dividend Aristocrats Index
- Raised \$1.2 billion of external financing at an attractive blended rate of 4% utilizing our investment grade balance sheet, which serves as the foundation for our investment activities
- Continue to excel as a **global leader in sustainability**

We could not have accomplished this on our own. We partner with best-in-class healthcare tenants and operators with the goal of aligning our mutual business success, as their success strengthens our real estate performance.

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Healthcare reform has required providers to adapt and invest in their properties, technology and healthcare professionals in order to maintain cost-efficient, high-quality care. HCP provides investment capital that is critical to supporting these efforts.

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In our senior housing, post-acute/skilled and hospital portfolios, we partner with operators with a proven track record of delivering quality resident and patient care. The majority of our portfolio is structured as longer-term escalating triple-net leases to enhance the stability and growth of our rental income. Selectively, we also participate in the operations of our properties when they have higher growth potential and the opportunity to expand with existing operators, which could result in increased value creation driven by occupancy gains, outsized market rental growth and income from additional healthcare services.

Below are just a few examples of the beneficial impact of our capital:

- Grew with Brookdale through their merger with Emeritus and our joint acquisition of additional entrance fee continuing care retirement communities (CCRCs). We will also be investing together in facility upgrades and leveraging Brookdale's ancillary services platform to expand resident services.
- Continued to work closely with HCR ManorCare, our largest operator primarily focused on post-acute services, to reposition their portfolio and

identify ways to improve performance as they adjust to changing reimbursement models.

- Acquired our first international real estate portfolio in the care home space, which is operated by Maria Mallaband, and will also provide capital for their continued expansion in the U.K.
- Provided acquisition financing for Formation Capital's purchase of NHP, a care home portfolio in the U.K. operated by HC-One, and further expanded our relationship with HC-One in 2015 by providing financing for their acquisition of Meridian Healthcare; we expect to convert a portion of these debt investments into real estate ownership.
- Agreed to provide capital for nine senior housing development projects sponsored by Formation Capital that are currently either under construction or in lease-up, each of which will be managed by one of our current leading operators.

In our medical office portfolio, we are a leader in recognizing the strategies of hospitals and healthcare systems to build their brand, footprint, capabilities and physician services. Notably, nearly 80% of our medical office portfolio is located on hospital campuses and 94% is affiliated with healthcare systems. Highlights for our medical office portfolio include:

- Broke ground on a medical office building (MOB) at the Sky Ridge Medical Center near Denver, which represents HCA's most successful hospital start-up in its history. This project will complement our two existing MOBs on the same campus and represents our 95th on-campus MOB with HCA.
- Partnered with Memorial Hermann in suburban Houston to develop two MOBs on campus of their hospitals, representing our third ground-up development project in process and fourth building on or affiliated with Memorial Hermann's campuses.
- Acquired or redeveloped MOBs recently that are leased to large universities, increasing our partnerships

with academic institutions, including Duke, UC Davis, UCLA and the University of Pennsylvania.

Beyond healthcare delivery services, science is focused on wellness research and illness prevention. We participate in this dynamic area of healthcare through our life science portfolio, which is strategically concentrated in key cluster markets located in the San Francisco Bay Area and San Diego. We support the industry's growth and our tenants' needs by providing high quality research and lab space. Highlights for our life science portfolio include:

- Achieved an all-time high portfolio occupancy of 95%, benefiting from continued strong fundamentals in the San Francisco Bay Area.
- Broke ground on the first phase of The Cove at Oyster Point, the premier life science development project in South San Francisco, which will be a LEED Silver project and will feature a 5.5 acre outdoor green space, a state-of-the-art amenity center, a retail center and hotel entitlements.

Changes in the healthcare industry are only beginning to take shape and will likely continue into the foreseeable future, which makes it vital for both healthcare operators and capital providers to align with the right partners. We often talk about the characteristics that HCP looks for in a long-term partner – quality care, efficient operations, respected industry reputation, adaptable business model – but it is equally important for HCP to be the partner of choice for healthcare real estate. We are very proud of HCP's track record of providing capital in a way that has demonstrated alignment, consistency and sophistication for three decades.

We will be celebrating our 30th year as a public company in May 2015 and look forward to continuing to deliver value to our stakeholders for years to come.

Thank you for your continued support,

**Lauralee E. Martin**  
**President and Chief Executive Officer**



Sky Ridge III MOB Development  
(rendering)  
Lone Tree, CO



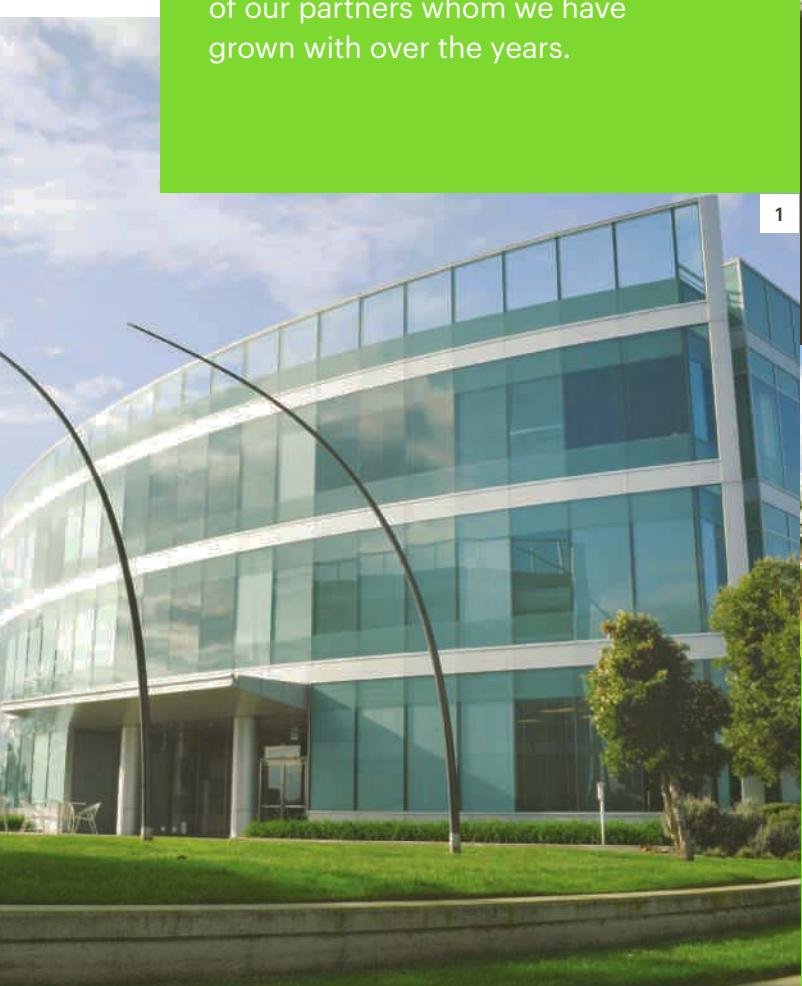
Memorial Hermann MOB Development  
(rendering)  
Pearland, TX



The Cove at Oyster Point Life Science Development  
(rendering)  
South San Francisco, CA

# Celebrating Our Partners

In honor of our 30th anniversary, we would like to recognize some of our partners whom we have grown with over the years.




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4

**INDUSTRY  
LEADERS**


5

Congratulations to Maria Mallaband, one of the U.K.'s leading care home operators, for being awarded "Global Care Home Operator of the Year" in 2014 for the 3rd consecutive year.


6

Congratulations to Scottsdale Healthcare on its new affiliation with John C. Lincoln Health. The expanded network encompasses five acute care hospitals and a network of 3,700 physicians throughout the greater Phoenix area.

Congratulations to Pacira Pharmaceuticals on the continued success of its blockbuster drug, EXPAREL. Since its launch in April of 2012, EXPAREL has not only improved the lives of patients through a safer non-narcotic pain management platform and improved health economics, but has also propelled an exponential increase in equity value to Pacira's shareholders.

- 1. Relypsa (Life Science), Founded in 2007 - Redwood City, CA
- 2. Sunrise Senior Living, Operating since 1981 - Beverly Hills, CA
- 3. Trilogy Health Services, Operating since 1997 - Evansville, IN
- 4. Hospital Corporation of America, Operating since 1968 - Dallas, TX
- 5. Maria Mallaband, Operating since 1996 - Kingswood, Surrey, U.K.
- 6. Scottsdale Lincoln Health Network (MOB), Affiliated since 2014 - Scottsdale, AZ
- 7. Torrey Pines Science Park (Life Science), Founded in 2006 - San Diego, CA



HCR ManorCare was selected by Optum, part of the UnitedHealth Group, as its exclusive partner in three major markets to participate in a bundled payment pilot program designed to improve patient outcomes, reduce healthcare system costs and increase patient satisfaction.

## PROVEN SUCCESS



9



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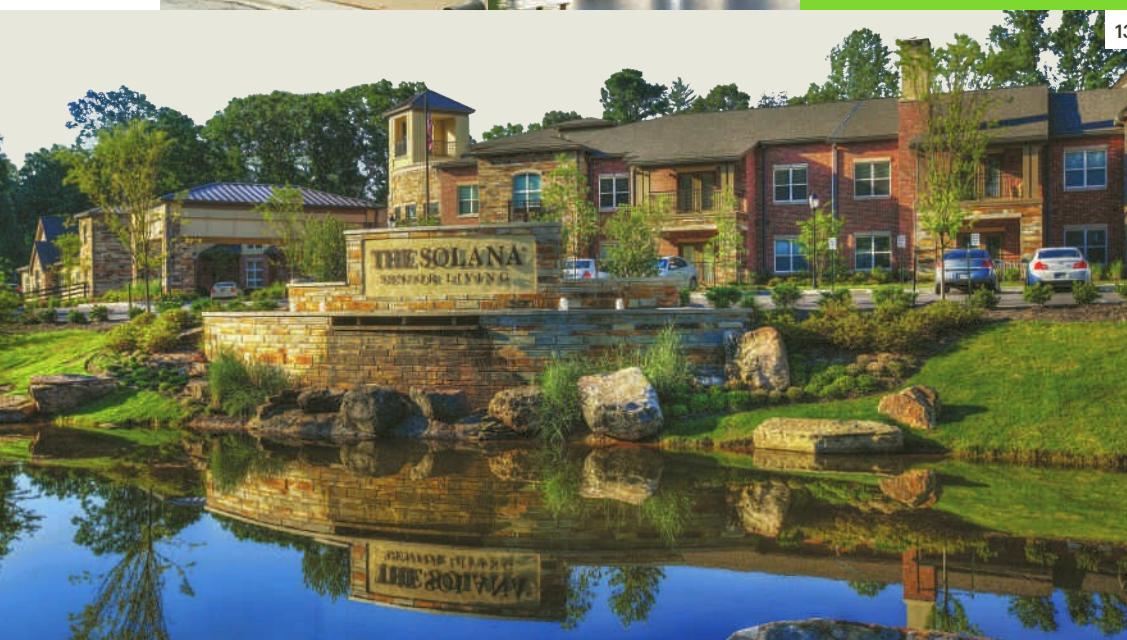


10

11

Brookdale is now the largest senior housing provider and has been ahead of the curve in offering a continuum of care to their residents and continuously upgrading their assets and systems.

12



13

We have partnered with Formation Capital to develop nine senior housing facilities and help finance their acquisition of healthcare properties, most recently a U.K.-based care home portfolio operated by HC-One.

8. HCR ManorCare, Operating since 1991 - West Bloomfield, MI
9. Oakmont Senior Living, Operating since 1997 - Roseville, CA
10. Bickford Senior Living (Eby), Operating since 1992 - Alpharetta, GA
11. Brookdale Senior Living, Operating since 1978 - Jacksonville, FL (CCRC)
12. HC-One, Operating since 2011 - Glasgow City, Greenfield Park, U.K.
13. HCP/Formation Capital Development, Managed by Brookdale Senior Living - Germantown, TN

HCP continues to be the **only REIT** in the S&P 500 Dividend Aristocrats Index, which recognizes S&P 500 companies that have increased their dividend for at least 25 consecutive years.

**30**

consecutive  
years of dividend  
growth

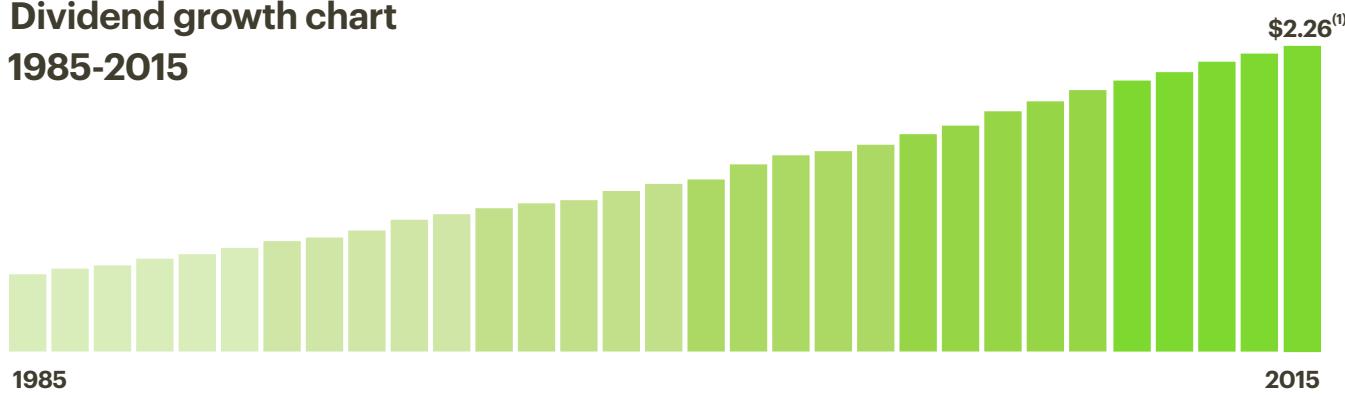
**\$1B**

delivered to  
shareholders in the  
form of dividends  
in 2014

**4%**

average dividend  
growth over the  
past 5 years

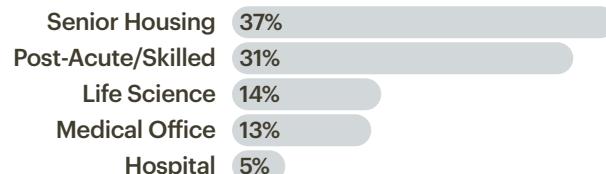
Dividend growth chart  
1985-2015



**\$24.3 Billion**

assets under  
management as of  
December 31, 2014

### Portfolio Income from Assets Under Management<sup>(2)</sup>



(1) Estimated full year 2015 dividend based on the \$0.565 per share quarterly dividend paid on February 24, 2015.

(2) We present definitions and reconciliations of certain non-GAAP measures to their most directly comparable GAAP measures elsewhere in this annual report.

# 2014 Form 10-K

| Dollars in thousands except per share amounts | 2010          | 2011          | 2012          | 2013         | 2014         |
|---|---------------|---------------|---------------|--------------|--------------|
| <b>Total Assets</b>                           | \$ 13,331,923 | \$ 17,408,475 | \$ 19,915,555 | \$20,075,870 | \$21,369,940 |
| <b>Total Revenues</b>                         | 1,224,717     | 1,694,418     | 1,879,970     | 2,099,878    | 2,266,279    |
| <b>Dividends Paid Per Common Share</b>        | \$ 1.86       | \$ 1.92       | \$ 2.00       | \$ 2.10      | \$ 2.18      |

## FINANCIAL HIGHLIGHTS



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

**Form 10-K**

(Mark One)

- 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 1-08895

**HCP, Inc.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of incorporation or organization)

**33-0091377**

(I.R.S. Employer Identification No.)

**1920 Main Street, Suite 1200**

Irvine, California

(Address of principal executive offices)

**92614**

(Zip Code)

Registrant's telephone number, including area code **(949) 407-0700**

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

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
| Common Stock        | New York Stock Exchange                   |

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

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

Indicate by check mark whether the registrant; (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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  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 by Rule 12b-2 of the Act.) Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$16.7 billion.

As of January 30, 2015 there were 460,763,248 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement for the registrant's 2015 Annual Meeting of Stockholders have been incorporated by reference into Part III of this Report.

**HCP, Inc.**  
 Form 10-K  
 For the Fiscal Year Ended December 31, 2014

**Table of Contents**

|  |            |
|--|------------|
| <b>Cautionary Language Regarding Forward-Looking Statements</b>  | <b>3</b>   |
| <hr/>  |            |
| <b>Part I</b>  | <b>5</b>   |
| Item 1. Business   | 5          |
| Item 1A. Risk Factors  | 14         |
| Item 1B. Unresolved Staff Comments   | 30         |
| Item 2. Properties   | 30         |
| Item 3. Legal Proceedings  | 35         |
| Item 4. Mine Safety Disclosures  | 35         |
| <hr/>  |            |
| <b>Part II</b>   | <b>36</b>  |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 36         |
| Item 6. Selected Financial Data  | 39         |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations                        | 40         |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk  | 70         |
| Item 8. Financial Statements and Supplementary Data  | 72         |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure                         | 130        |
| Item 9A. Controls and Procedures   | 130        |
| Item 9B. Other Information   | 132        |
| <hr/>  |            |
| <b>Part III</b>  | <b>132</b> |
| Item 10. Directors, Executive Officers and Corporate Governance  | 132        |
| Item 11. Executive Compensation  | 132        |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters              | 132        |
| Item 13. Certain Relationships and Related Transactions, and Director Independence                                   | 132        |
| Item 14. Principal Accounting Fees and Services  | 132        |
| <hr/>  |            |
| <b>Part IV</b>   | <b>133</b> |
| Item 15. Exhibits, Financial Statement Schedules   | 133        |

*All references in this report to “HCP,” the “Company,” “we,” “us” or “our” mean HCP, Inc., together with its consolidated subsidiaries. Unless the context suggests otherwise, references to “HCP, Inc.” mean the parent company without its subsidiaries.*

## **Cautionary Language Regarding Forward-Looking Statements**

Statements in this Annual Report on Form 10-K that are not historical factual statements are “forward-looking statements.” We intend to have our forward-looking statements covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with those provisions. Forward-looking statements include, among other things, statements regarding our and our officers’ intent, belief or expectation as identified by the use of words such as “may,” “will,” “project,” “expect,” “believe,” “intend,” “anticipate,” “seek,” “forecast,” “plan,” “potential,” “estimate,” “could,” “would,” “should” and other comparable and derivative terms or the negatives thereof. Any such forward-looking statements reflect our current expectations and views about future events and are subject to a number of risks and uncertainties that could significantly affect the Company’s future financial condition and results of operations. While forward-looking statements reflect our good faith belief and reasonable assumptions based upon current information, we can give no assurance that our expectations or forecasts will be attained. Further, we cannot guarantee the accuracy of any such forward-looking statement contained in this Annual Report, and such forward-looking statements are subject to known and unknown risks and uncertainties that are difficult to predict. As more fully set forth under “Item 1A, Risk Factors” in this report, risks and uncertainties that may cause our actual results to differ materially from the expectations contained in the forward-looking statements include, among other things:

- (a) our reliance on a concentration of a small number of tenants and operators for a significant portion of our revenues;
- (b) the financial weakness of tenants and operators, including potential bankruptcies and downturns in their businesses, which results in uncertainties regarding our ability to continue to realize the full benefit of such tenants’ and/or operators’ leases;
- (c) the ability of our tenants and operators to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and to generate sufficient income to make rent and loan payments to us and our ability to recover investments made, if applicable, in their operations;
- (d) competition for tenants and operators, including with respect to new leases and mortgages and the renewal or rollover of existing leases;
- (e) availability of suitable properties to acquire at favorable prices and the competition for the acquisition and financing of those properties;
- (f) our ability to negotiate the same or better terms with new tenants or operators if existing leases are not renewed or we exercise our right to replace an existing tenant or operator upon default;
- (g) the risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision making authority and our reliance on our partners’ financial condition and continued cooperation;
- (h) the risk that we may not be able to achieve the benefits of investments within expected time frames or at all, or within expected cost projections;
- (i) the potential impact of future litigation matters, including the possibility of larger than expected litigation costs, adverse results and related developments;
- (j) the effect on healthcare providers of legislation addressing entitlement programs and related services, including Medicare and Medicaid, which may result in future reductions in reimbursements;

- (k) changes in federal, state or local laws and regulations, including those affecting the healthcare industry that affect our costs of compliance or increase the costs, or otherwise affect the operations, of our tenants and operators;
- (l) volatility or uncertainty in the capital markets, the availability and cost of capital as impacted by interest rates, changes in our credit ratings, and the value of our common stock, and other conditions that may adversely impact our ability to fund our obligations or consummate transactions, or reduce the earnings from potential transactions;
- (m) changes in global, national and local economic conditions, and currency exchange rates;
- (n) changes in the credit ratings on United States (“U.S.”) government debt securities or default or delay in payment by the U.S. of its obligations;
- (o) our ability to manage our indebtedness level and changes in the terms of such indebtedness; and
- (p) the ability to maintain our qualification as a real estate investment trust.

We do not undertake, and hereby disclaim, any obligation to update any forward-looking statements, which speak only as of the date on which they are made.

## PART I

### ITEM 1. Business

#### General Overview

HCP, an S&P 500 company, invests primarily in real estate serving the healthcare industry in the United States. We are a Maryland corporation organized in 1985 and qualify as a self-administered real estate investment trust (“REIT”). We are headquartered in Irvine, California, with offices in Nashville, Los Angeles, San Francisco and London. Our diverse portfolio is comprised of investments in the following healthcare segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital.

*Portfolio Summary:* At December 31, 2014, we managed \$24.3 billion of investments in our Owned Portfolio and Unconsolidated Joint Ventures and owned \$483 million of assets under Development and Redevelopment.

*Owned Portfolio.* At December 31, 2014, our leases, operating properties and debt investments in our owned portfolio consisted of the following (square feet and dollars in thousands):

| Segment             | Number of Properties <sup>(1)</sup> | Capacity <sup>(2)</sup> | Investment <sup>(3)</sup> |                    | Total Investment    | NOI <sup>(4)</sup> | Interest Income |
|---------------------|-------------------------------------|-------------------------|---------------------------|--------------------|---------------------|--------------------|-----------------|
|                     |                                     |                         | Properties <sup>(1)</sup> | Debt               |                     |                    |                 |
| Senior housing      | 465                                 | 45,358 Units            | \$ 7,782,877              | \$ 152,733         | \$ 7,935,610        | \$ 695,672         | \$14,249        |
| Post-acute/ skilled | 301                                 | 38,309 Beds             | 5,875,525                 | 968,200            | 6,843,725           | 553,235            | 60,242          |
| Life science        | 111                                 | 7,321 Sq. ft.           | 3,648,505                 | —                  | 3,648,505           | 251,034            | —               |
| Medical office      | 215                                 | 15,222 Sq. ft.          | 3,023,953                 | —                  | 3,023,953           | 222,757            | —               |
| Hospital            | 16                                  | 2,221 Beds              | 594,048                   | 17,470             | 611,518             | 82,678             | —               |
| Total               | <u>1,108</u>                        |                         | <u>\$20,924,908</u>       | <u>\$1,138,403</u> | <u>\$22,063,311</u> | <u>\$1,805,376</u> | <u>\$74,491</u> |

(1) Represents 1,040 properties under lease with an investment value of \$19.3 billion and 68 operating properties under RIDEA structures (see “Healthcare Segments—Senior housing” section below) with an investment value of \$1.6 billion.

(2) Senior housing facilities are measured in available units (e.g., studio, one or two bedroom units). Post-acute/skilled nursing facilities and hospitals are measured in available bed count. Life science and medical office buildings are measured in square feet (“sq. ft.”).

(3) Property investment represents: (i) the carrying amount of real estate and intangibles, after adding back accumulated depreciation and amortization, and (ii) the carrying amount of direct financing leases. Debt investment represents the carrying amount of loans receivable and marketable debt securities.

(4) Net Operating Income from continuing operations (“NOI”) is a non-GAAP supplemental financial measure used to evaluate the operating performance of real estate properties. For a reconciliation of net income to NOI for 2014, refer to Note 14 to the Consolidated Financial Statements.

*Unconsolidated Joint Ventures.* At December 31, 2014, we had interests in significant unconsolidated joint ventures representing 88 properties with an aggregate investment of \$2.2 billion primarily in our senior housing, life science and medical office segments.

*Developments and Redevelopments.* At December 31, 2014, we had an aggregate investment of \$483 million in assets under development, redevelopment and land held for future development, which are primarily in our life science and medical office segments.

For a description of our significant activities during 2014, see Item 7 in this report.

#### Business Strategy

We invest and manage our real estate portfolio for the long-term to maximize the benefit to our shareholders and support the growth of our dividends. The core elements of our strategy are: (i) to

acquire, develop, lease, own and manage a diversified portfolio of quality healthcare properties across multiple business segments and geographic locations (including Europe); (ii) to align ourselves with leading healthcare companies, operators and service providers, which over the long-term should result in higher relative rental rates, net operating cash flows and appreciation of property values; (iii) to concentrate on longer-term escalating triple-net leases with high-quality tenants, while using RIDEA structures for properties that have higher growth potential; (iv) to maintain adequate liquidity with long-term fixed rate debt financing with staggered maturities, which supports the longer-term nature of our investments, while reducing our exposure to interest rate volatility and refinancing risk at any point in the interest rate or credit cycles; and (v) to continue to manage our balance sheet with a targeted financial leverage of 40% relative to our assets.

#### *Internal Growth Strategies*

We believe that our longer-term escalating triple-net leases with financially strong tenants and operators enhance the quality, stability and growth of our rental income. Further, we believe many of our existing properties hold the potential for increased future cash flows as they are of high quality and in desirable locations within markets where the creation of new supply is limited by the lack of available sites and the difficulty of obtaining the necessary licensing, other approvals and/or financing. Our strategy for maximizing the benefits from these opportunities is to: (i) work with new or existing tenants and operators to address their space and capital needs and (ii) provide high-quality property management services in order to motivate tenants to renew, expand or relocate into our properties.

We expect to continue our internal growth as a result of our ability to:

- Build and maintain long-term leasing and management relationships with quality tenants and operators. In choosing locations for our properties, we focus our attention on their physical environment, adjacency to established businesses (e.g., hospital systems) and educational centers, proximity to sources of business growth and other local demographic factors.
- Replace tenants and operators quickly at the best available market terms and lowest possible transaction costs. We believe that we are well-positioned to attract new tenants and operators and achieve attractive rental rates and operating cash flow as a result of the location, design and maintenance of our properties, together with our reputation for high-quality building services and responsiveness to tenants, and our ability to offer space alternatives within our portfolios.
- Extend and modify terms of existing leases prior to expiration. We structure lease extensions, early renewals or modifications, which reduce the cost associated with lease downtime or the re-investment risk resulting from the exercise of tenants' purchase options, while securing the tenancy and/or relationship of our high quality tenants and operators on a long-term basis.

#### *Investment Strategies*

The delivery of healthcare services requires real estate and, as a result, tenants and operators depend on real estate, in part, to maintain and grow their businesses. We believe that the healthcare real estate market provides investment opportunities due to the: (i) compelling demographics driving the demand for healthcare services; (ii) specialized nature of healthcare real estate investing; and (iii) ongoing consolidation of the fragmented healthcare real estate sector.

While we emphasize healthcare real estate ownership, we may also provide real estate secured financing to, or invest in equity or debt securities of, healthcare operators or other entities engaged in healthcare real estate ownership. We may also acquire all or substantially all of the securities or assets of other REITs, operating companies or similar entities where such investments would be consistent with our investment strategies. We may co-invest alongside institutional or development investors through partnerships or limited liability companies.

We monitor, but do not limit, our investments based on the percentage of our total assets that may be invested in any one property type, investment vehicle or geographic location, the number of properties that may be leased to a single tenant or operator, or loans that may be made to a single borrower. In allocating capital to our multiple segments, we target opportunities with the most attractive risk/reward profile for our portfolio as a whole. We may take additional measures to mitigate risk, including diversifying our investments (by sector, geography, tenant or operator), structuring transactions as master leases, requiring tenant or operator insurance and indemnifications, and obtaining credit enhancements in the form of guarantees, letters of credit or security deposits.

We believe we are well positioned to achieve external growth through acquisitions, financing and development. Other factors that contribute to our competitive position include:

- our reputation gained through nearly 30 years of successful operations and the stability and strength of our existing portfolio of properties;
- our relationships with leading healthcare operators, private equity firms, corporations, non-profits and public institutions seeking to monetize existing assets or develop new facilities;
- our relationships with institutional buyers and sellers of high-quality healthcare real estate assets;
- our ability to act quickly on due diligence and financing due to the strength of our experienced management team and balance sheet liquidity;
- our track record and reputation for executing acquisitions responsively and efficiently, which provides confidence to domestic and foreign institutions and private investors who seek to sell healthcare real estate in our market areas;
- our relationships with nationally recognized financial institutions that provide capital to the healthcare and real estate industries; and
- our control of sites (including assets under contract with radius restrictions).

#### *Financing Strategies*

Because our REIT qualification requires us to distribute at least 90% of our REIT taxable income (excluding net capital gains), we regularly access the public equity and debt markets to raise the funds necessary to finance acquisitions and debt investments, develop and redevelop properties, and refinance maturing debt.

We may finance acquisitions and other investments through the following vehicles:

- issuance of common or preferred stock;
- issuance or origination of debt, including unsecured notes and mortgage debt;
- borrowings under our credit facility; or
- sale of ownership interests in properties or other investments.

We maintain a disciplined balance sheet by actively managing our debt to equity levels and maintaining multiple sources of liquidity, such as our revolving line of credit facility, access to capital markets and secured debt lenders, relationships with current and prospective institutional joint venture partners, and our ability to divest of assets. Our debt obligations are primarily long-term fixed rate with staggered maturities, which reduces the impact of rising interest rates on our operations.

We finance our investments based on our evaluation of available sources of funding. For short-term purposes, we may utilize our revolving line of credit facility or arrange for other short-term borrowings from banks or other sources. We arrange for longer-term financing by offering equity and debt securities, placing mortgage debt and obtaining capital from institutional lenders.

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#### **Competition**

Investing in real estate serving the healthcare industry is highly competitive. We face competition from other REITs, investment companies, pension funds, private equity and hedge fund investors, sovereign

funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater flexibility (e.g., non-REIT competitors), resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. Our ability to compete may also be impacted by global, national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends.

Income from our investments is dependent on the ability of our tenants and operators to compete with other companies on a number of different levels, including: the quality of care provided, reputation, success of product or drug development, the physical appearance of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas, and the financial condition of our tenants and operators. Private, federal and state payment programs, and government reimbursement, as well as the effect of laws and regulations, may also have a significant influence on the profitability of our tenants and operators. For a discussion of the risks associated with competitive conditions affecting our business, see “Item 1A, Risk Factors” in this report.

## **Healthcare Segments**

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*Senior housing.* At December 31, 2014, we had interests in 479 senior housing facilities, including 14 properties owned by our unconsolidated joint ventures. Our senior housing facilities are primarily triple-net leased and include independent living facilities (“ILFs”), assisted living facilities (“ALFs”), memory care facilities (“MCFs”), care homes, and continuing care retirement communities (“CCRCs”), which cater to different segments of the elderly population based upon their personal needs. Services provided by our tenants or operators in these facilities are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicare and Medicaid. Our senior housing property types are further described below:

- *Independent Living Facilities.* ILFs are designed to meet the needs of seniors who choose to live in an environment surrounded socially by their peers with services such as housekeeping, meals and activities. These residents generally do not need assistance with activities of daily living (“ADL”). However, in some of our facilities, residents have the option to contract for these services. At December 31, 2014, we had interests in 64 ILFs.
- *Assisted Living Facilities.* ALFs are licensed care facilities that provide personal care services, support and housing for those who need help with ADL, such as bathing, eating, dressing and medication management, yet require limited medical care. The programs and services may include transportation, social activities, exercise and fitness programs, beauty or barber shop access, hobby and craft activities, community excursions, meals in a dining room setting and other activities sought by residents. These facilities are often in apartment-like buildings with private residences ranging from single rooms to large apartments. Certain ALFs may dedicate a portion of a facility that offer higher levels of personal assistance for residents requiring memory care as a result of Alzheimer’s disease or other forms of dementia. Levels of personal assistance are based in part on local regulations. At December 31, 2014, we had interests in 345 ALFs.
- *Memory Care Facilities.* MCFs address the unique challenges of our residents with Alzheimer’s disease or other forms of dementia. Residents may live in semi-private apartments or private rooms and have structured activities delivered by staff members trained specifically on how to care for residents with memory impairment. These facilities offer programs that provide comfort and care in a secure environment for residents with memory loss issues in comfortable settings. At December 31, 2014, we had interests in 21 MCFs.
- *Care Homes (United Kingdom).* Care homes offer personal care services, such as lodging, meal services, housekeeping and laundry services, medication management and assistance with ADL. Care homes are registered to provide different levels of services, ranging from personal care to nursing

care. Some homes can be further registered for a specific care need, such as dementia or terminal illness. At December 31, 2014, we had interests in 23 care homes.

- *Continuing Care Retirement Communities.* CCRCs offer several levels of assistance, including independent living, assisted living and nursing home care. CCRCs are different from other housing and care options for seniors because they usually provide written agreements or long-term contracts between residents and the communities (frequently lasting the term of the resident's lifetime), which offer a continuum of housing, services and healthcare on one campus or site. CCRCs are appealing as they allow residents to "age in place." CCRCs typically require the individual to be in relatively good health and independent upon entry. At December 31, 2014, we had interests in 26 CCRCs.

Our senior housing segment accounted for approximately 39%, 36% and 33% of total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. The following table provides information about our senior housing tenant/operator concentration for the year ended December 31, 2014:

| Tenants/Operators  | Percentage of Segment Revenues | Percentage of Total Revenues |
|--|--------------------------------|------------------------------|
| Brookdale Senior Living, Inc. ("Brookdale") <sup>(1)</sup> | 37%                            | 14%                          |
| HCR ManorCare, Inc. ("HCRMC") <sup>(2)</sup>               | 8%                             | 26%                          |

- (1) On July 31, 2014, Brookdale completed its acquisition of Emeritus Corporation ("Emeritus"). Percentages of segment and total revenues presented are prepared on a pro forma basis to reflect the combined concentration for Brookdale and Emeritus, as if the merger had occurred as of the beginning of 2014. On August 29, 2014, HCP and Brookdale amended or terminated all former leases with Emeritus and entered into two RIDEA joint ventures (see Note 3 to the Consolidated Financial Statements regarding the Brookdale Transaction). Percentages do not include senior housing facilities that Brookdale manages (is not a tenant) under a RIDEA structure.
- (2) Percentage of total revenues includes revenues earned from both senior housing and post-acute/skilled nursing facilities leased to HCRMC.

We have entered into long-term agreements with Brookdale to manage properties that are operated under a structure permitted by the Housing and Economic Recovery Act of 2008 (commonly referred to as "RIDEA"). Under the provisions of RIDEA, a REIT may lease a "qualified healthcare property" on an arm's length basis to a taxable REIT subsidiary ("TRS"), if the property is operated on behalf of such subsidiary by a person who qualifies as an "eligible independent contractor." RIDEA structures allow us to own the risks and rewards of the operations of healthcare facilities (as compared to leasing the property for contractual triple-net rents) in a tax efficient manner. We view RIDEA as a structure primarily to be used on properties that present attractive valuation entry points and/or growth profiles by: (i) transitioning the asset to a new operator that can bring scale, operating efficiencies, and/or ancillary services; or (ii) investing capital to reposition the asset. Brookdale provides comprehensive facility management and accounting services with respect to our senior housing RIDEA properties, for which we pay annual management fees pursuant to the aforementioned agreements. Most of the management agreements have terms ranging from 10 to 15 years, with 5-year renewals. The base management fees are 4.5% to 5.0% of gross revenues (as defined) generated by the RIDEA facilities. In addition, there are incentive management fees payable to Brookdale if operating results of the RIDEA properties exceed pre-established EBITDAR (as defined) thresholds. As of January 1, 2015, 83 properties are under RIDEA structures, 14 of which are owned by our CCRC unconsolidated joint venture (discussed below in Item 7).

*Post-acute/skilled nursing.* At December 31, 2014, we had interests in 301 post-acute/skilled nursing facilities ("SNFs"). SNFs offer restorative, rehabilitative and custodial nursing care for people following a hospital stay or not requiring the more extensive and complex treatment available at hospitals. Ancillary revenues and revenues from sub-acute care services are derived from providing services to residents beyond room and board and include occupational, physical, speech, respiratory and intravenous therapy, wound care, oncology treatment, brain injury care and orthopedic therapy, as well as sales of pharmaceutical products and other services. Certain SNFs provide some of the foregoing services on an out-patient basis. Post-acute/skilled nursing services provided by our tenants and operators in these

facilities are paid for by private sources, third-party payors (e.g., insurance and Health Maintenance Organizations or “HMOs”) or through the Medicare and Medicaid programs. All of our SNFs are triple-net leased.

Our post-acute/skilled nursing segment accounted for approximately 27%, 29% and 29% of total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. The following table provides information about our post-acute/skilled nursing tenant/operator concentration for the year ended December 31, 2014:

| Tenants/Operators                            | Percentage of Segment Revenues | Percentage of Total Revenues |
|--|--------------------------------|------------------------------|
| HCR ManorCare, Inc. (“HCRMC”) <sup>(1)</sup> | 85%                            | 26%                          |

(1) Percentage of total revenues includes revenues earned from both senior housing and post-acute/skilled nursing facilities leased to HCRMC.

*Life science.* At December 31, 2014, we had interests in and managed 115 life science properties, including four facilities owned by our unconsolidated joint ventures. These properties contain laboratory and office space primarily for biotechnology, medical device and pharmaceutical companies, scientific research institutions, government agencies and other organizations involved in the life science industry. While these properties have characteristics similar to commercial office buildings, they generally contain more advanced electrical, mechanical, and heating, ventilating and air conditioning (“HVAC”) systems. The facilities generally have specialty equipment including emergency generators, fume hoods, lab bench tops and related amenities. In many instances, life science tenants make significant investments to improve their leased space, in addition to landlord improvements, to accommodate biology, chemistry or medical device research initiatives.

Life science properties are primarily configured in business park or campus settings and include multiple buildings. The business park and campus settings allow us the opportunity to provide flexible, contiguous/adjacent expansion to accommodate the growth of existing tenants. Our properties are located in well-established geographical markets known for scientific research, including San Francisco and San Diego, California, Salt Lake City, Utah, Durham, North Carolina and Boston, Massachusetts. At December 31, 2014, 97% of our life science properties were triple-net leased (based on leased square feet).

Our life science segment accounted for approximately 14%, 14% and 15% of total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. The following table provides information about our life science tenant concentration for the year ended December 31, 2014:

| Tenants         | Percentage of Segment Revenues | Percentage of Total Revenues |
|-----------------|--------------------------------|------------------------------|
| Genentech, Inc. | 18%                            | 3%                           |
| Amgen, Inc.     | 17%                            | 2%                           |

*Medical office.* At December 31, 2014, we had interests in and managed 281 medical office buildings (“MOBs”), including 66 facilities owned by our significant unconsolidated joint ventures. MOBs typically contain physicians’ offices and examination rooms, and may also include pharmacies, hospital ancillary service space and outpatient services such as diagnostic centers, rehabilitation clinics and day-surgery operating rooms. While these facilities are similar to commercial office buildings, they require additional plumbing, electrical and mechanical systems to accommodate multiple exam rooms that may require sinks in every room, and special equipment such as x-ray machines. In addition, MOBs are often built to accommodate higher structural loads for certain equipment and may contain vaults or other specialized construction. Our MOBs are typically multi-tenant properties leased to healthcare providers (hospitals and physician practices), with approximately 79% of our MOBs, based on square feet, located on hospital

campuses and 94% are affiliated with hospital systems. At December 31, 2014, 48% of our medical office buildings were triple-net leased (based on leased square feet).

Our medical office segment accounted for approximately 16%, 17% and 18% of total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. The following table provides information about our medical office tenant/operator concentration for the year ended December 31, 2014:

| Tenants/Operators  | Percentage of Segment Revenues | Percentage of Total Revenues |
|--------------------|--------------------------------|------------------------------|
| HCA <sup>(1)</sup> | 16%                            | 4%                           |

(1) Percentage of total revenues from HCA includes revenues earned from both our medical office and hospital segments.

*Hospital.* At December 31, 2014, we had interests in and managed 20 hospitals, including four facilities owned by our unconsolidated joint ventures. Services provided by our tenants and operators in these facilities are paid for by private sources, third-party payors (e.g., insurance and HMOs) or through Medicare and Medicaid programs. Our hospital property types include acute care, long-term acute care, specialty and rehabilitation hospitals. All of our hospitals are triple-net leased.

Our hospital segment accounted for approximately 4%, 4% and 5% of total revenues for the years ended December 31, 2014, 2013 and 2012, respectively. The following table provides information about our hospital tenant/operator concentration for the year ended December 31, 2014:

| Tenants/Operators            | Percentage of Segment Revenues | Percentage of Total Revenues |
|------------------------------|--------------------------------|------------------------------|
| HCA <sup>(1)</sup>           | 28%                            | 4%                           |
| Tenet Healthcare Corporation | 27%                            | 1%                           |

(1) Percentage of total revenues from HCA includes revenues earned from both our medical office and hospital segments.

## Sustainability

We believe that sustainability initiatives are a vital part of corporate responsibility, which supports our primary goal of increasing stockholder value through profitable growth. We continue to advance our commitment to sustainability, with a focus on achieving goals in each of the Environmental, Social and Governance (ESG) dimensions of sustainability.

Our environmental management programs strive to capture cost efficiencies that ultimately benefit our investors, tenants, operators and employees, while making a positive impact on the communities in which we operate. Our social responsibility team leads our local philanthropic and volunteer activities, and our transparent corporate governance initiatives incorporate sustainability as a critical component to achieving our business objectives and properly managing risks.

Our 2014 sustainability achievements include being named Global Healthcare Sector Leader by the Global Real Estate Sustainability Benchmark (GRESB) and named to the FTSE4Good Index series, each for the third consecutive year. Additionally, we were named to CDP's S&P 500 Climate Disclosure Leadership Index (CDLI) and the Dow Jones Sustainability Index for the North American region, each for the second consecutive year. For additional information regarding our sustainability initiatives, please visit our website at [www.hcpi.com/sustainability](http://www.hcpi.com/sustainability).

## Insurance

We obtain various types of insurance to mitigate the impact of property, business interruption, liability, flood, windstorm, earthquake, environmental and terrorism related losses. We attempt to obtain appropriate policy terms, conditions, limits and deductibles considering the relative risk of loss, the cost of

such coverage and current industry practice. There are, however, certain types of extraordinary losses, such as those due to acts of war or other events that may be either uninsurable or not economically insurable. In addition, we have a large number of properties that are exposed to earthquake, flood and windstorm occurrences for which the related insurances carry higher deductibles.

We maintain property insurance for all of our properties and this insurance is primary for our medical office, life science and RIDEA facilities. Tenants under triple-net leases, primarily in our senior housing, post-acute/skilled nursing and hospital segments, are required to provide primary property, business interruption and liability insurance. We maintain separate general and professional liability insurance for our RIDEA facilities. Additionally, our corporate general and professional liability insurance program also extends coverage for all of our properties beyond the aforementioned. Under our management agreements with Brookdale, we may elect, on an annual basis, whether we or Brookdale will bear responsibility for maintaining the required insurance coverage for the applicable properties, but the costs of such insurance are facility expenses paid from the revenues of those properties, regardless of who maintains the insurance.

### **Employees of HCP**

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At December 31, 2014, we had 170 full-time employees, none of whom are subject to a collective bargaining agreement.

### **Government Regulation, Licensing and Enforcement**

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#### *Overview*

Our tenants and operators are typically subject to extensive and complex federal, state and local healthcare laws and regulations relating to quality of care, licensure and certificate of need, government reimbursement, fraud and abuse practices, and similar laws governing the operation of healthcare facilities, and we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. These regulations are wide ranging and can subject our tenants and operators to civil, criminal and administrative sanctions. Affected tenants and operators may find it increasingly difficult to comply with this complex and evolving regulatory environment because of a relative lack of guidance in many areas as certain of our healthcare properties are subject to oversight from several government agencies and the laws may vary from one jurisdiction to another. Changes in laws, regulations, reimbursement enforcement activity and regulatory non-compliance by our tenants and operators can all have a significant effect on their operations and financial condition, which in turn may adversely impact us, as detailed below and set forth under "Item 1A, Risk Factors" in this report.

Based on information primarily provided by our tenants and operators, excluding our medical office segment, at December 31, 2014, we estimate that approximately 15% and 14% of the annualized base rental payments received from our tenants and operators were dependent on Medicare and Medicaid reimbursement, respectively.

The following is a discussion of certain laws and regulations generally applicable to our operators, and in certain cases, to us.

#### *Fraud and Abuse Enforcement*

There are various extremely complex federal and state laws and regulations governing healthcare providers' relationships and arrangements and prohibiting fraudulent and abusive practices by such providers. These laws include: (i) federal and state false claims acts, which, among other things, prohibit providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other federal or state healthcare programs; (ii) federal and state anti-kickback and fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit the payment or receipt of

remuneration to induce referrals or recommendations of healthcare items or services; (iii) federal and state physician self-referral laws (commonly referred to as the “Stark Law”), which generally prohibit referrals by physicians to entities with which the physician or an immediate family member has a financial relationship; (iv) the federal Civil Monetary Penalties Law, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services and (v) federal and state privacy laws, including the privacy and security rules contained in the Health Insurance Portability and Accountability Act of 1996 (commonly referred to as “HIPAA”), which provide for the privacy and security of personal health information. Violations of healthcare fraud and abuse laws carry civil, criminal and administrative sanctions, including punitive sanctions, monetary penalties, imprisonment, denial of Medicare and Medicaid reimbursement and potential exclusion from Medicare, Medicaid or other federal or state healthcare programs. These laws are enforced by a variety of federal, state and local agencies and can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring *qui tam* or “whistleblower” actions. Many of our tenants and operators are subject to these laws, and may become the subject of governmental enforcement actions if they fail to comply with applicable laws.

#### *Reimbursement*

Sources of revenue for many of our tenants and operators include, among others, governmental healthcare programs, such as the federal Medicare programs and state Medicaid programs, and non-governmental third-party payors, such as insurance carriers and HMOs. As federal and state governments focus on healthcare reform initiatives, and as the federal government and many states face significant current and future budget deficits, efforts to reduce costs by these payors will likely continue, which may result in reduced or slower growth in reimbursement for certain services provided by some of our tenants and operators. Additionally, new and evolving payor and provider programs, including but not limited to Medicare Advantage, Dual Eligible, Accountable Care Organizations (“ACO”), and Bundled Payments could adversely impact our tenants’ and operators’ liquidity, financial condition or results of operations.

#### *Healthcare Licensure and Certificate of Need*

Certain healthcare facilities in our portfolio are subject to extensive federal, state and local licensure, certification and inspection laws and regulations. In addition, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials and operate equipment. Many states require certain healthcare providers to obtain a certificate of need, which requires prior approval for the construction, expansion or closure of certain healthcare facilities. The approval process related to state certificate of need laws may impact some of our tenants’ and operators’ abilities to expand or change their businesses.

#### *Life Science Facilities*

While certain of our life science tenants include some well-established companies, other tenants are less established and, in some cases, may not yet have a product approved by the Food and Drug Administration, or other regulatory authorities, for commercial sale. Creating a new pharmaceutical product or medical device requires substantial investments of time and capital, in part because of the extensive regulation of the healthcare industry; it also entails considerable risk of failure in demonstrating that the product is safe and effective and in gaining regulatory approval and market acceptance.

#### *Senior Housing Entrance Fee Communities*

Certain of our senior housing facilities are operated as entrance fee communities. Generally, an entrance fee is an upfront fee or consideration paid by a resident, a portion of which may be refundable, in exchange for some form of long-term benefit. Some of the entrance fee communities are subject to significant state regulatory oversight, including, for example, oversight of each facility’s financial condition, establishment and monitoring of reserve requirements and other financial restrictions, the right of residents to cancel their contracts within a specified period of time, lien rights in favor of the residents, restrictions on change of ownership and similar matters.

#### *Americans with Disabilities Act (the “ADA”)*

Our properties must comply with the ADA and any similar state or local laws to the extent that such properties are “public accommodations” as defined in those statutes. The ADA may require removal of barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. To date, we have not received any notices of noncompliance with the ADA that have caused us to incur substantial capital expenditures to address ADA concerns. Should barriers to access by persons with disabilities be discovered at any of our properties, we may be directly or indirectly responsible for additional costs that may be required to make facilities ADA-compliant. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations pursuant to the ADA is an ongoing one, and we continue to assess our properties and make modifications as appropriate in this respect.

#### *Environmental Matters*

A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect healthcare facility operations. These complex federal and state statutes, and their enforcement, involve a myriad of regulations, many of which involve strict liability on the part of the potential offender. Some of these federal and state statutes may directly impact us. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and any related liability therefore could exceed or impair the value of the property and/or the assets. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner’s ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our earnings. For a description of the risks associated with environmental matters, see “Item 1A, Risk Factors” in this report.

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#### **Available Information**

Our website address is [www.hcpi.com](http://www.hcpi.com). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) are available on our website, free of charge, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the U.S. Securities and Exchange Commission (“SEC”).

Current copies of our Code of Business Conduct and Ethics and Vendor Code of Business Conduct and Ethics are posted in the Investor Relations section of our website at [www.hcpi.com](http://www.hcpi.com). In addition, waivers from, and amendments to, our Code of Business Conduct and Ethics that apply to our directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions, will be timely posted in the Investor Relations section of our website at [www.hcpi.com](http://www.hcpi.com).

#### **ITEM 1A. Risk Factors**

**The section below discusses the most significant risk factors that may materially adversely affect our business, results of operations and financial condition.**

As set forth below, we believe that the risks facing our company generally fall into the following categories:

- risks related to our business and operations;
- risks related to our capital structure and market conditions;

- risks related to other events; and
- risks related to tax, including REIT-related risks.

## **Risks Related to Our Business**

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**We depend on a limited number of operators and tenants that account for a large percentage of our revenues.**

During the year ended December 31, 2014, approximately 40% of our revenues were generated by our leasing or financial arrangements with the following two companies: HCRMC (26%) and Brookdale (14%). The inability or other failure of these tenants or operators to meet their obligations to us could materially reduce our cash flow as well as our results of operations, which could in turn reduce the amount of dividends we pay, cause our stock price to decline and have other materially adverse effects on our business, results of operations and financial condition.

In addition, any failure by these tenants or operators to effectively conduct their operations or to maintain and improve our properties could adversely affect their business reputation and their ability to attract and retain patients and residents in our properties, which could have a materially adverse effect on our business, results of operations and financial condition. These tenants and operators generally have also agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses, and we cannot provide any assurance that they will have sufficient assets, income, access to financing and/or insurance coverage to enable them to satisfy their indemnification obligations.

**Our ownership interest in, and lease with, our largest tenant, HCRMC, accounts for a significant portion of our assets and revenues. Adverse regulatory or operational developments in HCRMC's business or financial condition could have a material adverse effect on us.**

HCRMC is a provider of a range of healthcare services, primarily in post-acute care, skilled nursing care and assisted living, and our largest tenant representing 31% and 26% of our gross assets and revenues, respectively, as of and for the year ended December 31, 2014. We also own a 9.4% equity interest in HCRMC, which we acquired together with our April 2011 \$6 billion acquisition of substantially all the real estate assets of HCRMC. In December 2014, we recorded an impairment charge of \$36 million for our equity ownership interest in HCRMC, primarily resulting from our review of their 2015 preliminary base financial forecast and other financial information provided by HCRMC that reflected a continued shift in patient payor sources from Medicare to Medicare Advantage, which negatively impacts reimbursement rates and length of stay for HCRMC's skilled nursing segment.

Additionally, HCRMC has responded to a Civil Investigative Demand, subpoenas and other requests for information regarding their skilled nursing facilities in connection with an inquiry coordinated by the U.S. Department of Justice, the Department of Health and Human Services, Office of Inspector General, and certain state attorneys general offices. HCRMC believes it is in material compliance with all applicable laws and regulations. However, since the review is ongoing the ultimate outcome is uncertain and could, among other things, (1) require substantial time and costs to continue to respond to and defend HCRMC's actions; (2) require HCRMC to refund or adjust amounts previously paid for services under governmental programs; (3) require payment of substantial fines, penalties or other sanctions; (4) result in the loss of HCRMC's right to participate in the Medicare or Medicaid programs; or (5) cause damage to HCRMC's reputation.

Continued deterioration in HCRMC's operating performance or other adverse developments in its business, operating and regulatory affairs, or financial condition could reduce the revenues we earn under our master lease with HCRMC and/or impair the value of our master lease with HCRMC, either of which could have a material adverse effect on us.

See additional information regarding the aforementioned impairment charge, 9.4% equity interest in HCRMC and master lease with HCRMC in: (i) Item 7 “Results of Operations” (post-acute/skilled nursing segment 2014/2013 comparison); and (ii) Note 6 (DFLs), Note 8 (unconsolidated joint ventures) and Note 17 (impairments) to the Consolidated Financial Statements.

**The properties managed by Brookdale account for a significant portion of our revenues and operating income. Adverse developments in Brookdale’s business and affairs or financial condition could have a materially adverse effect on us.**

As of January 1, 2015, Brookdale managed 69 senior housing facilities that we own and 14 CCRCs owned by our unconsolidated joint venture pursuant to long-term management agreements. These properties represent a substantial portion of our portfolio, based on their gross book value, and account for a significant portion of our revenues and NOI. Although we have various rights as the property owner under our management agreements, we rely on Brookdale’s personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior living operations efficiently and effectively. We also rely on Brookdale to set appropriate resident fees, to provide accurate property-level financial results for our properties in a timely manner and to otherwise operate our senior housing communities in compliance with the terms of our management agreements and all applicable laws and regulations.

In its capacity as a manager, Brookdale does not lease our properties, and, therefore, we are not directly exposed to their credit risk in the same manner or to the same extent as a triple-net tenant. However, any adverse developments in Brookdale’s business and affairs or financial condition could impair its ability to manage our properties efficiently and effectively and could have a materially adverse effect on us. Brookdale is also one of our triple-net tenants. If Brookdale experiences any significant financial, legal, accounting or regulatory difficulties due to a weak economy or otherwise, such difficulties could result in, among other adverse events, acceleration of its indebtedness, impairment of its continued access to capital, the enforcement of default remedies by its counterparties or the commencement of insolvency proceedings by or against it under the U.S. Bankruptcy Code, any one or a combination of which indirectly could have a materially adverse effect on us.

**The bankruptcy, insolvency or financial deterioration of one or more of our major tenants or operators may materially adversely affect our business, results of operations and financial condition.**

We lease our properties directly to operators in most cases, and in certain other cases, we lease to third party tenants who enter into long-term management agreements with operators to manage the properties. Although our leases, financing arrangements and other agreements with our tenants and operators generally provide us the right under specified circumstances to terminate a lease, evict a tenant or operator or demand immediate repayment of certain obligations to us, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization that may render certain of these remedies unenforceable, or at the least, delay our ability to pursue such remedies. For example, we cannot evict a tenant or operator solely because of its bankruptcy filing. A debtor has the right to assume, or to assume and assign to a third party, or to reject its unexpired contracts in a bankruptcy proceeding. If a debtor were to reject its leases with us, our claim against the debtor for unpaid and future rents would be limited by the statutory cap set forth in the U.S. Bankruptcy Code, which may be substantially less than the remaining rent actually owed under the lease. In addition, a debtor may assert in a bankruptcy proceeding that our lease should be re-characterized as a financing agreement, in which case our rights and remedies as a lender, compared to a landlord, generally would be more limited.

Also, if a debtor-manager seeks bankruptcy protection, the automatic stay provisions of the U.S. Bankruptcy Code would preclude us from enforcing our remedies against the manager unless relief is first obtained from the court having jurisdiction over the bankruptcy case. In any of these events, we also may be required to fund certain expenses and obligations (e.g., real estate taxes, debt costs and maintenance

expenses) to preserve the value of our properties, avoid the imposition of liens on our properties or transition our properties to a new tenant, operator or manager. Furthermore, many of our facilities are leased to healthcare providers who provide long-term custodial care to the elderly; evicting such operators for failure to pay rent while the facility is occupied may involve specific procedural requirements and may not be successful.

Additionally, the financial weakness or other inability of our tenants or operators to make payments or comply with certain other lease obligations may affect our compliance with certain covenants contained in our debt securities, credit facilities and the mortgages on the properties leased or managed by such tenants and operators, or otherwise adversely affect our results of operations. Under certain conditions, defaults under the underlying mortgages may result in cross default under our other indebtedness. Although we believe that we would be able to secure amendments under the applicable agreements in those circumstances, the bankruptcy of an applicable tenant or operator may potentially result in less favorable borrowing terms than currently available, delays in the availability of funding or other materially adverse consequences.

**Increased competition has resulted and may further result in lower net revenues for some of our tenants and operators and may affect their ability to meet their financial and other contractual obligations to us.**

The healthcare industry is highly competitive. The occupancy levels at, and rental income from, our facilities are dependent on our ability and the ability of our tenants and operators to compete with other tenants and operators on a number of different levels, including the quality of care provided, reputation, the physical appearance of a facility, price, the range of services offered, family preference, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, and the size and demographics of the population in the surrounding area.

Our tenants and operators also compete with numerous other companies providing similar healthcare services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. Such competition, which is due, in part, to historical over development in some segments in which we invest, has caused the occupancy rate of newly constructed buildings to slow and the monthly rate that many newly built and previously existing facilities were able to obtain for their services to decrease. We cannot be certain that the tenants and operators of all of our facilities will be able to achieve occupancy and rate levels that will enable them to meet all of their obligations to us. Further, many competing companies may have resources and attributes that are superior to those of our tenants and operators. Thus, our tenants and operators may encounter increased competition in the future that could limit their ability to maintain or attract residents or expand their businesses which could materially adversely affect their ability to meet their financial and other contractual obligations to us, potentially decreasing our revenues, impairing our assets, and/or increasing our collection and dispute costs.

**Competition may make it difficult to identify and purchase, or develop, suitable healthcare facilities to grow our investment portfolio, to finance acquisitions on favorable terms, or to retain or attract tenants and operators.**

We face significant competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business goals and could improve the bargaining power of property owners seeking to sell, thereby impeding our investment, acquisition and development activities. Similarly, our properties face competition for tenants and operators from other properties in the same market, which may affect our ability to attract and retain tenants and operators, or may reduce the rents we are able to charge. If we cannot capitalize on our development pipeline, identify and purchase a sufficient quantity of healthcare facilities at favorable prices,

finance acquisitions on commercially favorable terms, or attract and retain profitable tenants and operators, our business, results of operations and financial condition may be materially adversely affected.

**Economic and other conditions that negatively affect geographic areas to which a greater percentage of our revenue is attributed could materially adversely affect our business, results of operations and financial condition.**

For the year ended December 31, 2014, approximately 35% of our revenue was derived from properties located in California (23%) and Texas (12%). As a result, we are subject to increased exposure to adverse conditions affecting these regions, including downturns in the local economies or changes in local real estate conditions, increased competition or decreased demand, changes in state-specific legislation and local climate events and natural disasters (such as earthquakes, wildfires and hurricanes), which could adversely affect our business and results of operations.

**We may be required to incur substantial renovation costs to make certain of our healthcare properties suitable for other tenants and operators.**

Healthcare facilities are typically highly customized and may not be easily adapted to non-healthcare-related uses. The improvements generally required to conform a property to healthcare use, such as upgrading electrical, gas and plumbing infrastructure, are costly and at times tenant-specific. A new or replacement tenant or operator may require different features in a property, depending on that tenant's or operator's particular business. If a current tenant or operator is unable to pay rent and/or vacates a property, we may incur substantial expenditures to modify a property before we are able to secure another tenant or operator or to accommodate multiple tenants or operators. These expenditures or renovations may materially adversely affect our business, results of operations and financial condition.

**We face additional risks associated with property development that can render a project less profitable or not profitable at all and, under certain circumstances, prevent completion of development activities once undertaken.**

Large-scale, ground-up development of healthcare properties presents additional risks for us, including risks that:

- a development opportunity may be abandoned after expending significant resources resulting in the loss of deposits or failure to recover expenses already incurred;
- the development and construction costs of a project may exceed original estimates due to increased interest rates and higher materials, transportation, labor, leasing or other costs, which could make the completion of the development project less profitable;
- construction and/or permanent financing may not be available on favorable terms or at all;
- the project may not be completed on schedule as a result of a variety of factors that are beyond our control, including natural disasters, labor conditions, material shortages, regulatory hurdles, civil unrest and acts of war, which can result in increases in construction costs and debt service expenses or provide tenants or operators with the right to terminate pre-construction leases; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to make the property profitable.

**Our use of joint ventures may limit our flexibility with jointly owned investments.**

We have and may continue in the future to develop and/or acquire properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. Our participation in joint ventures is subject to risks that may not be present with other methods of ownership, including:

- we could experience an impasse on certain decisions because we do not have sole decision-making authority, which could require us to expend additional resources on resolving such impasses or potential disputes, including litigation or arbitration;
- our joint venture partners could have investment goals that are not consistent with our investment objectives, including the timing, terms and strategies for any investments;
- our ability to transfer our interest in a joint venture to a third party may be restricted and the market for our interest may be limited;
- our joint venture partners may be structured differently than us for tax purposes, and this could create conflicts of interest and risk to our REIT status;
- our joint venture partners might become bankrupt, fail to fund their share of required capital contributions or fail to fulfill their obligations as a joint venture partner, which may require us to infuse our own capital into the venture on behalf of the partner despite other competing uses for such capital; and
- our joint venture partners may have competing interests in our markets that could create conflict of interest issues.

**From time to time, we acquire other companies and if we are unable to successfully integrate these operations, our business, results of operations and financial condition may be materially adversely affected.**

Acquisitions require the integration of companies that have previously operated independently. Successful integration of the operations of these companies depends primarily on our ability to consolidate operations, systems, procedures, properties and personnel, and to eliminate redundancies and costs. We may encounter difficulties in these integrations. Potential difficulties associated with acquisitions include the loss of key employees, the disruption of our ongoing business or that of the acquired entity, possible inconsistencies in standards, controls, procedures and policies, and the assumption of unexpected liabilities, including:

- liabilities relating to the clean-up or remediation of undisclosed environmental conditions;
- unasserted claims of vendors or other persons dealing with the seller;
- liabilities, claims and litigation, whether or not incurred in the ordinary course of business, relating to periods prior to our acquisition;
- claims for indemnification by general partners, directors, officers and others indemnified by the seller; and
- liabilities for taxes relating to periods prior to our acquisition.

In addition, the acquired companies and their properties may fail to perform as expected, including in respect of estimated cost savings. Inaccurate assumptions regarding future rental or occupancy rates could result in overly optimistic estimates of future revenues. Similarly, we may underestimate future operating expenses or the costs necessary to bring properties up to standards established for their intended use. If we have difficulties with any of these areas, or if we later discover additional liabilities or experience unforeseen costs relating to our acquired companies, we might not achieve the economic benefits we expect from our acquisitions, and this may materially adversely affect our business, results of operations and financial condition.

**From time to time we have made, and in the future we may seek to make, one or more material acquisitions, which may involve the expenditure of significant funds.**

We regularly review potential transactions in order to maximize stockholder value. Future acquisitions may require the issuance of securities, the incurrence of debt, assumption of contingent liabilities or incurrence of significant expenditures, each of which could materially adversely impact our business, financial condition or results of operations. In addition, the financing required for such acquisitions may not be available on commercially favorable terms or at all.

**Our tenants and operators may not procure the necessary insurance to adequately insure against losses.**

Our leases generally require our tenants and operators to secure and maintain comprehensive liability and property insurance that covers us, as well as the tenants and operators. Certain losses may not be adequately insured by our tenants and operators. For example, many healthcare companies utilize different organizational and corporate structures coupled with self-insurance trusts or captive programs that may provide less insurance coverage than a traditional insurance policy. Companies that insure any part of their general and professional liability risks through their own captive limited purpose entities may underestimate the future cost of claims, and reserves for future claims may not be adequate to cover the actual cost of those claims. Should an uninsured loss or a loss in excess of insured limits occur, we could incur liability or lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenues from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We continually review the insurance maintained by our tenants and operators and believe the coverage provided to be customary for similarly situated companies in our industry. However, we cannot provide any assurances that we will continue to require the same level of insurance coverage of our tenants and operators, or that such insurance will be available at a reasonable cost in the future. Also, we cannot assure you that material uninsured losses, or losses in excess of insurance proceeds, will not occur in the future.

**Our tenants and operators face litigation and may experience rising liability and insurance costs.**

In some states, advocacy groups have been created to monitor the quality of care at healthcare facilities, and these groups have brought litigation against the tenants and operators of such facilities. Also, in several instances, private litigation by patients has resulted in large damage awards for alleged abuses. The effect of this litigation and other potential litigation may materially increase the costs incurred by our tenants and operators for monitoring and reporting quality of care compliance. In addition, their cost of liability and medical malpractice insurance can be significant and may increase or not be available at a reasonable cost so long as the present healthcare litigation environment continues. Cost increases could cause our operators to be unable to make their lease or mortgage payments or fail to purchase the appropriate liability and malpractice insurance, potentially decreasing our revenues and increasing our collection and litigation costs. In addition, as a result of our ownership of healthcare facilities, we may be named as a defendant in lawsuits allegedly arising from the actions of our tenants or operators, for which claims such tenants and operators have agreed to indemnify, defend and hold us harmless from and against, but which may require unanticipated expenditures on our part.

**The requirements of, or changes to, governmental reimbursement programs such as Medicare or Medicaid, may adversely affect our operators' ability to meet their financial and other contractual obligations to us.**

Certain of our tenants and operators are affected by an extremely complex set of federal, state and local laws and regulations pertaining to governmental reimbursement programs. Such laws and regulations are subject to frequent and substantial changes that are sometimes applied retroactively. See "Item 1—Business—Government Regulation, Licensing and Enforcement" above. For example, to the extent that

any of our tenants or operators receive a significant portion of their revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to:

- statutory and regulatory changes;
- retroactive rate adjustments;
- recovery of program overpayments or set-offs;
- court decisions;
- administrative rulings;
- policy interpretations;
- payment or other delays by fiscal intermediaries or carriers;
- government funding restrictions (at a program level or with respect to specific facilities); and
- interruption or delays in payments due to any ongoing governmental investigations and audits at such properties.

If our tenants and operators fail to comply with the extensive laws, regulations and other requirements applicable to their business and the operation of our properties, they could become ineligible to receive reimbursement from governmental reimbursement programs, face bans on admissions of new patients or residents, suffer civil or criminal penalties or be required to make significant changes to their operations. Our tenants also could be forced to expend considerable resources responding to an investigation or other enforcement action under applicable laws or regulations. In such event, the results of operations and financial condition of our tenants and the results of operations of our properties operated by those entities could be adversely affected, which, in turn, could have a materially adverse effect on us. We are unable to predict future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation, and any changes in the regulatory framework could have a materially adverse effect on our tenants, which, in turn, could have a materially adverse effect on us.

In recent years, governmental payors have frozen or reduced payments to healthcare providers due to budgetary pressures. Healthcare reimbursement will likely continue to be of significant importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or the effect that any future legislative reforms may have on our operators' and tenants' costs of doing business and on the amount of reimbursement by government and other third-party payors. The failure of any of our tenants or operators to comply with these laws and regulations and significant limits on the scope of services reimbursed and on reimbursement rates and fees could materially adversely affect their ability to meet their financial and contractual obligations to us.

**Legislation to address federal government operations and administration decisions affecting the Centers for Medicare and Medicaid Services could have a materially adverse effect on our operators' liquidity, financial condition or results of operations.**

Enactment of the Consolidated Appropriations Act of 2014 and Congressional consideration of legislation pertaining to the federal debt ceiling, the Affordable Care Act (as defined below), tax reform and entitlement programs, including reimbursement rates for physicians, could have a materially adverse effect on our operators' liquidity, financial condition or results of operations. In particular, changes in funding for entitlement programs such as Medicare and Medicaid may result in increased costs and fees for programs such as Medicare Advantage Plans and additional reductions in reimbursements to providers. Additionally, amendments to the Patient Protection and Affordable Care Act, along with the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act"), implementation of the Affordable Care Act and decisions by the Centers for Medicare and Medicaid Services could impact the delivery of services and benefits under Medicare, Medicaid or Medicare Advantage Plans and could affect our tenants and operators and the manner in which they are reimbursed by such programs. Such changes could have a materially adverse effect on our operators' liquidity, financial condition or results of

operations, which could adversely affect their ability to satisfy their obligations to us and could have a materially adverse effect on us.

Furthermore, the Supreme Court's decision upholding the constitutionality of the individual healthcare mandate while striking down the provisions linking federal funding of state Medicaid programs with a federally mandated expansion of those programs has contributed to the uncertainty regarding the impact that the law will have on healthcare delivery systems over the next decade. We can expect that federal authorities will continue to implement the law, but because of the Supreme Court's mixed ruling, the implementation will take longer than originally expected, with a commensurate increase in the period of uncertainty regarding the long-term financial impact on the delivery of and payment for healthcare.

**Tenants and operators that fail to comply with federal, state, local and international laws and regulations, including licensure, certification and inspection requirements, may cease to operate or be unable to meet their financial and other contractual obligations to us.**

Our tenants and managers are subject to or impacted by extensive, frequently changing federal, state, local and international laws and regulations. These laws and regulations include, among others: laws protecting consumers against deceptive practices; laws relating to the operation of our properties and how our tenants and operators conduct their operations, such as fire, health and safety laws and privacy laws; federal and state laws affecting hospitals, clinics, and other healthcare communities that participate in both Medicare and Medicaid that mandate allowable costs, pricing, reimbursement procedures and limitations, quality of services and care, food service and physical plants, and similar foreign laws regulating the healthcare industry; resident rights laws (including abuse and neglect laws) and fraud laws; anti-kickback and physician referral laws; the ADA and similar state and local laws; and safety and health standards set by the Occupational Safety and Health Administration or similar foreign agencies. Certain of our properties may also require a license, registration and/or certificate of need to operate.

Our tenants' or operators' failure to comply with any of these laws, regulations or requirements could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from government healthcare programs, loss of license or closure of the facility and/or the incurrence of considerable costs arising from an investigation or regulatory action, which may have an adverse effect on facilities owned by or mortgaged to us, and therefore may materially adversely impact us. See "Item 1—Business—Government Regulation, Licensing and Enforcement—Healthcare Licensure and Certificate of Need" above.

#### **Our tenants in the life science industry face high levels of regulation, expense and uncertainty.**

Life science tenants, particularly those involved in developing and marketing pharmaceutical products, are subject to certain unique risks, including the following:

- some of our tenants require significant outlays of funds for the research, development and clinical testing of their products and technologies. If private investors, the government or other sources of funding are unavailable to support such activities, a tenant's business may be adversely affected or fail;
- the research, development, clinical testing, manufacture and marketing of some of our tenants' products require federal, state and foreign regulatory approvals which may be costly or difficult to obtain;
- even after a life science tenant gains regulatory approval and market acceptance, the product may still present significant regulatory and liability risks, including, among others, the possible later discovery of safety concerns, competition from new products and ultimately the expiration of patent protection for the product;
- our tenants with marketable products may be adversely affected by healthcare reform and the reimbursement policies of government or private healthcare payors; and

- our tenants may be unable to adequately protect their intellectual property under patent, copyright or trade secret laws.

If our tenants' businesses are adversely affected, they may have difficulty making payments to us, which could materially adversely affect our business, results of operations and financial condition.

**We may be unable to successfully foreclose on the collateral securing our real estate-related loans, and even if we are successful in our foreclosure efforts, we may be unable to successfully operate, occupy or reposition the underlying real estate, which may adversely affect our ability to recover our investments.**

If a tenant or operator defaults under one of our mortgages or mezzanine loans, we may have to foreclose on the loan or protect our interest by acquiring title to the collateral and thereafter making substantial improvements or repairs in order to maximize the property's investment potential. In some cases, the collateral consists of the equity interests in an entity that directly or indirectly owns the applicable real property or interests in operating facilities and, accordingly, we may not have full recourse to assets of that entity. Tenants, operators or borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against our exercise of enforcement or other remedies and/or bring claims for lender liability in response to actions to enforce mortgage obligations. Foreclosure-related costs, high loan-to-value ratios or declines in the value of the facility may prevent us from realizing an amount equal to our mortgage or mezzanine loan upon foreclosure, and we may be required to record a valuation allowance for such losses. Even if we are able to successfully foreclose on the collateral securing our real estate-related loans, we may inherit properties for which we may be unable to expeditiously seek tenants or operators, if at all, or we may acquire equity interests that we are unable to immediately resell due to limitations under the securities laws, either of which would adversely affect our ability to fully recover our investment.

**Required regulatory approvals can delay or prohibit transfers of our healthcare facilities.**

Transfers of healthcare facilities to successor tenants or operators may be subject to regulatory approvals or ratifications, including, but not limited to, change of ownership approvals under certificate of need laws and Medicare and Medicaid provider arrangements that are not required for transfers of other types of commercial operations and other types of real estate. The replacement of any tenant or operator could be delayed by the regulatory approval process of any federal, state or local government agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. If we are unable to find a suitable replacement tenant or operator upon favorable terms, or at all, we may take possession of a facility, which might expose us to successor liability, require us to indemnify subsequent operators to whom we might transfer the operating rights and licenses, or spend substantial time and funds to adapt the facility to other uses, all of which may materially adversely affect our business, results of operations and financial condition.

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**Risks Related to Our Capital Structure and Market Conditions**

**Volatility, disruption or uncertainty in the financial markets may impair our ability to raise capital, obtain new financing or refinance existing obligations and fund real estate and development activities.**

The global financial markets have experienced pervasive and fundamental disruptions. While these conditions have stabilized since the first quarter of 2009 and the capital markets continue to show signs of improvement, the strength and sustainability of an economic recovery is uncertain. Additional levels of market disruption, volatility or uncertainty could materially adversely impact our ability to raise capital, obtain new financing or refinance our existing obligations as they mature and fund real estate and development activities.

Market volatility could also lead to significant uncertainty in the valuation of our investments and those of our joint ventures, which may result in a substantial decrease in the value of our properties and those of our joint ventures. As a result, we may not be able to recover the carrying amount of such investments and the associated goodwill, if any, which may require us to recognize impairment charges in earnings.

**We rely on external sources of capital to fund future capital needs, and limitations on our access to such capital could have a materially adverse effect on our ability to meet commitments as they become due or make future investments necessary to grow our business.**

We may not be able to fund all future capital needs from cash retained from operations. If we are unable to obtain enough internal capital, we may need to rely on external sources of capital (including debt and equity financing) to fulfill our capital requirements. Our access to capital depends upon a number of factors, some of which we have little or no control over, including but not limited to:

- general availability of credit and market conditions, including rising interest rates and increased borrowing cost;
- the market price of the shares of our equity securities and the credit ratings of our debt and preferred securities;
- the market's perception of our growth potential and our current and potential future earnings and cash distributions;
- our degree of financial leverage and operational flexibility;
- the financial integrity of our lenders, which might impair their ability to meet their commitments to us or their willingness to make additional loans to us, and our inability to replace the financing commitment of any such lender on favorable terms, or at all;
- the stability of the market value of our properties;
- the financial performance and general market perception of our tenants and operators;
- changes in the credit ratings on U.S. government debt securities or default or delay in payment by the United States of its obligations;
- issues facing the healthcare industry, including, but not limited to, healthcare reform and changes in government reimbursement policies; and
- the performance of the national and global economies generally.

If our access to capital is limited by these factors or other factors, it could have a materially adverse impact on our ability to fund operations, repay or refinance our debt obligations, fund dividend payments, acquire properties and make the investments needed to grow our business.

**Adverse changes in our credit ratings could impair our ability to obtain additional debt and equity financing on favorable terms, if at all, and negatively impact the market price of our securities, including our common stock.**

Our credit ratings can affect the amount and type of capital we can access, as well as the terms of any financings we may obtain. There can be no assurance that we will be able to maintain our current credit ratings, and in the event that our current credit ratings deteriorate, we would likely incur higher borrowing costs, and it may be more difficult or expensive to obtain additional financing or refinance existing obligations and commitments. Also, a downgrade in our credit ratings would trigger additional costs or other potentially negative consequences under our current and future credit facilities and debt instruments. The credit ratings of our senior unsecured debt are based on, among other things, our operating performance, liquidity and leverage ratios, overall financial position, level of indebtedness and pending or future changes in the regulatory framework applicable to our operators and our industry.

**Our level of indebtedness may increase and materially adversely affect our future operations.**

Our outstanding indebtedness as of December 31, 2014 was approximately \$9.8 billion. We may incur additional indebtedness in the future, including in connection with the development or acquisition of assets, which may be substantial. Any significant additional indebtedness could negatively affect the credit ratings of our debt and require us to dedicate a substantial portion of our cash flow to interest and principal payments due on our indebtedness. Greater demands on our cash resources may reduce funds available to us to pay dividends, conduct development activities, make capital expenditures and

acquisitions or carry out other aspects of our business strategy. Increased indebtedness can also make us more vulnerable to general adverse economic and industry conditions and create competitive disadvantages for us compared to other companies with relatively lower debt levels. Increased future debt service obligations may limit our operational flexibility, including our ability to finance or refinance our properties, contribute properties to joint ventures or sell properties as needed.

**Covenants in our debt instruments limit our operational flexibility, and breaches of these covenants could materially adversely affect our business, results of operations and financial condition.**

The terms of our current secured and unsecured debt instruments and other indebtedness that we may incur in the future, require or will require us to comply with a number of customary financial and other covenants, such as maintaining leverage ratios, minimum tangible net worth requirements, REIT status and certain levels of debt service coverage. Our continued ability to incur additional debt and to conduct business in general is subject to compliance with these financial and other covenants, which limit our operational flexibility. For example, mortgages on our properties contain customary covenants such as those that limit or restrict our ability, without the consent of the lender, to further encumber or sell the applicable properties, or to replace the applicable tenant or operator. Breaches of certain covenants may result in defaults under the mortgages on our properties and cross-defaults under certain of our other indebtedness, even if we satisfy our payment obligations to the respective obligee. Covenants that limit our operational flexibility as well as defaults resulting from the breach of any of these covenants could materially adversely affect our business, results of operations and financial condition.

**An increase in interest rates could increase interest cost on new debt and could materially adversely impact our ability to refinance existing debt, sell assets and conduct acquisition, investment and development activities.**

If interest rates increase, so could our interest costs for any new debt. This increased cost could make the financing of any acquisition and development activity more costly. Rising interest rates could limit our ability to refinance existing debt when it matures, or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to reposition our portfolio promptly in response to changes in economic or other conditions.

We manage a portion of our exposure to interest rate risk by accessing debt with staggered maturities and through the use of derivative instruments, primarily interest rate swap agreements. However, no amount of hedging activity can fully insulate us from the risks associated with changes in interest rates. Swap agreements involve risk, including that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes, that the amount of income we earn from hedging transactions may be limited by federal tax provisions governing REITs and that these arrangements may cause us to pay higher interest rates on our debt obligations than would otherwise be the case. Failure to hedge effectively against interest rate risk, if we choose to engage in such activities, could adversely affect our results of operations and financial condition.

**We may be adversely affected by fluctuations in currency exchange rates.**

We continue to pursue growth opportunities in international markets where the U.S. dollar is not the denominated currency. The ownership of investments located outside of the United States subjects us to risk from fluctuations in exchange rates between foreign currencies and the U.S. dollar. A significant change in the value of the British pound or other currencies in countries where we have a significant investment may have a materially adverse effect on our financial position, debt covenant ratios, results of operations and cash flow.

We may attempt to manage the impact of foreign currency exchange rate changes through the use of derivative contracts or other methods. For example, as of January 30, 2015, we have £492 million in debt investments and maintain an equal amount of unsecured GBP denominated debt as a natural hedge. Additionally, we executed currency swap contracts to hedge the risk related to a portion of the forecasted interest receipts on these investments. However, no amount of hedging activity can fully insulate us from the risks associated with changes in foreign currency exchange rates, and the failure to hedge effectively against foreign currency exchange rate risk, if we choose to engage in such activities, could materially adversely affect our results of operations and financial condition. In addition, any international currency gain recognized with respect to changes in exchange rates may not qualify under the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT.

#### **Risks Related to Other Events**

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**We are subject to certain provisions of Maryland law and our charter relating to business combinations which may prevent a transaction that may otherwise be in the interest of our stockholders.**

The Maryland Business Combination Act provides that unless exempted, a Maryland corporation may not engage in business combinations, including a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities with an “interested stockholder” or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding voting stock of a Maryland corporation. Unless our Board of Directors takes action to exempt us, generally or with respect to certain transactions, from this statute in the future, the Maryland Business Combination Act will be applicable to business combinations between us and other persons.

In addition to the restrictions on business combinations contained in the Maryland Business Combination Act, our charter also contains restrictions on business combinations. Our charter requires that, except in certain circumstances, “business combinations,” including a merger or consolidation, and certain asset transfers and issuances of securities, with a “related person,” including a beneficial owner of 10% or more of our outstanding voting stock, be approved by the affirmative vote of the holders of at least 90% of our outstanding voting stock.

The restrictions on business combinations provided under Maryland law and contained in our charter may delay, defer or prevent a change of control or other transaction even if such transaction involves a premium price for our common stock or our stockholders believe that such transaction is otherwise in their best interests.

**Unfavorable resolution of litigation matters and disputes could have a material adverse effect on our financial condition.**

From time to time, we are involved in legal proceedings, lawsuits and other claims. We may also be named as defendants in lawsuits arising out of our alleged actions or the alleged actions of our tenants and operators for which such tenants and operators have agreed to indemnify, defend and hold us harmless. An unfavorable resolution of any such litigation may have a materially adverse effect on our business, results of operations and financial condition. Regardless of the outcome, litigation or other legal proceedings may result in substantial costs, disruption of our normal business operations and the diversion of management attention. There can be no assurance that we will be able to prevail in, or achieve a favorable settlement of, any pending or future legal action against us.

**Loss of our key personnel could temporarily disrupt our operations and adversely affect us.**

We are dependent on the efforts of our executive officers, and competition for these individuals is intense. Although our chief executive officer, chief financial officer, chief investment officer and general counsel have employment agreements with us, we cannot assure you that they will remain employed with us. The loss or limited availability of the services of any of our executive officers, or our inability to recruit and retain qualified personnel in the future, could, at least temporarily, have a materially adverse effect on our business, results of operations and financial condition and the value of our common stock.

**We may experience uninsured or underinsured losses, which could result in a significant loss of the capital invested in a property, lower than expected future revenues or unanticipated expense.**

We maintain comprehensive insurance coverage on our properties with terms, conditions, limits and deductibles that we believe are adequate and appropriate given the relative risk and costs of such coverage, and we regularly review our insurance coverage. However, a large number of our properties are located in areas exposed to earthquake, windstorm, flood and other natural disasters and may be subject to other losses. In particular, our life science portfolio is concentrated in areas known to be subject to earthquake activity. While we purchase insurance coverage for earthquake, windstorm, flood and other natural disasters that we believe is adequate in light of current industry practice and analyses prepared by outside consultants, there is no assurance that such insurance will fully cover such losses. These losses can result in decreased anticipated revenues from a property and the loss of all or a portion of the capital we have invested in a property. Following these events, we may remain liable for any mortgage debt or other financial obligations related to the property. The insurance market for such exposures can be very volatile, and we may be unable to purchase the limits and terms we desire on a commercially reasonable basis in the future. In addition, there are certain exposures for which we do not purchase insurance because we do not believe it is economically feasible to do so or where there is no viable insurance market.

**Environmental compliance costs and liabilities associated with our real estate-related investments may be substantial and may materially impair the value of those investments.**

Federal, state and local laws, ordinances and regulations may require us, as a current or previous owner of real estate, to investigate and clean up certain hazardous or toxic substances or petroleum released at a property. We may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by the third parties in connection with the contamination. The costs of cleanup and remediation could be substantial. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination.

Although we currently carry environmental insurance on our properties in an amount that we believe is commercially reasonable and generally require our tenants and operators to indemnify us for environmental liabilities they cause, such liabilities could exceed the amount of our insurance, the financial ability of the tenant or operator to indemnify us or the value of the contaminated property. As the owner of a site, we may also be held liable to third parties for damages and injuries resulting from environmental contamination emanating from the site, including the release of asbestos-containing materials into the air. We may also experience environmental liabilities arising from conditions not known to us. The cost of defending against these claims, complying with environmental regulatory requirements, conducting remediation of any contaminated property, or paying personal injury or other claims or fines could be substantial and could have a materially adverse effect on our business, results of operations and financial condition.

In addition, the presence of contamination or the failure to remediate contamination may materially adversely affect our ability to use, sell or lease the property or to borrow using the property as collateral.

**We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.**

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, and maintaining personal identifying information and tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for the processing, transmission and storage of confidential tenant and customer data, including individually identifiable information relating to financial accounts. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. The risk of security breaches has generally increased as the number, intensity and sophistication of attacks have increased. In some cases, it may be difficult to anticipate or immediately detect such incidents and the damage they cause. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a materially adverse effect on our business, financial condition and results of operations.

**Risk Related to Tax, including REIT-Related Risks**

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**Loss of our tax status as a REIT would substantially reduce our available funds and would have materially adverse consequences for us and the value of our common stock.**

Qualification as a REIT involves the application of numerous highly technical and complex provisions of the Internal Revenue Code of 1986, as amended (the "Code"), for which there are only limited judicial and administrative interpretations, as well as the determination of various factual matters and circumstances not entirely within our control. We intend to continue to operate in a manner that enables us to qualify as a REIT. However, our qualification and taxation as a REIT depend upon our ability to meet, through actual annual operating results, asset diversification, distribution levels and diversity of stock ownership, the various qualification tests imposed under the Code. For example, to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must make distributions to our stockholders aggregating annually at least 90% of our REIT taxable income, excluding net capital gains. In addition, new legislation, regulations, administrative interpretations or court decisions could change the tax laws or interpretations of the tax laws regarding qualification as a REIT, or the federal income tax consequences of that qualification, in a manner that is materially adverse to our stockholders. Accordingly, there is no assurance that we have operated or will continue to operate in a manner so as to qualify or remain qualified as a REIT.

If we lose our REIT status, we will face serious tax consequences that will substantially reduce the funds available to make payments of principal and interest on the debt securities we issue and to make distributions to stockholders. If we fail to qualify as a REIT:

- we will not be allowed a deduction for distributions to stockholders in computing our taxable income;
- we will be subject to corporate-level income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates;
- we could be subject to increased state and local income taxes; and
- unless we are entitled to relief under relevant statutory provisions, we will be disqualified from taxation as a REIT for the four taxable years following the year during which we fail to qualify as a REIT.

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

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the U.S. Internal Revenue Service (the “IRS”) and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

**We could have potential deferred and contingent tax liabilities from corporate acquisitions that could limit, delay or impede future sales of our properties.**

If, during the ten-year period beginning on the date we acquire certain companies, we recognize a gain on the disposition of any property acquired, then, to the extent of the excess of (i) the fair market value of such property as of the acquisition date over (ii) our adjusted income tax basis in such property as of that date, we will be required to pay a corporate-level federal income tax on this gain at the highest regular corporate rate. There can be no assurance that these triggering dispositions will not occur, and these requirements could limit, delay or impede future sales of our properties.

In addition, the IRS may assert liabilities against us for corporate income taxes for taxable years prior to the time that we acquire certain companies, in which case we will owe these taxes plus interest and penalties, if any.

**There are uncertainties relating to the calculation of non-REIT tax earnings and profits (“E&P”) in certain acquisitions, which may require us to distribute E&P.**

In order to remain qualified as a REIT, we are required to distribute to our stockholders all of the accumulated non-REIT E&P of certain companies that we acquire, prior to the close of the first taxable year in which the acquisition occurs. Failure to make such E&P distributions would result in our disqualification as a REIT. The determination of the amount to be distributed in such E&P distributions is a complex factual and legal determination. We may have less than complete information at the time we undertake our analysis, or we may interpret the applicable law differently from the IRS. We currently believe that we have satisfied the requirements relating to such E&P distributions. There are, however, substantial uncertainties relating to the determination of E&P, including the possibility that the IRS could successfully assert that the taxable income of the companies acquired should be increased, which would increase our non-REIT E&P. Moreover, an audit of the acquired company following our acquisition could result in an increase in accumulated non-REIT E&P, which could require us to pay an additional taxable distribution to our then-existing stockholders, if we qualify under rules for curing this type of default, or could result in our disqualification as a REIT.

Thus, we might fail to satisfy the requirement that we distribute all of our non-REIT E&P by the close of the first taxable year in which the acquisition occurs. Moreover, although there are procedures available to cure a failure to distribute all of our E&P, we cannot now determine whether we will be able to take advantage of these procedures or the economic impact on us of doing so.

### **Our international expansion may result in additional tax-related risks.**

We have recently expanded our operations to include the United Kingdom, and may continue to expand internationally. International expansion presents tax-related risks that are different from those we face with respect to our domestic properties and operations. These risks include, but are not limited to:

- international currency gain recognized with respect to changes in exchange rates may not always qualify under the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT;
- challenges with respect to the repatriation of foreign earnings and cash; and
- challenges of complying with foreign tax rules (including the possible revisions in tax treaties or other laws and regulations, including those governing the taxation of our international income).

### **Our charter contains ownership limits with respect to our common stock and other classes of capital stock.**

Our charter contains restrictions on the ownership and transfer of our common stock and preferred stock that are intended to assist us in preserving our qualification as a REIT. Under our charter, subject to certain exceptions, no person or entity may own, actually or constructively, more than 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock or any class or series of our preferred stock.

Additionally, our charter has a 9.9% ownership limitation on the direct or indirect ownership of our voting shares, which may include common stock or other classes of capital stock. Our Board of Directors, in its sole discretion, may exempt a proposed transferee from either ownership limit. The ownership limits may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

### **ITEM 1B. Unresolved Staff Comments**

None.

### **ITEM 2. Properties**

We are organized to invest in income-producing healthcare-related facilities. In evaluating potential investments, we consider a multitude of factors, including:

- location, construction quality, age, condition and design of the property;
- geographic area, proximity to other healthcare facilities, type of property and demographic profile;
- whether the expected risk-adjusted return exceeds our cost of capital;
- whether the rent or operating income provides a competitive market return to our investors;
- duration, rental rates, tenant and operator quality and other attributes of in-place leases, including master lease structures;
- current and anticipated cash flow and its adequacy to meet our operational needs;
- availability of security such as letters of credit, security deposits and guarantees;
- potential for capital appreciation;
- expertise and reputation of the tenant or operator;
- occupancy and demand for similar healthcare facilities in the same or nearby communities;
- the mix of revenues generated at healthcare facilities between privately paid and government reimbursed;
- availability of qualified operators or property managers and whether we can manage the property;
- potential alternative uses of the facilities;
- the regulatory and reimbursement environment in which the properties operate;
- tax laws related to REITs;
- prospects for liquidity through financing or refinancing; and
- our access to and cost of capital.

## Property and Direct Financing Lease Investments

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The following table summarizes our property and direct financing lease (“DFL”) investments in our Owned Portfolio as of and for the year ended December 31, 2014 (square feet and dollars in thousands):

| <b>Facility Location</b>                       | <b>Number of Facilities</b> | <b>Capacity</b>      | <b>Gross Asset Value<sup>(1)</sup></b> | <b>Rental Revenues<sup>(2)</sup></b> | <b>Operating Expenses</b> |
|--|-----------------------------|----------------------|--|--------------------------------------|---------------------------|
|  |                             | <i>(Units)</i>       |  |                                      |                           |
| <i>Senior housing—real estate:</i>             |                             |                      |  |                                      |                           |
| California                                     | 28                          | 4,228                | \$ 547,091                             | \$103,419                            | \$ 2,655                  |
| Texas  | 28                          | 5,984                | 434,297                                | 54,001                               | 4                         |
| Florida  | 26                          | 4,083                | 396,797                                | 45,615                               | 6                         |
| Oregon   | 27                          | 2,427                | 318,517                                | 29,585                               | 262                       |
| Virginia                                       | 9                           | 1,404                | 249,829                                | 22,254                               | —                         |
| Washington                                     | 20                          | 1,433                | 235,860                                | 19,273                               | —                         |
| Colorado                                       | 6                           | 1,069                | 188,802                                | 19,421                               | —                         |
| New Jersey                                     | 7                           | 802                  | 140,991                                | 12,201                               | 58                        |
| South Carolina                                 | 19                          | 1,317                | 140,564                                | 16,258                               | 8                         |
| Georgia  | 16                          | 1,103                | 139,999                                | 12,189                               | 11                        |
| Other (31 States and U.K.)                     | <u>118</u>                  | <u>3,724</u>         | <u>1,599,056</u>                       | <u>171,855</u>                       | <u>474</u>                |
|  | <u>304</u>                  | <u>27,574</u>        | <u>4,391,803</u>                       | <u>506,071</u>                       | <u>3,478</u>              |
| <i>Senior housing—RIDEA:</i>                   |                             |                      |  |                                      |                           |
| Other (23 States)                              | 68                          | 9,869                | 1,471,237                              | 241,514                              | 163,650                   |
| <i>Senior housing—DFLs<sup>(3)</sup>:</i>      |                             |                      |  |                                      |                           |
| Maryland                                       | 13                          | 1,086                | 254,500                                | 20,350                               | —                         |
| New Jersey                                     | 8                           | 678                  | 190,660                                | 14,011                               | 112                       |
| Illinois                                       | 10                          | 942                  | 178,557                                | 13,834                               | —                         |
| Florida  | 14                          | 1,204                | 163,233                                | 13,395                               | 63                        |
| Pennsylvania                                   | 10                          | 725                  | 149,073                                | 12,652                               | —                         |
| Ohio   | 11                          | 945                  | 143,150                                | 10,758                               | 21                        |
| Other (12 States)                              | <u>27</u>                   | <u>2,335</u>         | <u>417,962</u>                         | <u>30,494</u>                        | <u>83</u>                 |
|  | <u>93</u>                   | <u>7,915</u>         | <u>1,497,135</u>                       | <u>115,494</u>                       | <u>279</u>                |
| <i>Total senior housing</i>                    | <u><u>465</u></u>           | <u><u>45,358</u></u> | <u><u>\$7,360,175</u></u>              | <u><u>\$863,079</u></u>              | <u><u>\$167,407</u></u>   |
| <i>Post-acute/skilled nursing—real estate:</i> |                             | <i>(Beds)</i>        |  |                                      |                           |
| Virginia                                       | 9                           | 932                  | \$ 58,377                              | \$ 7,502                             | \$ —                      |
| Indiana  | 8                           | 920                  | 55,572                                 | 9,083                                | —                         |
| Ohio   | 6                           | 577                  | 30,863                                 | 4,948                                | 10                        |
| Nevada   | 2                           | 298                  | 17,474                                 | 3,290                                | 1                         |
| Colorado                                       | 2                           | 216                  | 13,800                                 | 1,792                                | —                         |
| Other (6 States)                               | <u>7</u>                    | <u>689</u>           | <u>25,313</u>                          | <u>4,240</u>                         | <u>1,909</u>              |
|  | <u>34</u>                   | <u>3,632</u>         | <u>201,399</u>                         | <u>30,855</u>                        | <u>1,920</u>              |

| <b>Facility Location</b>                              | <b>Number of Facilities</b> | <b>Capacity</b>      | <b>Gross Asset Value<sup>(1)</sup></b> | <b>Rental Revenues<sup>(2)</sup></b> | <b>Operating Expenses</b>      |
|---|-----------------------------|----------------------|--|--------------------------------------|--------------------------------|
| <i>Post-acute/skilled nursing—DFLs<sup>(3)</sup>:</i> |                             |                      |  |                                      |                                |
| Pennsylvania  | 43                          | 6,919                | 1,262,692                              | 119,850                              | —                              |
| Illinois  | 26                          | 3,177                | 731,899                                | 67,072                               | —                              |
| Ohio  | 44                          | 5,005                | 667,976                                | 62,467                               | 111                            |
| Michigan  | 27                          | 3,183                | 603,331                                | 54,475                               | —                              |
| Florida   | 27                          | 3,486                | 570,885                                | 53,052                               | 10                             |
| Other (24 States)                                     | 100                         | 12,907               | 1,822,525                              | 167,551                              | 46                             |
|   | 267                         | 34,677               | 5,659,308                              | 524,467                              | 167                            |
| <i>Total post-acute/skilled nursing</i>               | <u><u>301</u></u>           | <u><u>38,309</u></u> | <u><u>\$ 5,860,707</u></u>             | <u><u>\$ 555,322</u></u>             | <u><u>\$ 2,087</u></u>         |
| <i>Life science:</i>                                  |                             |                      |  |                                      |                                |
| California  | 98                          | 6,408                | \$ 3,195,318                           | \$ 288,563                           | \$ 58,296                      |
| Utah  | 10                          | 669                  | 114,480                                | 15,926                               | 2,149                          |
| Other (2 States)                                      | 3                           | 244                  | 114,750                                | 9,625                                | 2,635                          |
| <i>Total life science</i>                             | <u><u>111</u></u>           | <u><u>7,321</u></u>  | <u><u>\$ 3,424,548</u></u>             | <u><u>\$ 314,114</u></u>             | <u><u>\$ 63,080</u></u>        |
| <i>Medical office:</i>                                |                             |                      |  |                                      |                                |
| Texas   | 49                          | 4,382                | \$ 719,694                             | \$ 103,330                           | \$ 47,045                      |
| California  | 15                          | 871                  | 226,094                                | 25,166                               | 13,336                         |
| Colorado  | 16                          | 1,083                | 198,991                                | 29,507                               | 11,766                         |
| Utah  | 27                          | 1,288                | 195,098                                | 26,559                               | 7,520                          |
| Kentucky  | 12                          | 1,121                | 191,424                                | 19,731                               | 5,937                          |
| Washington  | 6                           | 651                  | 164,819                                | 30,162                               | 10,961                         |
| Other (22 States and Mexico)                          | 90                          | 5,826                | 1,002,839                              | 136,501                              | 51,634                         |
| <i>Total medical office</i>                           | <u><u>215</u></u>           | <u><u>15,222</u></u> | <u><u>\$ 2,698,959</u></u>             | <u><u>\$ 370,956</u></u>             | <u><u>\$ 148,199</u></u>       |
| <i>Hospital—real estate:</i>                          |                             |                      |  |                                      |                                |
| Texas   | 4                           | 906                  | \$ 231,516                             | \$ 30,387                            | \$ 3,706                       |
| California  | 2                           | 111                  | 143,500                                | 19,346                               | 11                             |
| Louisiana   | 2                           | 79                   | 31,616                                 | 2,866                                | 128                            |
| Other (5 States)                                      | 5                           | 369                  | 57,125                                 | 10,817                               | —                              |
|   | 13                          | 1,465                | \$ 463,757                             | \$ 63,416                            | \$ 3,845                       |
| <i>Hospital—DFLs<sup>(3)</sup>:</i>                   |                             |                      |  |                                      |                                |
| Other (3 States)                                      | 3                           | 756                  | 123,891                                | 23,092                               | (15)                           |
| <i>Total hospital</i>                                 | <u><u>16</u></u>            | <u><u>2,221</u></u>  | <u><u>\$ 587,648</u></u>               | <u><u>\$ 86,508</u></u>              | <u><u>\$ 3,830</u></u>         |
| <b>Total properties</b>                               | <b><u><u>1,108</u></u></b>  |                      | <b><u><u>\$19,932,037</u></u></b>      | <b><u><u>\$2,189,979</u></u></b>     | <b><u><u>\$384,603</u></u></b> |

(1) Represents gross real estate and the carrying value of DFLs. Gross real estate represents the carrying amount of real estate after adding back accumulated depreciation and amortization.

(2) Represent the combined amount of rental and related revenues, tenant recoveries, resident fees and services and income from direct financing leases.

(3) Represents leased properties that are classified as DFLs.

## **Occupancy and Annual Rent Trends**

The following table summarizes occupancy and average annual rent trends for our owned portfolio for the years ended December 31, (square feet in thousands):

|  | <b>2014</b> | <b>2013</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| <i>Senior housing<sup>(1)</sup>:</i>               |             |             |             |             |             |
| Average annual rent per unit <sup>(2)</sup>        | \$13,596    | \$13,174    | \$13,140    | \$14,431    | \$12,675    |
| Average capacity (available units)                 | 45,684      | 45,400      | 36,694      | 30,167      | 24,356      |
| <i>Post-acute/skilled nursing<sup>(1)</sup>:</i>   |             |             |             |             |             |
| Average annual rent per bed <sup>(2)</sup>         | \$12,646    | \$12,218    | \$11,802    | \$12,669    | \$ 7,118    |
| Average capacity (available beds)                  | 38,441      | 38,464      | 38,459      | 26,167      | 3,675       |
| <i>Life science:</i>                               |             |             |             |             |             |
| Average occupancy percentage                       | 93%         | 92%         | 90%         | 90%         | 89%         |
| Average annual rent per square foot <sup>(2)</sup> | \$ 46       | \$ 44       | \$ 45       | \$ 44       | \$ 44       |
| Average occupied square feet                       | 6,637       | 6,480       | 6,250       | 6,076       | 5,740       |
| <i>Medical office:</i>                             |             |             |             |             |             |
| Average occupancy percentage                       | 91%         | 91%         | 91%         | 91%         | 91%         |
| Average annual rent per square foot <sup>(2)</sup> | \$ 28       | \$ 27       | \$ 27       | \$ 27       | \$ 26       |
| Average occupied square feet                       | 13,178      | 12,767      | 12,147      | 11,721      | 11,437      |
| <i>Hospital<sup>(1)</sup>:</i>                     |             |             |             |             |             |
| Average annual rent per bed <sup>(2)</sup>         | \$39,149    | \$38,437    | \$37,679    | \$36,974    | \$36,273    |
| Average capacity (available beds)                  | 2,221       | 2,175       | 2,087       | 2,084       | 2,064       |

- (1) Senior housing includes average units of 6,408, 4,620, 4,626 and 1,545 for the years ended December 31, 2014, 2013, 2012 and 2011, respectively, that are in a RIDEA structure in which resident occupancy impacts our annual revenue, which structure was initially adopted in 2011 and expanded in August 2014. The average resident occupancy for these units was 87%, 88%, 86% and 86% for the years ended December 31, 2014, 2013, 2012 and 2011, respectively. All other senior housing, post-acute/skilled nursing and hospital facilities are triple-net leased to operator occupied facilities, which makes these facilities 100% leased from our perspective.
- (2) Average annual rent is presented as a ratio of revenues comprised of rental and related revenues, tenant recoveries and income from DFLs divided by the average capacity or average occupied square feet of the facilities and annualized for mergers and acquisitions for the year in which they occurred. Average annual rent for properties operated under a RIDEA structure is calculated based on NOI divided by the average capacity of the facilities. Average annual rent for leased properties (including DFLs) excludes termination fees and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles and DFL interest accretion).

## **Development Properties**

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The following table sets forth the properties owned by us in our medical office and senior housing segments at December 31, 2014 that are currently under development or redevelopment (dollars and square feet in thousands):

| Name of Project         | Location           | Estimated Completion Date <sup>(1)</sup> | Estimated Rentable Sq. Ft./Units | Investment to Date | Estimated Total Investment |
|-------------------------|--------------------|--|----------------------------------|--------------------|----------------------------|
| <i>Life science:</i>    |                    |  |                                  |                    |                            |
| Pacific Corporate Park  | San Diego, CA      | 2Q 2016                                  | 57                               | \$12,707           | \$ 19,868                  |
| <i>Medical office:</i>  |                    |  |                                  |                    |                            |
| Memorial Hermann        | Pearland, TX       | 1Q 2016                                  | 98                               | 5,491              | 18,800                     |
| Sky Ridge               | Lone Tree, CO      | 1Q 2016                                  | 118                              | 5,453              | 29,400                     |
| Bayfront <sup>(2)</sup> | St. Petersburg, FL | 4Q 2015                                  | 120                              | 13,572             | 19,236                     |
| Folsom                  | Sacramento, CA     | 4Q 2015                                  | 92                               | 38,553             | 59,350                     |
| <i>Senior housing:</i>  |                    |  |                                  |                    |                            |
| Deer Park               | Deer Park, IL      | 4Q 2015                                  | 180                              | 17,249             | 47,690                     |
|                         |                    |  |                                  | <u>\$93,025</u>    | <u>\$194,344</u>           |

(1) For development projects, management's estimate of the date the core and shell structure improvements are expected to be completed. For redevelopment projects, management's estimate of the time in which major construction activity in relation to the scope of the project is expected to be substantially completed. There are no assurances that any of these projects will be completed on schedule or within estimated amounts.

(2) Represents a portion of the facility.

At December 31, 2014, we also had \$390 million of land held for future development primarily in our life science segment. In February 2015, we began construction on the first phase of The Cove at Oyster Point, a life science development in South San Francisco with an investment of \$26 million that was reported in land held for development at December 31, 2014.

## Tenant Lease Expirations

The following table shows tenant lease expirations, including those related to DFLs, for the next 10 years and thereafter at our leased properties, assuming that none of the tenants exercise any of their renewal options (dollars and square feet in thousands). See “Tenant Purchase Options” section of Note 12 to the Consolidated Financial Statements for additional information on leases subject to purchase options.

| Segment                              | Expiration Year |                     |           |            |            |           |            |           |           |           |           |            |  |
|--------------------------------------|-----------------|---------------------|-----------|------------|------------|-----------|------------|-----------|-----------|-----------|-----------|------------|--|
|                                      | Total           | 2015 <sup>(1)</sup> | 2016      | 2017       | 2018       | 2019      | 2020       | 2021      | 2022      | 2023      | 2024      | Thereafter |  |
| <b>Senior housing<sup>(2)</sup>:</b> |                 |                     |           |            |            |           |            |           |           |           |           |            |  |
| Properties                           | 397             | 1                   | 14        | 8          | 25         | 5         | 24         | 9         | 2         | 8         | 26        | 275        |  |
| Base rent <sup>(3)</sup>             | \$ 495,555      | \$ 220              | \$17,139  | \$ 10,759  | \$ 48,887  | \$ 8,893  | \$ 39,965  | \$ 12,147 | \$ 2,129  | \$ 23,553 | \$ 30,111 | \$301,752  |  |
| % of segment base rent               | 100             | —                   | 3         | 2          | 10         | 2         | 8          | 2         | —         | 5         | 6         | 62         |  |
| <b>Post-acute/skilled nursing:</b>   |                 |                     |           |            |            |           |            |           |           |           |           |            |  |
| Properties                           | 301             | —                   | 1         | —          | 2          | 21        | 6          | —         | 4         | —         | —         | 267        |  |
| Base rent <sup>(3)</sup>             | \$ 489,547      | \$ —                | \$ 340    | \$ —       | \$ 1,168   | \$ 18,633 | \$ 6,934   | \$ —      | \$ 3,274  | \$ —      | \$ —      | \$459,198  |  |
| % of segment base rent               | 100             | —                   | —         | —          | —          | 4         | 1          | —         | 1         | —         | —         | 94         |  |
| <b>Life science:</b>                 |                 |                     |           |            |            |           |            |           |           |           |           |            |  |
| Square feet                          | 6,971           | 280                 | 375       | 911        | 835        | 509       | 1,056      | 643       | 455       | 769       | 471       | 667        |  |
| Base rent <sup>(3)</sup>             | \$ 261,376      | \$ 9,076            | \$10,165  | \$ 31,876  | \$ 35,758  | \$ 15,519 | \$ 48,264  | \$ 34,638 | \$ 15,919 | \$ 34,173 | \$ 7,553  | \$ 18,435  |  |
| % of segment base rent               | 100             | 4                   | 4         | 12         | 14         | 6         | 18         | 13        | 6         | 13        | 3         | 7          |  |
| <b>Medical office:</b>               |                 |                     |           |            |            |           |            |           |           |           |           |            |  |
| Square feet                          | 13,814          | 2,242               | 1,681     | 2,190      | 1,831      | 1,621     | 1,304      | 707       | 628       | 413       | 417       | 780        |  |
| Base rent <sup>(3)</sup>             | \$ 316,302      | \$ 52,546           | \$37,273  | \$ 51,006  | \$ 40,421  | \$ 37,281 | \$ 28,892  | \$ 16,658 | \$ 14,507 | \$ 7,374  | \$ 10,952 | \$ 19,392  |  |
| % of segment base rent               | 100             | 17                  | 12        | 16         | 13         | 12        | 9          | 5         | 5         | 2         | 3         | 6          |  |
| <b>Hospital:</b>                     |                 |                     |           |            |            |           |            |           |           |           |           |            |  |
| Properties                           | 16              | —                   | —         | 3          | —          | 5         | 1          | 1         | 2         | —         | 1         | 3          |  |
| Base rent <sup>(3)</sup>             | \$ 74,903       | \$ —                | \$ —      | \$ 12,667  | \$ —       | \$ 7,332  | \$ 7,700   | \$ 1,282  | \$ 11,523 | \$ —      | \$ 13,304 | \$ 21,095  |  |
| % of segment base rent               | 100             | —                   | —         | 17         | —          | 10        | 10         | 2         | 15        | —         | 18        | 28         |  |
| <b>Total:</b>                        |                 |                     |           |            |            |           |            |           |           |           |           |            |  |
| Base rent <sup>(3)</sup>             | \$1,637,683     | \$ 61,842           | \$ 64,917 | \$ 106,308 | \$ 126,234 | \$ 87,658 | \$ 131,755 | \$ 64,725 | \$ 47,352 | \$ 65,100 | \$ 61,920 | \$ 819,872 |  |
| % of total base rent                 | 100             | 4                   | 4         | 6          | 8          | 5         | 8          | 4         | 3         | 4         | 4         | 50         |  |

(1) Includes month-to-month leases.

(2) Excludes 68 RIDEA facilities, leased to consolidated subsidiaries, with annualized NOI of \$117 million.

(3) The most recent month's (or subsequent month's if acquired in the most recent month) base rent including additional rent floors and cash income from DFLs annualized for 12 months. Base rent does not include tenant recoveries, additional rents in excess of floors and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles, DFL interest accretion and deferred revenues).

We specifically incorporate by reference into this section the information set forth in Schedule III: Real Estate and Accumulated Depreciation, included in this report.

## ITEM 3. Legal Proceedings

We are involved from time-to-time in legal proceedings that arise in the ordinary course of our business, including, but not limited to, commercial disputes, environmental matters, and litigation in connection with transactions including acquisitions and divestitures. We believe that such existing legal proceedings will not have a material adverse impact on our financial position or our results of operations. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

See “Legal Proceedings” section of Note 12 to the Consolidated Financial Statements for information regarding legal proceedings, which information is incorporated by reference in this Item 3.

## ITEM 4. Mine Safety Disclosures

None.

## PART II

### ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange. It has been our policy to declare quarterly dividends to common stockholders so as to comply with applicable provisions of the Code governing REITs. For the fiscal quarters indicated below are the reported high and low sales prices per share of our common stock on the New York Stock Exchange and the cash dividends paid per common share:

|                    | <u>High</u> | <u>Low</u> | <u>Per Share Distribution</u> |
|--------------------|-------------|------------|-------------------------------|
| <b><u>2014</u></b> |             |            |                               |
| Fourth Quarter     | \$46.07     | \$39.66    | \$0.545                       |
| Third Quarter      | 43.86       | 39.34      | 0.545                         |
| Second Quarter     | 42.82       | 38.49      | 0.545                         |
| First Quarter      | 39.59       | 35.95      | 0.545                         |
| <b><u>2013</u></b> |             |            |                               |
| Fourth Quarter     | 43.29       | 35.50      | 0.525                         |
| Third Quarter      | 47.45       | 38.93      | 0.525                         |
| Second Quarter     | 56.06       | 41.50      | 0.525                         |
| First Quarter      | 49.91       | 45.22      | 0.525                         |

At January 30, 2015, we had approximately 10,259 stockholders of record, and there were approximately 312,913 beneficial holders of our common stock.

#### *Dividends (Distributions)*

Distributions with respect to our common stock can be characterized for federal income tax purposes as taxable ordinary dividends, capital gain dividends, nondividend distributions or a combination thereof. Following is the characterization of our annual common stock distributions per share:

|                           | <u>Year Ended December 31,</u> |                 |                 |
|---------------------------|--------------------------------|-----------------|-----------------|
|                           | <u>2014</u>                    | <u>2013</u>     | <u>2012</u>     |
| Ordinary dividends        | \$1.9992                       | \$1.8127        | \$1.4618        |
| Capital gain dividends    | 0.0890                         | 0.1516          | 0.0495          |
| Nondividend distributions | 0.0918                         | 0.1357          | 0.4887          |
|                           | <u>\$2.1800</u>                | <u>\$2.1000</u> | <u>\$2.0000</u> |

On January 29, 2015, we announced that our Board of Directors declared a quarterly common stock cash dividend of \$0.565 per share. The common stock dividend will be paid on February 24, 2015 to stockholders of record as of the close of business on February 9, 2015.

Distributions with respect to our preferred stock can be characterized for federal income tax purposes as taxable ordinary dividends, capital gain dividends, nondividend distributions or a combination thereof. We

redeemed all of our outstanding preferred stock on April 23, 2012. Following is the characterization of our annual preferred stock distributions per share:

|                        | Series E<br>December 31,<br>2012 | Series F<br>December 31,<br>2012 |
|------------------------|----------------------------------|----------------------------------|
| Ordinary dividends     | \$0.4383                         | \$0.4292                         |
| Capital gain dividends | <u>0.0148</u>                    | <u>0.0145</u>                    |
|                        | <u><u>\$0.4531</u></u>           | <u><u>\$0.4437</u></u>           |

#### **Issuer Purchases of Equity Securities**

The table below sets forth the information with respect to purchases of our common stock made by or on our behalf during the quarter ended December 31, 2014.

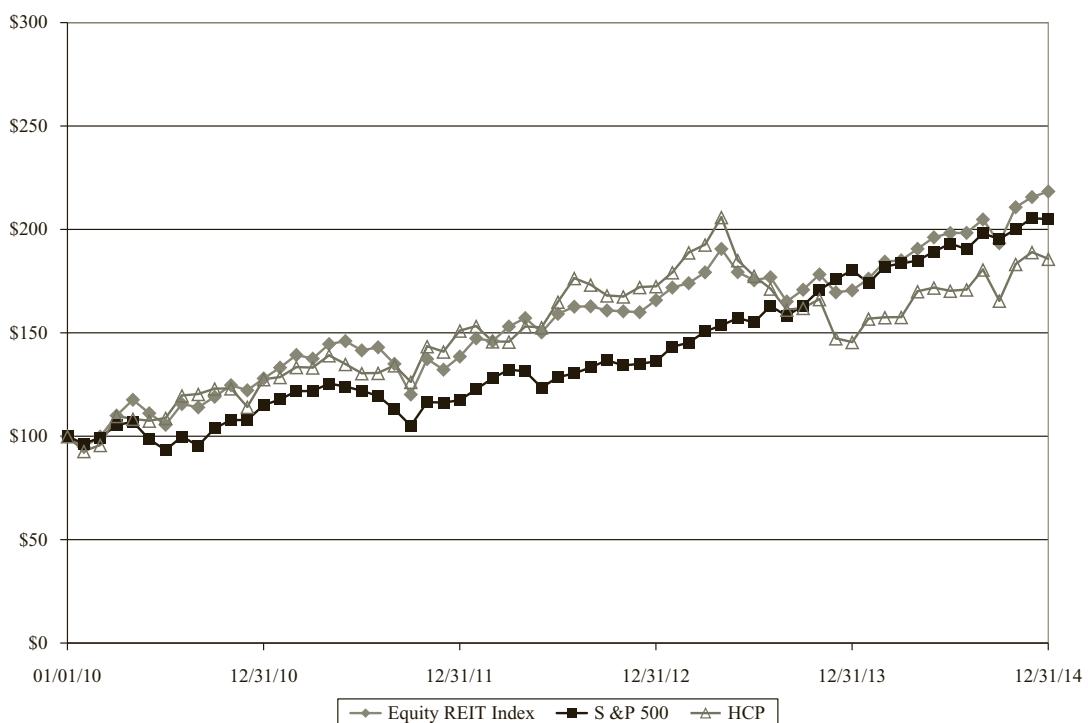
| Period Covered      | Total Number<br>of Shares<br>Purchased <sup>(1)</sup> | Average Price<br>Paid per Share | Total Number of Shares<br>Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs | Maximum Number (or<br>Approximate Dollar Value)<br>of Shares that May Yet<br>be Purchased Under<br>the Plans or Programs |
|---------------------|---|---------------------------------|--|--|
| October 1-31, 2014  | 19,343  | \$41.10                         | —  | —  |
| November 1-30, 2014 | 106   | 43.97                           | —  | —  |
| December 1-31, 2014 | <u>6,759</u>  | 45.06                           | —  | —  |
| Total               | <u><u>26,208</u></u>                                  | 42.14                           | —  | —  |

(1) Represents restricted shares withheld under our equity incentive plans to offset tax withholding obligations that occur upon vesting of restricted shares. The value of the shares withheld is based on the closing price of our common stock on the last trading day prior to the date the relevant transaction occurred.

## Performance Graph

The graph below compares the cumulative total return of HCP, the S&P 500 Index and the Equity REIT Index of the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”), from January 1, 2010 to December 31, 2014. Total cumulative return is based on a \$100 investment in HCP common stock and in each of the indices on January 1, 2010 and assumes quarterly reinvestment of dividends before consideration of income taxes. Stockholder returns over the indicated periods should not be considered indicative of future stock prices or stockholder returns.

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN  
AMONG S&P 500, EQUITY REITS AND HCP, INC.  
RATE OF RETURN TREND COMPARISON  
JANUARY 1, 2010—DECEMBER 31, 2014  
(JANUARY 1, 2010 = 100)**  
**Performance Graph Total Stockholder Return**



|                               | December 31, |          |          |          |          |
|-------------------------------|--------------|----------|----------|----------|----------|
|                               | 2010         | 2011     | 2012     | 2013     | 2014     |
| FTSE NAREIT Equity REIT Index | \$127.95     | \$138.55 | \$165.84 | \$170.58 | \$218.38 |
| S&P 500                       | 115.08       | 117.47   | 136.24   | 180.33   | 204.96   |
| HCP, Inc.                     | 127.60       | 151.10   | 172.56   | 145.56   | 185.79   |

## ITEM 6. Selected Financial Data

Set forth below is our selected financial data as of and for each of the years in the five-year period ended December 31, 2014 (dollars in thousands, except per share data):

|   | Year Ended December 31, <sup>(1)</sup> |              |              |                     |              |
|---|--|--------------|--------------|---------------------|--------------|
|   | 2014                                   | 2013         | 2012         | 2011 <sup>(2)</sup> | 2010         |
| <b>Income statement data:</b>   |  |              |              |                     |              |
| Total revenues  | \$ 2,266,279                           | \$ 2,099,878 | \$ 1,879,970 | \$ 1,694,418        | \$ 1,224,717 |
| Income from continuing operations                                     | 906,845                                | 910,633      | 801,190      | 536,130             | 303,869      |
| Net income applicable to common shares                                | 919,796                                | 969,103      | 812,289      | 515,302             | 307,498      |
| <b>Income from continuing operations applicable to common shares:</b> |  |              |              |                     |              |
| Basic earnings per common share                                       | 1.94                                   | 1.97         | 1.80         | 1.25                | 0.87         |
| Diluted earnings per common share                                     | 1.94                                   | 1.97         | 1.80         | 1.25                | 0.87         |
| <b>Net income applicable to common shares:</b>                        |  |              |              |                     |              |
| Basic earnings per common share                                       | 2.01                                   | 2.13         | 1.90         | 1.29                | 1.01         |
| Diluted earnings per common share                                     | 2.00                                   | 2.13         | 1.90         | 1.29                | 1.00         |
| <b>Balance sheet data:</b>  |  |              |              |                     |              |
| Total assets  | 21,369,940                             | 20,075,870   | 19,915,555   | 17,408,475          | 13,331,923   |
| Debt obligations <sup>(3)</sup>                                       | 9,759,773                              | 8,661,627    | 8,695,549    | 7,731,137           | 4,656,241    |
| Total equity  | 10,997,099                             | 10,931,134   | 10,753,777   | 9,220,622           | 8,146,047    |
| <b>Other data:</b>  |  |              |              |                     |              |
| Dividends paid  | 1,001,559                              | 956,685      | 865,306      | 787,689             | 590,735      |
| Dividends paid per common share                                       | 2.18                                   | 2.10         | 2.00         | 1.92                | 1.86         |
| Funds from operations (“FFO”) <sup>(4)</sup>                          | 1,381,634                              | 1,349,264    | 1,166,508    | 877,907             | 690,637      |
| Diluted FFO per common share <sup>(4)</sup>                           | 3.00                                   | 2.95         | 2.72         | 2.19                | 2.25         |
| FFO as adjusted <sup>(4)</sup>  | 1,398,691                              | 1,382,699    | 1,195,799    | 1,052,692           | 689,740      |
| Diluted FFO as adjusted per common share <sup>(4)</sup>               | 3.04                                   | 3.02         | 2.79         | 2.71                | 2.25         |
| Funds available for distribution (“FAD”) <sup>(4)</sup>               | 1,178,822                              | 1,158,082    | 954,645      | 838,440             | 585,116      |
| Diluted FAD per common share <sup>(4)</sup>                           | 2.57                                   | 2.54         | 2.23         | 2.16                | 1.92         |

(1) The following are acquisitions that had a meaningful impact on our financial position and results of operations in the years in which they closed and thereafter:

- During the third quarter of 2014, we completed the Brookdale Transaction in which, among other things, we contributed 48 properties that were triple-net leased into a RIDEA structure, with Brookdale managing the communities (see Note 3 to the Consolidated Financial Statements regarding the Brookdale Transaction). An additional property was contributed on January 1, 2015.
- During the fourth quarter of 2012, we acquired 129 senior housing communities from a joint venture between Emeritus and Blackstone Real Estate Partners VI, an affiliate of the Blackstone Group (the “Blackstone JV”).
- On April 7, 2011, we completed our acquisition of substantially all of the real estate assets of HCRMC, which included the settlement of our HCRMC debt investments.
- On January 14, 2011, we acquired our partner’s 65% interest in HCP Ventures II, a joint venture that owned 25 senior housing facilities, becoming the sole owner of the portfolio.

(2) On November 9, 2011, we entered into an agreement with Ventas, Inc. (“Ventas”) to settle all remaining claims relating to Ventas’s litigation against HCP arising out of Ventas’s 2007 acquisition of Sunrise Senior Living REIT. We paid \$125 million to Ventas, which was recorded as litigation settlement expense for the year ended December 31, 2011.

(3) Includes bank line of credit, bridge and term loans, senior unsecured notes, mortgage and other secured debt, and other debt.

(4) For a more detailed discussion and reconciliation of Funds From Operations (“FFO”), FFO as adjusted and Funds Available for Distribution (“FAD”), see “Non-GAAP Financial Measures—FFO and FAD” in Item 7.

## **ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The information set forth in this Item 7 is intended to provide readers with an understanding of our financial condition, changes in financial condition and results of operations. We will discuss and provide our analysis in the following order:

- 2014 Transaction Overview
- Dividends
- Results of Operations
- Liquidity and Capital Resources
- Non-GAAP Financial Measures—FFO and FAD
- Off-Balance Sheet Arrangements
- Contractual Obligations
- Inflation
- Critical Accounting Policies
- Recent Accounting Pronouncements

### **2014 Transaction Overview**

#### **Investment Transactions**

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In 2014 we completed \$2.1 billion of investment transactions, including \$777 million (£483 million) in debt and real estate in the United Kingdom (“U.K.”) and \$588 million for our 49% interest in the industry’s largest CCRC joint venture, which transactions are further described below:

#### *Brookdale Lease Amendments and Terminations and the Formation of Two RIDEA Joint Ventures (“Brookdale Transaction”)*

On August 29, 2014, HCP and Brookdale, through a Master Contribution and Transactions Agreement, closed a multiple-element transaction that has three major components:

- formed new unconsolidated joint ventures that collectively own 14 campuses of continuing care retirement communities (the “CCRC JV”). At closing, Brookdale contributed eight of its owned campuses; we contributed two campuses previously leased to Brookdale and cash used to acquire four additional campuses from third parties. HCP and Brookdale own 49% and 51%, respectively, of the CCRC JV, and Brookdale manages these communities;
- amended existing lease agreements on 153 HCP-owned senior housing communities, including the termination of embedded tenant purchase options relating to 30 properties and future rent reductions; and
- terminated existing lease agreements on 49 HCP-owned senior housing properties, including the termination of embedded tenant purchase options relating to 19 properties. At closing, we contributed 48 of these properties to a newly formed RIDEA partnerships (the “RIDEA Subsidiaries”); the 49<sup>th</sup> property was contributed on January 1, 2015. Brookdale owns a 20% noncontrolling equity interest in the RIDEA Subsidiaries and manages the facilities on behalf of the partnership.

#### *£395 Million Debt Investment in U.K. Care Home Portfolio*

In November 2014, we were the lead investor in the financing for Formation Capital and Safanad’s acquisition of NHP, a company that, at closing, owned 273 nursing and residential care homes representing over 12,500 beds in the U.K. principally operated by HC-One. We provided a loan facility totaling \$630 million (£395 million), secured by substantially all of NHP’s assets, with £363 million drawn at closing.

### *Other Investment Transactions*

During the year ended December 31, 2014, we completed \$634 million of additional investments and commitments in 34 properties across our senior housing, life science and medical office segments, including \$147 million (£88 million) for 23 care homes in the U.K. Additionally, we funded \$287 million for construction and other capital projects, primarily in our life science, medical office and senior housing segments.

### **Financing Activities**

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We raised \$2.1 billion of debt in 2014 and through January 2015, including the following transactions:

- On January 21, 2015, we issued \$600 million of 3.4% senior unsecured notes due 2025. The notes were priced at 99.185% of the principal amount with a yield-to-maturity of 3.497%.
- On January 12, 2015, we completed a \$333 million (£220 million) four-year unsecured term loan that accrues interest at a rate of GBP LIBOR plus 0.975%, subject to adjustments based on our credit ratings. Concurrently, we entered into a three-year interest rate swap agreement that effectively fixes the rate of the term loan at 1.79%.
- On August 14, 2014, we issued \$800 million of 3.875% senior unsecured notes due 2024. The notes were priced at 99.63% of the principal amount with an effective yield-to-maturity of 3.92%.
- On February 12, 2014, we issued \$350 million of 4.2% senior unsecured notes due 2024. The notes were priced at 99.537% of the principal amount with an effective yield-to-maturity of 4.257%.

On March 31, 2014, we amended our unsecured revolving credit facility and increased it by \$500 million to \$2 billion. The amended facility reduces our funded interest cost by 17.5 basis points and extends the maturity date to March 31, 2018. Based on our current credit ratings, the amended facility bears interest annually at LIBOR plus 92.5 basis points and has a facility fee of 15.0 basis points. Other terms of the amended facility were substantially unchanged, including a one-year extension option at our discretion, and the ability to increase the commitments by an aggregate amount of up to \$500 million, subject to customary conditions.

During the year ended December 31, 2014, we repaid \$911 million of aggregate senior unsecured notes and mortgage debt with a weighted average interest rate of 4.33%.

### **Dividends**

Quarterly dividends paid during 2014 aggregated \$2.18 per share, which represents a 3.8% increase from 2013. On January 29, 2015, our Board of Directors declared a quarterly cash dividend of \$0.565 per common share. The annualized distribution rate per share for 2015 increased 3.7% to \$2.26, compared to \$2.18 for 2014. The dividend will be paid on February 24, 2015 to stockholders of record as of the close of business on February 9, 2015.

### **Results of Operations**

We evaluate our business and allocate resources among our five business segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. Under the medical office segment, we invest through the acquisition and development of MOBs, which generally require a greater level of property management. Otherwise, we primarily invest, through the acquisition and development of real estate, in single tenants and operators occupied properties and debt issued by tenants and operators in these sectors. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the Consolidated Financial Statements).

## ***Non-GAAP Financial Measures***

### ***Same Property Portfolio***

Our evaluation of results of operations by each business segment includes an analysis of NOI and adjusted NOI of our Same Property Portfolio (“SPP”) and our total property portfolio. We believe NOI provides relevant and useful information because it reflects only income and operating expense items that are incurred at the property level and presents them on an unleveraged basis. We use NOI and adjusted NOI to make decisions about resource allocations and to assess and compare property level performance. SPP NOI and adjusted NOI information allows us to evaluate the performance of our property portfolio under a consistent population by eliminating changes in the composition of our portfolio of properties. We identify our SPP as stabilized properties that remained in operations and were consistently reported as leased properties or RIDEA properties for the duration of the year-over-year comparison periods presented. Accordingly, it takes a stabilized property a minimum of 12 months in operations under a consistent reporting structure to be included in our SPP. Newly acquired operating assets are generally considered stabilized at the earlier of lease-up (typically when the tenant(s) controls the physical use of at least 80% of the space) or 12 months from the acquisition date. Newly completed developments and redevelopments, are considered stabilized at the earlier of lease-up or 24 months from the date the property is placed in service. SPP NOI excludes certain non-property specific operating expenses that are allocated to each operating segment on a consolidated basis. A property is removed from our SPP when it is sold or placed into redevelopment. NOI and adjusted NOI are non-GAAP supplemental financial measures; for a reconciliation of net income to NOI and adjusted NOI and other relevant disclosure, refer to Note 14 to the Consolidated Financial Statements.

Operating expenses generally relate to leased medical office and life science properties and senior housing RIDEA properties. We generally recover all or a portion of our leased medical office and life science property expenses through tenant recoveries. We present expenses as operating or general and administrative based on the underlying nature of the expense. Periodically, we review the classification of expenses between categories and make revisions based on changes in the underlying nature of the expenses.

### ***Funds From Operations***

We believe FFO applicable to common shares, diluted FFO applicable to common shares, and diluted FFO per common share are important supplemental non-GAAP measures of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets utilizes straight-line depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen and fallen with market conditions, presentations of operating results for a REIT that use historical cost accounting for depreciation could be less informative. The term FFO was designed by the REIT industry to address this issue.

FFO as defined by the National Association of Real Estate Investment Trusts (“NAREIT”) is net income applicable to common shares (computed in accordance with GAAP), excluding gains or losses from sales of property, impairments of, or related to, depreciable real estate, plus real estate and DFL depreciation and amortization, and after adjustments for joint ventures. Adjustments for joint ventures are calculated to reflect FFO on the same basis. FFO does not represent cash generated from operating activities in accordance with GAAP, is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income. We compute FFO in accordance with the current NAREIT definition; however, other REITs may report FFO differently or have a different interpretation of the current NAREIT definition from ours.

In addition, we present FFO before the impact of severance-related charges, litigation settlement charges, preferred stock redemption charges, impairments (recoveries) of non-depreciable assets and transaction-related items (defined below) (“FFO as adjusted”). Transaction-related items include acquisition and pursuit costs (e.g., due diligence and closing) and gains/charges incurred as a result of mergers and acquisitions and lease amendment or termination activities. Management believes that FFO as adjusted provides a meaningful supplemental measurement of our FFO run-rate. This measure is a modification of the NAREIT definition of FFO and should not be used as an alternative to net income (determined in accordance with GAAP) or NAREIT FFO.

#### *Funds Available for Distribution*

FAD is defined as FFO as adjusted after excluding the impact of the following: (i) amortization of acquired market lease intangibles, net; (ii) amortization of deferred compensation expense; (iii) amortization of deferred financing costs, net; (iv) straight-line rents; (v) accretion and depreciation related to DFLs; and (vi) deferred revenues, effective 2014, excluding amounts amortized into rental income that are associated with tenant funded improvements owned/recognized by us and up-front cash payments made by tenants to reduce their contractual rents. Also, FAD is: (i) computed after deducting recurring capital expenditures, including leasing costs and second generation tenant and capital improvements; and (ii) includes lease restructure payments and adjustments to compute our share of FAD from our unconsolidated joint ventures and those related to CCRC non-refundable entrance fees. Other REITs or real estate companies may use different methodologies for calculating FAD, and accordingly, our FAD may not be comparable to those reported by other REITs. Although our FAD computation may not be comparable to that of other REITs, management believes FAD provides a meaningful supplemental measure of our ability to fund our ongoing dividend payments. In addition, management believes that in order to further understand and analyze our liquidity, FAD should not be compared with net cash flows from operating activities as determined in accordance with GAAP and presented in our consolidated financial statements. FAD does not represent cash generated from operating activities determined in accordance with GAAP, and FAD should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance, as an alternative to net cash flows from operating activities (determined in accordance with GAAP), or as a measure of our liquidity.

#### *Net Operating Income (“NOI”)*

NOI and adjusted NOI are non-GAAP supplemental financial measures used to evaluate the operating performance of real estate. NOI is defined as rental and related revenues, including tenant recoveries, resident fees and services, and income from DFLs, less property level operating expense; NOI excludes all other financial statement amounts included in net income as presented in Note14 to the Consolidated Financial Statements. Management believes NOI provides relevant and useful information because it reflects only income and operating expense items that are incurred at the property level and presents them on an unleveraged basis. Adjusted NOI is calculated as NOI after eliminating the effects of straight-line rents, DFL accretion, amortization of market lease intangibles and lease termination fees. Adjusted NOI is oftentimes referred to as “cash NOI.” We use NOI and adjusted NOI to make decisions about resource allocations and to assess and compare property level performance. We believe that net income is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income as defined by GAAP because it does not reflect various excluded items. Further, our definition of NOI may not be comparable to the definition used by other REITs or real estate companies, as those companies may use different methodologies for calculating NOI.

**Comparison of the Year Ended December 31, 2014 to the Year Ended December 31, 2013**

**Overview<sup>(1)</sup>**

Results are for the years ended December 31, 2014 and 2013 (dollars in thousands except per share data):

|                 | Year Ended<br>December 31, 2014 |           | Year Ended<br>December 31, 2013 |           | Per Share<br>Change |
|-----------------|---------------------------------|-----------|---------------------------------|-----------|---------------------|
|                 | Amount                          | Per Share | Amount                          | Per Share |                     |
| FFO             | \$1,381,634                     | \$3.00    | \$1,349,264                     | \$2.95    | \$ 0.05             |
| FFO as adjusted | 1,398,691                       | 3.04      | 1,382,699                       | 3.02      | 0.02                |
| FAD             | 1,178,822                       | 2.57      | 1,158,082                       | 2.54      | 0.03                |
| Net income      | 919,796                         | 2.00      | 969,103                         | 2.13      | (0.13)              |

(1) For the reconciliation, see “Non-GAAP Financial Measures—FFO and FAD” section beginning on page 63.

FFO increased \$0.05 per share primarily as a result of: (i) net gains from the Brookdale Transaction, (ii) increased NOI from our SPP and our 2013 and 2014 acquisitions, and (iii) a general and administrative charge in 2013 resulting from the termination of our former chief executive officer. The aforementioned were partially offset by: (i) an impairment charge in 2014 for our equity ownership investment in HCRMC and (ii) favorable one-time items including interest income in 2013 from the par payoff of our Barchester debt investments and sale of marketable equity securities.

FFO as adjusted and FAD increased \$0.02 and \$0.03 per share, respectively, primarily as a result of increased NOI from our SPP and 2013 and 2014 acquisitions, which were partially offset by favorable one-time items including interest income in 2013 from the par payoff of our Barchester debt investments and sale of marketable equity securities.

Earnings per share (“EPS”) decreased \$0.13 per share primarily as a result of: (i) decreased gain on sales of real estate and (ii) increased depreciation expense, partially offset by the net result of the aforementioned events impacting FFO.

**Segment NOI and Adjusted NOI**

The tables below provide selected operating information for our SPP and total property portfolio for each of our five business segments. Our consolidated SPP consists of 1,011 properties representing properties acquired or placed in service and stabilized on or prior to January 1, 2013 and that remained in operations under a consistent reporting structure through December 31, 2014. Our consolidated total property portfolio represents 1,108 and 1,079 properties at December 31, 2014 and 2013, respectively, and excludes properties classified as discontinued operations.

**Senior Housing**

As part of the previously described Brookdale Transaction, we contributed 49 properties (one property was contributed on January 1, 2015) that were triple-net leased into a RIDEA structure, with Brookdale managing the communities and acquiring a 20% equity interest in the RIDEA partnerships. For the 49 properties in the RIDEA partnerships, we report the resident-level revenues and corresponding operating expenses in our consolidated financial statements rather than the pre-transaction triple-net rents. In future periods, we expect increases in resident fee and service revenue and operating expenses and a decrease in rental and related revenues.

Additionally, we created the CCRC JV, which is managed by Brookdale. In future periods, we expect to record our share of income from unconsolidated joint ventures; also, as a result of deconsolidating three senior housing properties that were contributed to the CCRC JV, we expect a decrease in rental and related revenues and depreciation expense.

See information regarding the Brookdale Transaction in Note 3 to the Consolidated Financial Statements. Results are as of and for the years ended December 31, 2014 and 2013 (dollars in thousands except per unit data):

|   | SPP              |                     |                 | Total Portfolio   |                  |                  |
|---|------------------|---------------------|-----------------|-------------------|------------------|------------------|
|   | 2014             | 2013 <sup>(2)</sup> | Change          | 2014              | 2013             | Change           |
| Rental revenues <sup>(2)</sup>                | \$506,592        | \$505,629           | \$ 963          | \$ 621,114        | \$602,506        | \$ 18,608        |
| Resident fees and services                    | 153,251          | 146,245             | 7,006           | 241,965           | 146,288          | 95,677           |
| Total segment revenues                        | \$659,843        | \$651,874           | \$ 7,969        | \$ 863,079        | \$748,794        | \$114,285        |
| Operating expenses                            | (98,191)         | (93,792)            | (4,399)         | (167,407)         | (95,603)         | (71,804)         |
| NOI   | \$561,652        | \$558,082           | \$ 3,570        | \$ 695,672        | \$653,191        | \$ 42,481        |
| Straight-line rents                           | (25,690)         | (34,613)            | 8,923           | (30,392)          | (43,268)         | 12,876           |
| DFL accretion                                 | (9,216)          | (14,750)            | 5,534           | (9,216)           | (14,750)         | 5,534            |
| Amortization of market lease intangibles, net | (613)            | (781)               | 168             | (588)             | (681)            | 93               |
| Lease termination fees                        | —                | —                   | —               | (38,001)          | —                | (38,001)         |
| Adjusted NOI                                  | <u>\$526,133</u> | <u>\$507,938</u>    | <u>\$18,195</u> | <u>\$ 617,475</u> | <u>\$594,492</u> | <u>\$ 22,983</u> |
| Adjusted NOI % change                         |                  |                     |                 | <u>3.6%</u>       |                  |                  |
| Property count                                | 387              | 387                 |                 | 465               | 444              |                  |
| Average capacity (units) <sup>(3)</sup>       | 38,545           | 38,541              |                 | 45,684            | 45,400           |                  |
| Average annual rent per unit <sup>(4)</sup>   | \$ 13,693        | \$ 13,285           |                 | \$ 13,596         | \$ 13,174        |                  |

- (1) From our 2013 presentation of SPP, we removed one senior housing property that was sold and 51 senior housing properties that were contributed to partnerships under a RIDEA structure as part of the Brookdale Transaction and no longer meet our criteria for SPP upon contribution.
- (2) Represents rental and related revenues and income from DFLs.
- (3) Represents average capacity as reported by the respective tenants or operators for a twelve-month period that is a quarter in arrears from the periods presented.
- (4) Average annual rent per unit for operating properties under a RIDEA structure is based on NOI.

*SPP NOI and Adjusted NOI.* SPP NOI increased primarily from improved performance from RIDEA properties; SPP adjusted NOI improved as a result of annual rent increases and improved performance from RIDEA properties.

*Total Portfolio NOI and Adjusted NOI.* In addition to the impact of our SPP, our total portfolio NOI increased as a result of recognizing net fees of \$38 million from the Brookdale Transaction (see Note 3 to the Consolidated Financial Statements). Our total portfolio NOI and adjusted NOI also increased as a result of our senior housing acquisitions in 2014 and 2013.

## **Post-Acute/Skilled Nursing**

Results are as of and for the years ended December 31, 2014 and 2013 (dollars in thousands, except per bed data):

|   | <b>SPP</b>       |                           |                 | <b>Total Portfolio</b> |                  |                 |
|---|------------------|---------------------------|-----------------|------------------------|------------------|-----------------|
|   | <b>2014</b>      | <b>2013<sup>(1)</sup></b> | <b>Change</b>   | <b>2014</b>            | <b>2013</b>      | <b>Change</b>   |
| Rental revenues <sup>(2)</sup>                | \$553,778        | \$540,403                 | \$13,375        | \$555,322              | \$541,805        | \$13,517        |
| Operating expenses                            | (168)            | (443)                     | 275             | (2,087)                | (2,485)          | 398             |
| NOI   | \$553,610        | \$539,960                 | \$13,650        | \$553,235              | \$539,320        | \$13,915        |
| Straight-line rents                           | (799)            | (553)                     | (246)           | (835)                  | (553)            | (282)           |
| DFL accretion                                 | (68,251)         | (71,125)                  | 2,874           | (68,352)               | (71,305)         | 2,953           |
| Amortization of market lease intangibles, net | 46               | 46                        | —               | 46                     | 46               | —               |
| Adjusted NOI                                  | <u>\$484,606</u> | <u>\$468,328</u>          | <u>\$16,278</u> | <u>\$484,094</u>       | <u>\$467,508</u> | <u>\$16,586</u> |
| Adjusted NOI % change                         |                  |                           | <u>3.5%</u>     |                        |                  |                 |
| Property count                                | 301              | 301                       |                 | 301                    | 302              |                 |
| Average capacity (beds) <sup>(3)</sup>        | 38,333           | 38,253                    |                 | 38,441                 | 38,464           |                 |
| Average annual rent per bed                   | \$ 12,645        | \$ 12,253                 |                 | \$ 12,646              | \$ 12,218        |                 |

(1) From our 2013 presentation of SPP, we removed a post-acute/skilled nursing property that was sold.

(2) Represents rental and related revenues and income from DFLs.

(3) Represents average capacity as reported by the respective tenants or operators for a twelve-month period that is a quarter in arrears from the periods presented.

*NOI and Adjusted NOI.* SPP and total portfolio NOI and adjusted NOI increased primarily as a result of annual rent escalations from our HCRMC DFL investments.

*HCRMC equity method and DFL investments.* On December 19, 2014, we concluded that our 9.4% equity ownership interest in HCRMC was other-than-temporarily impaired, and we recorded an impairment charge of \$36 million, or \$0.08 per diluted share, in the fourth quarter of 2014; the impairment charge reduced the carrying amount of our equity investment in HCRMC to \$39 million. We made this conclusion principally based on the receipt and review of HCRMC's preliminary base financial forecast for 2015, together with HCRMC's year-to-date operating results through November 2014. HCRMC's preliminary base financial forecast and operating results primarily reflected a continued shift in patient payor sources from Medicare to Medicare Advantage, which negatively impacts reimbursement rates and length of stay for HCRMC's skilled nursing segment. HCRMC has indicated that its 2015 preliminary base financial forecast does not include the effect of any dispositions, acquisitions or other initiatives HCRMC may undertake to improve financial performance in 2015.

We believe that HCRMC's trailing Twelve-month Fixed Charge Coverage ("TFCC") ratio may continue to deteriorate over the next several quarters. HCRMC's 2015 preliminary base financial forecast implies that the TFCC ratio is projected to decline to 1.07x at the end of 2015, compared to the TFCC ratio of 1.08x at the end of 2014, before the impact of \$24 million of certain general and professional liability charges that HCRMC incurred in the second quarter of 2014. As noted above, the TFCC ratio is calculated using HCRMC's 2015 preliminary base financial forecast that does not include the effects of any dispositions, acquisitions or other initiatives HCRMC may undertake to improve financial performance in 2015.

Notwithstanding these developments, HCRMC's 2015 preliminary base financial forecast also indicates that HCRMC will continue to meet its contractual obligations to us under a master lease (the "Master Lease"). Therefore, we continue to believe that the collection and timing of all amounts owed by HCRMC under our Master Lease are reasonably assured. HCRMC believes that it is favorably positioned to grow as part of the ongoing changes in the healthcare environment.

Based on discussions with the management of HCRMC and our evaluation of other industry data, we note the following factors that influenced our evaluation of HCRMC: (i) Medicare rate increases of 1.7% and 1.4% took effect on October 1, 2014 for the skilled nursing and hospice businesses, respectively; (ii) additional cost cutting measures were implemented in the fourth quarter of 2014; (iii) new facility developments and expansions will be operational in 2015; (iv) assisted living and hospice operations demonstrated continued growth; (v) HCP and HCR ManorCare have jointly agreed to market for sale certain non-strategic assets that are under the master lease; the purpose of the dispositions is to increase EBITDAR, reduce rent and improve HCRMC's TFCC; however, no assurances can be given that the facilities will be sold or as to the timing of the sales; and (vi) hospital admissions are forecasted to improve in 2015.

While we remain confident in HCRMC's ongoing adjustments to their business model, HCRMC has not been able to reverse the decline in their financial performance. Failure of HCRMC to reverse the decline in its financial performance may lead us to conclude that the collection and timing of contractual obligations, or a portion thereof, under the Master Lease may not be reasonably assured; in which case, we would place the HCRMC DFL, or a portion thereof, on nonaccrual status. If we further determine that it is probable that we will not be able to collect all amounts due under the terms of the Master Lease, we may incur an impairment on our HCRMC DFL, or a portion thereof.

### **Life Science**

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Results are as of and for the years ended December 31, 2014 and 2013 (dollars and sq. ft. in thousands, except per sq. ft. data):

|  | SPP              |                     |                 | Total Portfolio  |                  |                 |
|--|------------------|---------------------|-----------------|------------------|------------------|-----------------|
|  | 2014             | 2013 <sup>(1)</sup> | Change          | 2014             | 2013             | Change          |
| Rental revenues  | \$247,062        | \$243,558           | \$ 3,504        | \$264,164        | \$251,919        | \$12,245        |
| Tenant recoveries  | 46,004           | 43,628              | 2,376           | 49,950           | 44,960           | 4,990           |
| Total segment revenues                                     | \$293,066        | \$287,186           | \$ 5,880        | \$314,114        | \$296,879        | \$17,235        |
| Operating expenses   | (53,512)         | (50,888)            | (2,624)         | (63,080)         | (56,956)         | (6,124)         |
| NOI  | \$239,554        | \$236,298           | \$ 3,256        | \$251,034        | \$239,923        | \$11,111        |
| Straight-line rents  | (8,105)          | (12,557)            | 4,452           | (9,608)          | (11,347)         | 1,739           |
| Amortization of market lease intangibles, net              | (12)             | 179                 | (191)           | 103              | 93               | 10              |
| Lease termination fees                                     | —                | (194)               | 194             | (570)            | (194)            | (376)           |
| Adjusted NOI   | <u>\$231,437</u> | <u>\$223,726</u>    | <u>\$ 7,711</u> | <u>\$240,959</u> | <u>\$228,475</u> | <u>\$12,484</u> |
| Adjusted NOI % change                                      |                  |                     | 3.4%            |                  |                  |                 |
| Property count   | 105              | 105                 |                 | 111              | 111              |                 |
| Average occupancy  | 93.1%            | 91.5%               |                 | 93.0%            | 91.8%            |                 |
| Average occupied sq. ft.                                   | 6,325            | 6,212               |                 | 6,637            | 6,480            |                 |
| Average annual total segment revenues per occupied sq. ft. | \$ 45            | \$ 44               |                 | \$ 46            | \$ 44            |                 |
| Average annual rental revenues per occupied sq. ft.        | \$ 38            | \$ 37               |                 | \$ 38            | \$ 37            |                 |

(1) From our 2013 presentation of SPP, we removed three life science facilities that were placed into land held for development and a life science facility that was placed into redevelopment in 2014, which no longer meet our criteria for SPP as of the date placed into development.

**SPP NOI and Adjusted NOI.** SPP NOI and adjusted NOI increased as a result of increased average occupancy. Additionally, SPP adjusted NOI increased as a result of annual rent escalations.

**Total Portfolio NOI and Adjusted NOI.** In addition to the impact of our SPP, our total portfolio NOI and adjusted NOI increased primarily as a result of the impact of our life science development projects placed in service during 2014 and 2013.

During the year ended December 31, 2014, 1.5 million square feet of new and renewal leases commenced at an average annual base rent of \$30.40 per square foot compared to 1.1 million square feet of expiring leases with an average annual base rent of \$30.83 per square foot. During the year ended December 31, 2014, we acquired a fully-occupied 83,000 square foot building with an average annual base rent of \$33.87 per square foot.

### **Medical Office**

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Results are as of and for the years ended December 31, 2014 and 2013 (dollars and sq. ft. in thousands, except per sq. ft. data):

|  | SPP        |                     |          | Total Portfolio |            |           |
|--|------------|---------------------|----------|-----------------|------------|-----------|
|  | 2014       | 2013 <sup>(1)</sup> | Change   | 2014            | 2013       | Change    |
| Rental revenues  | \$ 296,216 | \$ 292,680          | \$ 3,536 | \$ 312,734      | \$ 299,102 | \$ 13,632 |
| Tenant recoveries  | 54,935     | 52,769              | 2,166    | 58,222          | 53,232     | 4,990     |
| Total segment revenues                                     | \$ 351,151 | \$ 345,449          | \$ 5,702 | \$ 370,956      | \$ 352,334 | \$ 18,622 |
| Operating expenses   | (134,275)  | (131,148)           | (3,127)  | (148,199)       | (139,376)  | (8,823)   |
| NOI  | \$ 216,876 | \$ 214,301          | \$ 2,575 | \$ 222,757      | \$ 212,958 | \$ 9,799  |
| Straight-line rents  | (1,270)    | (3,088)             | 1,818    | (2,022)         | (3,161)    | 1,139     |
| Amortization of market lease intangibles, net              | 995        | 950                 | 45       | 861             | 1,037      | (176)     |
| Lease termination fees                                     | (192)      | (23)                | (169)    | (245)           | (23)       | (222)     |
| Adjusted NOI   | \$ 216,409 | \$ 212,140          | \$ 4,269 | \$ 221,351      | \$ 210,811 | \$ 10,540 |
| Adjusted NOI % change                                      |            |                     |          | 2.0%            |            |           |
| Property count   | 203        | 203                 |          | 215             | 206        |           |
| Average occupancy  | 91.4       | 91.3%               |          | 90.7%           | 90.7%      |           |
| Average occupied sq. ft.                                   | 12,618     | 12,582              |          | 13,178          | 12,767     |           |
| Average annual total segment revenues per occupied sq. ft. | \$ 28      | \$ 27               |          | \$ 28           | \$ 27      |           |
| Average annual rental revenues per occupied sq. ft.        | \$ 23      | \$ 23               |          | \$ 24           | \$ 23      |           |

(1) From our 2013 presentation of SPP, we removed a MOB that was sold.

**SPP NOI and Adjusted NOI.** SPP NOI and adjusted NOI increased primarily as a result of annual rent escalations.

**Total Portfolio NOI and Adjusted NOI.** In addition to the impact of our SPP, our total portfolio NOI and adjusted NOI increased primarily as a result of our medical office acquisitions in 2014.

During the year ended December 31, 2014, 2.6 million square feet of new and renewal leases commenced at an average annual base rent of \$23.15 per square foot compared to 2.6 million square feet of expiring and terminated leases with an average annual base rent of \$25.06 per square foot. During the year ended December 31, 2014, we acquired six MOBs with 953,000 occupied square feet that have average annual base rent of \$25.00 per square foot.

## **Hospital**

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Results are as of and for the years ended December 31, 2014 and 2013 (dollars in thousands, except per bed data):

|   | <b>SPP</b>      |                 |                 | <b>Total Portfolio</b> |                 |                 |
|---|-----------------|-----------------|-----------------|------------------------|-----------------|-----------------|
|   | <b>2014</b>     | <b>2013</b>     | <b>Change</b>   | <b>2014</b>            | <b>2013</b>     | <b>Change</b>   |
| Rental revenues <sup>(1)</sup>                | \$82,667        | \$69,213        | \$ 13,454       | \$83,992               | \$69,603        | \$ 14,389       |
| Tenant recoveries                             | 2,515           | 2,457           | 58              | 2,516                  | 2,457           | 59              |
| Total segment revenues                        | \$85,182        | \$71,670        | \$ 13,512       | \$86,508               | \$72,060        | \$ 14,448       |
| Operating expenses                            | (3,773)         | (3,813)         | 40              | (3,830)                | (3,862)         | 32              |
| NOI   | \$81,409        | \$67,857        | \$ 13,552       | \$82,678               | \$68,198        | \$ 14,480       |
| Straight-line rents                           | 1,835           | 18,386          | (16,551)        | 1,813                  | 18,378          | (16,565)        |
| Amortization of market lease intangibles, net | (1,369)         | (6,825)         | 5,456           | (1,370)                | (6,824)         | 5,454           |
| Adjusted NOI                                  | <u>\$81,875</u> | <u>\$79,418</u> | <u>\$ 2,457</u> | <u>\$83,121</u>        | <u>\$79,752</u> | <u>\$ 3,369</u> |
| Adjusted NOI % change                         |                 |                 |                 | 3.1%                   |                 |                 |
| Property count                                | 15              | 15              |                 | 16                     | 16              |                 |
| Average capacity (beds) <sup>(2)</sup>        | 2,161           | 2,149           |                 | 2,221                  | 2,175           |                 |
| Average annual rent per bed                   | \$39,634        | \$38,730        |                 | \$39,149               | \$38,437        |                 |

(1) Represents rental and related revenues and income from DFLs.

(2) Represents average capacity as reported by the respective tenants or operators for a twelve-month period that is a quarter in arrears from the periods presented. Certain operators in our hospital portfolio are not required under their respective leases to provide operational data.

*NOI and Adjusted NOI.* SPP and total portfolio NOI increased primarily due to a net \$12 million correction in 2013 that reduced previously recognized non-cash revenues including straight-line rents and accelerated amortization of below market lease intangibles related to our Medical City Dallas hospital. SPP and total portfolio adjusted NOI increased primarily as a result of annual rent escalations.

## **Other Income and Expense Items**

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*Interest income.* Interest income decreased \$12 million to \$74 million for the year ended December 31, 2014. The decrease was primarily the result of the repayment of our Barchester loan in September 2013, partially offset by interest earned from the June 2013 funding under the Tandem Health Care mezzanine loan facility and the November 2014 U.K. debt investment (see Note 7 to the Consolidated Financial Statements).

*Interest expense.* For the year ended December 31, 2014, interest expense increased \$4 million to \$440 million. The increase was primarily the result of net increase in indebtedness as presented below.

The table below sets forth information with respect to our debt, excluding premiums and discounts (dollars in thousands):

|   | As of December 31, <sup>(1)</sup> |                    |
|---|-----------------------------------|--------------------|
|   | 2014                              | 2013               |
| <b>Balance:</b>   |                                   |                    |
| Fixed rate  | \$8,841,676                       | \$8,581,889        |
| Variable rate   | 847,016                           | 33,955             |
| Total   | <u>\$9,688,692</u>                | <u>\$8,615,844</u> |
| <b>Percentage of total debt:</b>                        |                                   |                    |
| Fixed rate  | 91.3%                             | 99.6%              |
| Variable rate   | 8.7                               | 0.4                |
| Total   | <u>100%</u>                       | <u>100%</u>        |
| <b>Weighted average interest rate at end of period:</b> |                                   |                    |
| Fixed rate  | 5.01%                             | 5.10%              |
| Variable rate   | 1.59%                             | 1.13%              |
| Total weighted average rate                             | 4.71%                             | 5.08%              |

- (1) At December 31, 2014, excludes \$97 million of other debt that represents non-interest bearing life care bonds and occupancy fee deposits at certain of our senior housing facilities and demand notes that have no scheduled maturities. At December 31, 2013, excludes \$75 million of other debt that represents non-interest bearing life care bonds and occupancy fee deposits at certain of our senior housing facilities. At December 31, 2014 and 2013, \$71 million and \$72 million of variable-rate mortgages, respectively, and a £137 million (\$214 million and \$227 million, respectively) term loan are presented as fixed-rate debt as the interest payments were swapped from variable to fixed.

Our exposure to expense fluctuations related to our variable rate indebtedness is mitigated by our interest rate swap contracts. For a more detailed discussion of our interest rate risk, see Item 7A.

*Depreciation and amortization expense.* Depreciation and amortization expenses increased \$37 million to \$460 million for the year ended December 31, 2014. The increase was primarily the result of acquisitions, redevelopment projects placed in service and changes in estimates of the depreciable lives and residual values of certain properties.

*General and administrative expenses.* General and administrative expenses decreased \$21 million to \$82 million for the year ended December 31, 2014. The year ended December 31, 2013 included \$27 million of severance-related charges resulting from the termination of our former chief executive officer (see Note 16 to the Consolidated Financial Statements).

*Acquisition and pursuit costs.* Acquisition and pursuit costs expenses increased \$11 million to \$17 million for the year ended December 31, 2014. The increase was primarily due to higher levels of transactional activity in 2014, including transactional costs related to the Brookdale Transaction and the U.K. real estate and debt investments. Acquisition and pursuit costs were previously included in general and administrative expenses.

*Other income, net.* For the year ended December 31, 2014, other income, net decreased \$11 million to \$8 million. The decrease was primarily the result of gains from the sale of marketable equity securities during 2013; there were no comparable gains from the sale of marketable securities in 2014.

*Income taxes.* For the year ended December 31, 2014, income taxes decreased by \$6 million to \$250,000. The decrease in income taxes was primarily due to the losses of our TRS entities during the year ended December 31, 2014.

*Equity income from unconsolidated joint ventures.* For the year ended December 31, 2014, equity income from unconsolidated joint ventures decreased \$15 million to \$50 million. The decrease in equity income from unconsolidated joint ventures was primarily the result of: (i) our share of losses from the CCRC JV investment formed in 2014; (ii) the decline in operating performance of our HCRMC equity interest; and (iii) a 2013 one-time distribution received from a senior housing joint venture that exceeded our investment balance.

*Impairment of investments in unconsolidated joint ventures.* During the year ended December 31, 2014, we recognized an impairment of \$36 million related to our 9.4% equity ownership interest in HCRMC (see Notes 8 and 17 to the Consolidated Financial Statements).

*Gain on sales of real estate (continued and discontinued).* During the year ended December 31, 2014, we sold five properties for total gain on sales of real estate of \$31 million. During the year ended December 31, 2013, we sold 13 properties for total gain on sales of real estate of \$70 million (see Note 5 to the Consolidated Financial Statements).

#### ***Comparison of the Year Ended December 31, 2013 to the Year Ended December 31, 2012***

##### **Overview<sup>(1)</sup>**

Results are for the years ended December 31, 2013 and 2012 (dollars in thousands except per share data):

|                 | Year Ended<br>December 31, 2013 |           | Year Ended<br>December 31, 2012 |           | Per<br>Share<br>Change |
|-----------------|---------------------------------|-----------|---------------------------------|-----------|------------------------|
|                 | Amount                          | Per Share | Amount                          | Per Share |                        |
| FFO             | \$1,349,264                     | \$2.95    | \$1,166,508                     | \$2.72    | \$0.23                 |
| FFO as adjusted | 1,382,699                       | 3.02      | 1,195,799                       | 2.79      | 0.23                   |
| FAD             | 1,158,082                       | 2.54      | 954,645                         | 2.23      | 0.31                   |
| Net income      | 969,103                         | 2.13      | 812,289                         | 1.90      | 0.23                   |

(1) For the reconciliation, see “Non-GAAP Financial Measures—FFO and FAD” section beginning on page 63.

FFO, FFO as adjusted and EPS each increased \$0.23 per share primarily resulting from: (i) real estate acquisitions, property developments placed in service and debt investments (e.g., the BlackStone JV acquisition, Tandem Health Care loan facility, and Four Seasons debt investment); (ii) par payoff of our Barchester debt investments; (iii) gain from sales of marketable equity securities and (iv) increased NOI from our SPP.

FAD increased \$0.31 per share primarily as a result of the aforementioned benefits impacting FFO, FFO as adjusted and EPS and growth in cash-based rents.

##### **Segment NOI and Adjusted NOI**

The tables below provide selected operating information for our SPP and total property portfolio for each of our five business segments. Our consolidated SPP consists of 909 properties representing properties acquired or placed in service and stabilized on or prior to January 1, 2012 and that remained in operations under a consistent reporting structure through December 31, 2013. Our consolidated total property portfolio represents 1,079 and 1,071 properties at December 31, 2013 and 2012, respectively, and excludes properties classified as discontinued operations.

##### **Senior Housing**

During the fourth quarter of 2012 and first quarter of 2013, we acquired a portfolio of 133 senior housing communities from the Blackstone JV (see Note 4 to the Consolidated Financial Statements). The transaction closed in two stages: (i) 129 senior housing facilities during the fourth quarter of 2012 for \$1.7 billion; and (ii) four senior housing facilities during the first quarter of 2013 for \$38 million. The results of operations from the acquisitions are reflected in our consolidated financial statements from those respective dates.

Results are as of and for the years ended December 31, 2013 and 2012 (dollars in thousands except per unit data):

|   | SPP       |                     |          | Total Portfolio |           |           |
|---|-----------|---------------------|----------|-----------------|-----------|-----------|
|   | 2013      | 2012 <sup>(1)</sup> | Change   | 2013            | 2012      | Change    |
| Rental revenues <sup>(2)</sup>                | \$465,254 | \$459,058           | \$ 6,196 | \$602,506       | \$481,559 | \$120,947 |
| Resident fees and services                    | 146,288   | 139,073             | 7,215    | 146,288         | 139,073   | 7,215     |
| Total segment revenues                        | \$611,542 | \$598,131           | \$13,411 | \$748,794       | \$620,632 | \$128,162 |
| Operating expenses                            | (92,674)  | (88,575)            | (4,099)  | (95,603)        | (91,423)  | (4,180)   |
| NOI   | \$518,868 | \$509,556           | \$ 9,312 | \$653,191       | \$529,209 | \$123,982 |
| Straight-line rents                           | (15,413)  | (25,662)            | 10,249   | (43,268)        | (30,406)  | (12,862)  |
| DFL accretion                                 | (14,750)  | (18,812)            | 4,062    | (14,750)        | (18,812)  | 4,062     |
| Amortization of market lease intangibles, net | (1,196)   | (1,432)             | 236      | (681)           | (1,320)   | 639       |
| Adjusted NOI                                  | \$487,509 | \$463,650           | \$23,859 | \$594,492       | \$478,671 | \$115,821 |
| Adjusted NOI % change                         |           |                     | 5.1%     |                 |           |           |
| Property count                                | 310       | 310                 |          | 444             | 439       |           |
| Average capacity (units) <sup>(3)</sup>       | 35,038    | 35,034              |          | 45,400          | 36,694    |           |
| Average annual rent per unit <sup>(4)</sup>   | \$ 13,932 | \$ 13,252           |          | \$ 13,174       | \$ 13,140 |           |

(1) From our 2012 presentation of SPP, we removed two senior housing properties that were sold or classified as held for sale.

(2) Represents rental and related revenues and income from DFLs.

(3) Represents average capacity as reported by the respective tenants or operators for a twelve-month period that is a quarter in arrears from the periods presented.

(4) Average annual rent per unit for operating properties under a RIDEA structure is based on NOI.

*SPP NOI and Adjusted NOI.* SPP NOI increased primarily as a result of rent increases related to new leases or leases recognized on a cash basis and increased NOI from RIDEA properties. SPP adjusted NOI improved primarily as a result of annual rent increases including increases from properties that were previously transitioned from Sunrise to other operators and increased NOI from RIDEA properties.

*Total Portfolio NOI and Adjusted NOI.* In addition to the impact of our SPP, our total portfolio NOI and adjusted NOI primarily increased as a result of our Blackstone JV acquisition.

## **Post-Acute/Skilled Nursing**

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Results are as of and for the years ended December 31, 2013 and 2012 (dollars in thousands, except per bed data):

|   | <b>SPP</b>       |                           |                 | <b>Total Portfolio</b> |                  |                 |
|---|------------------|---------------------------|-----------------|------------------------|------------------|-----------------|
|   | <b>2013</b>      | <b>2012<sup>(1)</sup></b> | <b>Change</b>   | <b>2013</b>            | <b>2012</b>      | <b>Change</b>   |
| Rental revenues <sup>(2)</sup>                | \$541,805        | \$530,037                 | \$11,768        | \$541,805              | \$530,037        | \$11,768        |
| Operating expenses                            | (485)            | (475)                     | (10)            | (2,485)                | (475)            | (2,010)         |
| NOI   | \$541,320        | \$529,562                 | \$11,758        | \$539,320              | \$529,562        | \$ 9,758        |
| Straight-line rents                           | (553)            | (724)                     | 171             | (553)                  | (724)            | 171             |
| DFL accretion                                 | (71,305)         | (75,428)                  | 4,123           | (71,305)               | (75,428)         | 4,123           |
| Amortization of market lease intangibles, net | 46               | 46                        | —               | 46                     | 46               | —               |
| Adjusted NOI                                  | <u>\$469,508</u> | <u>\$453,456</u>          | <u>\$16,052</u> | <u>\$467,508</u>       | <u>\$453,456</u> | <u>\$14,052</u> |
| Adjusted NOI % change                         |                  |                           | <u>3.5%</u>     |                        |                  |                 |
| Property count                                | 302              | 302                       |                 | 302                    | 302              |                 |
| Average capacity (beds) <sup>(3)</sup>        | 38,464           | 38,459                    |                 | 38,464                 | 38,459           |                 |
| Average annual rent per bed                   | \$ 12,218        | \$ 11,802                 |                 | \$ 12,218              | \$ 11,802        |                 |

(1) From our 2012 presentation of SPP, we removed 10 post-acute/skilled nursing properties that were sold or classified as held for sale.

(2) Represents rental and related revenues and income from DFLs.

(3) Represents average capacity as reported by the respective tenants or operators for a twelve-month period that is a quarter in arrears from the periods presented.

*NOI and Adjusted NOI.* SPP and total portfolio NOI and adjusted NOI primarily increased as a result of annual rent increases.

## **Life Science**

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Results are as of and for the years ended December 31, 2013 and 2012 (dollars and sq. ft. in thousands, except per sq. ft. data):

|  | <b>SPP</b>       |                  |                  | <b>Total Portfolio</b> |                  |                 |
|--|------------------|------------------|------------------|------------------------|------------------|-----------------|
|  | <b>2013</b>      | <b>2012</b>      | <b>Change</b>    | <b>2013</b>            | <b>2012</b>      | <b>Change</b>   |
| Rental revenues  | \$240,777        | \$240,145        | \$ 632           | \$251,919              | \$246,811        | \$ 5,108        |
| Tenant recoveries  | 42,975           | 42,164           | 811              | 44,960                 | 42,853           | 2,107           |
| Total segment revenues                                     | \$283,752        | \$282,309        | \$ 1,443         | \$296,879              | \$289,664        | \$ 7,215        |
| Operating expenses   | (49,636)         | (47,914)         | (1,722)          | (56,956)               | (53,173)         | (3,783)         |
| NOI  | \$234,116        | \$234,395        | \$ (279)         | \$239,923              | \$236,491        | \$ 3,432        |
| Straight-line rents  | (11,604)         | (8,590)          | (3,014)          | (11,347)               | (9,730)          | (1,617)         |
| Amortization of market lease intangibles, net              | 112              | 462              | (350)            | 93                     | 411              | (318)           |
| Lease termination fees                                     | (194)            | (175)            | (19)             | (194)                  | (175)            | (19)            |
| Adjusted NOI   | <u>\$222,430</u> | <u>\$226,092</u> | <u>\$(3,662)</u> | <u>\$228,475</u>       | <u>\$226,997</u> | <u>\$ 1,478</u> |
| Adjusted NOI % change                                      |                  |                  |                  | <u>(1.6)%</u>          |                  |                 |
| Property count   | 102              | 102              |                  | 111                    | 109              |                 |
| Average occupancy  | 93.0%            | 91.4%            |                  | 91.8%                  | 89.6%            |                 |
| Average occupied sq. ft.                                   | 6,219            | 6,108            |                  | 6,480                  | 6,250            |                 |
| Average annual total segment revenues per occupied sq. ft. | \$ 44            | \$ 45            |                  | \$ 44                  | \$ 45            |                 |
| Average annual rental revenues per occupied sq. ft.        | \$ 37            | \$ 38            |                  | \$ 37                  | \$ 38            |                 |

**SPP NOI and Adjusted NOI.** SPP NOI decreased primarily as a result of mark-to-market rent reductions on renewed leases. SPP adjusted NOI decreased primarily as a result of a \$4 million rent payment received in February 2012 in connection with a lease amendment and mark-to-market rent reductions, partially offset by annual rent escalations.

**Total Portfolio NOI and Adjusted NOI.** In addition to the impact of our SPP, our total portfolio NOI increased primarily as a result of rents on recent development projects placed in service during 2013 and 2012.

During the year ended December 31, 2013, 545,000 square feet of new and renewal leases commenced at an average annual base rent of \$27.43 per square foot compared to 392,000 square feet of expiring and terminated leases with an average annual base rent of \$32.83 per square foot.

## **Medical Office**

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Results are as of and for the years ended December 31, 2013 and 2012 (dollars and sq. ft. in thousands, except per sq. ft. data):

|  | <b>SPP</b>        |                           |                | <b>Total Portfolio</b> |                   |                 |
|--|-------------------|---------------------------|----------------|------------------------|-------------------|-----------------|
|  | <b>2013</b>       | <b>2012<sup>(1)</sup></b> | <b>Change</b>  | <b>2013</b>            | <b>2012</b>       | <b>Change</b>   |
| Rental revenues  | \$ 265,176        | \$ 263,726                | \$1,450        | \$ 299,102             | \$ 283,561        | \$15,541        |
| Tenant recoveries  | 46,719            | 46,615                    | 104            | 53,232                 | 49,447            | 3,785           |
| Total segment revenues                                     | \$ 311,895        | \$ 310,341                | \$1,554        | \$ 352,334             | \$ 333,008        | \$19,326        |
| Operating expenses   | (118,643)         | (117,901)                 | (742)          | (139,376)              | (132,132)         | (7,244)         |
| NOI  | \$ 193,252        | \$ 192,440                | \$ 812         | \$ 212,958             | \$ 200,876        | \$12,082        |
| Straight-line rents  | (1,472)           | (4,381)                   | 2,909          | (3,161)                | (5,258)           | 2,097           |
| Amortization of market lease intangibles, net              | 510               | 290                       | 220            | 1,037                  | 457               | 580             |
| Lease termination fees                                     | (23)              | (314)                     | 291            | (23)                   | (314)             | 291             |
| Adjusted NOI   | <u>\$ 192,267</u> | <u>\$ 188,035</u>         | <u>\$4,232</u> | <u>\$ 210,811</u>      | <u>\$ 195,761</u> | <u>\$15,050</u> |
| Adjusted NOI % change                                      |                   |                           | 2.3%           |                        |                   |                 |
| Property count   | 181               | 181                       |                | 206                    | 206               |                 |
| Average occupancy  | 91.6%             | 91.3%                     |                | 90.7%                  | 91.2%             |                 |
| Average occupied sq. ft.                                   | 11,395            | 11,351                    |                | 12,767                 | 12,147            |                 |
| Average annual total segment revenues per occupied sq. ft. | \$ 27             | \$ 27                     |                | \$ 27                  | \$ 27             |                 |
| Average annual rental revenues per occupied sq. ft.        | \$ 23             | \$ 23                     |                | \$ 23                  | \$ 23             |                 |

(1) From our 2012 presentation of SPP, we removed two MOBs that were placed into redevelopment in 2013, which no longer meet our criteria for SPP as of the date they were placed into redevelopment.

*Total Portfolio NOI and Adjusted NOI.* Total portfolio NOI and adjusted NOI increased primarily as a result of the impact of our MOB acquisitions during 2012.

During the year ended December 31, 2013, 2.1 million square feet of new and renewal leases commenced at an average annual base rent of \$21.54 per square foot compared to 2.2 million square feet of expiring and terminated leases with an average annual base rent of \$22.06 per square foot.

## **Hospital**

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Results are as of and for the years ended December 31, 2013 and 2012 (dollars in thousands, except per bed data):

|   | <b>SPP</b>      |                           |                 | <b>Total Portfolio</b> |                 |                 |
|---|-----------------|---------------------------|-----------------|------------------------|-----------------|-----------------|
|   | <b>2013</b>     | <b>2012<sup>(1)</sup></b> | <b>Change</b>   | <b>2013</b>            | <b>2012</b>     | <b>Change</b>   |
| Rental revenues <sup>(2)</sup>                | \$64,249        | \$74,815                  | \$(10,566)      | \$69,603               | \$77,872        | \$(8,269)       |
| Tenant recoveries                             | 2,457           | 2,326                     | 131             | 2,457                  | 2,326           | 131             |
| Total segment revenues                        | \$66,706        | \$77,141                  | \$(10,435)      | \$72,060               | \$80,198        | \$(8,138)       |
| Operating expenses                            | (3,812)         | (3,506)                   | (306)           | (3,862)                | (3,513)         | (349)           |
| NOI   | \$62,894        | \$73,635                  | \$(10,741)      | \$68,198               | \$76,685        | \$(8,487)       |
| Straight-line rents                           | 19,238          | (554)                     | 19,792          | 18,378                 | (1,134)         | 19,512          |
| Amortization of market lease intangibles, net | (6,725)         | (347)                     | (6,378)         | (6,824)                | (447)           | (6,377)         |
| Adjusted NOI                                  | <u>\$75,407</u> | <u>\$72,734</u>           | <u>\$ 2,673</u> | <u>\$79,752</u>        | <u>\$75,104</u> | <u>\$ 4,648</u> |
| Adjusted NOI % change                         |                 |                           |                 | 3.7%                   |                 |                 |
| Property count                                | 14              | 14                        |                 | 16                     | 15              |                 |
| Average capacity (beds) <sup>(3)</sup>        | 2,132           | 2,056                     |                 | 2,175                  | 2,087           |                 |
| Average annual rent per bed                   | \$37,151        | \$37,091                  |                 | \$38,437               | \$37,679        |                 |

(1) From our 2012 presentation of SPP, we removed two hospitals that were sold or classified as held for sale.

(2) Represents rental and related revenues and income from DFLs.

(3) Represents average capacity as reported by the respective tenants or operators for a twelve-month period that is a quarter in arrears from the periods presented. Certain operators in our hospital portfolio are not required under their respective leases to provide operational data.

**SPP and Total Portfolio NOI and Adjusted NOI.** SPP and total portfolio NOI primarily decreased due to a net \$12 million correction in 2013 that reduced previously recognized non-cash revenues including straight-line rents and to increasing amortization of below market lease intangibles related to our Medical City Dallas hospital. SPP and total portfolio adjusted NOI increased due to annual rent increases, a new lease on our Plano hospital and rents on our Fresno hospital that was placed in service in January 2013.

## **Other Income and Expense Items**

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**Interest income.** Interest income increased \$62 million to \$86 million for the year ended December 31, 2013. The increase was primarily the result of interest income from the repayment of our Barchester loan in September 2013 (acquired earlier in 2013 at a discount), additional interest income earned from the second tranche of our mezzanine loan facility to Tandem Health Care in June 2013 and interest earned from our Four Seasons senior unsecured notes purchased in 2012 (see Notes 7 and 10 to the Consolidated Financial Statements).

**Interest expense.** For the year ended December 31, 2013, interest expense increased \$19 million to \$435 million. The increase was primarily the result of increases in the average outstanding indebtedness during 2013 compared to 2012 and a decrease of capitalized interest in 2013 related to assets that were under development in our life science and medical office segments and were placed in service during 2013 and 2012. These increases were partially offset by a decrease in interest rates.

Our exposure to expense fluctuations related to our variable rate indebtedness is mitigated by our interest rate swap contracts. For a more detailed discussion of our interest rate risk, see “Quantitative and Qualitative Disclosures About Market Risk” section in Item 7A.

The table below sets forth information with respect to our debt, excluding premiums and discounts (dollars in thousands):

|   | <b>As of December 31,<sup>(1)</sup></b> |                    |
|---|---|--------------------|
|   | <b>2013</b>                             | <b>2012</b>        |
| <b>Balance:</b>   |   |                    |
| Fixed rate  | \$8,581,889                             | \$8,606,075        |
| Variable rate   | 33,955                                  | 40,385             |
| Total   | <u>\$8,615,844</u>                      | <u>\$8,646,460</u> |
| <b>Percentage of total debt:</b>                        |   |                    |
| Fixed rate  | 99.6%                                   | 99.5%              |
| Variable rate   | 0.4                                     | 0.5                |
| Total   | <u>100%</u>                             | <u>100%</u>        |
| <b>Weighted average interest rate at end of period:</b> |   |                    |
| Fixed rate  | 5.10%                                   | 5.23%              |
| Variable rate   | 1.13%                                   | 1.49%              |
| Total weighted average rate                             | 5.08%                                   | 5.22%              |

(1) Excludes \$75 million and \$82 million at December 31, 2013 and 2012, respectively, of other debt that represents non-interest bearing life care bonds and occupancy fee deposits at certain of our senior housing facilities, which have no scheduled maturities. At December 31, 2013 and 2012, \$72 million and \$86 million of variable-rate mortgages, respectively, and a £137 million (\$227 million and \$223 million, respectively) term loan are presented as fixed-rate debt as the interest payments under such debt have been swapped (pay fixed and receive float).

*Depreciation and amortization expense.* Depreciation and amortization expenses increased \$70 million to \$423 million for the year ended December 31, 2013. The increase was primarily the result of the impact of our senior housing facility and MOB acquisitions during 2012.

*General and administrative expenses.* General and administrative expenses increased \$35 million to \$103 million for the year ended December 31, 2013. The year ended December 31, 2013 included \$27 million of severance-related charges resulting from the termination of our former Chairman, Chief Executive Officer and President (see Note 16 to the Consolidated Financial Statements). The year ended December 31, 2012 included \$7 million related to an insurance recovery for previously incurred legal expenses.

*Acquisition and pursuit costs.* Acquisition and pursuit costs decreased \$5 million to \$6 million for the year ended December 31, 2013. The decrease was primarily the result of acquiring 133 senior housing communities from the Blackstone JV during the fourth quarter of 2012.

*Impairments.* During the year ended December 31, 2013, we recognized impairments of \$1 million, included in discontinued operations, as a result of the reclassification of two MOBs to held for sale (see Note 17 to the Consolidated Financial Statements). During the year ended December 31, 2012, we recognized an impairment of \$8 million as a result of the disposition of a life science land parcel (see Note 17 to the Consolidated Financial Statements).

*Other income, net.* For the year ended December 31, 2013, other income, net increased \$15 million to \$18 million. The increase was primarily the result of gains from the sale of marketable equity securities during 2013 of \$11 million.

*Income taxes.* For the year ended December 31, 2013, income taxes increased by \$7 million to \$6 million. The increase in income taxes was primarily due to the increase in taxable income of our TRS entities during the year ended December 31, 2013.

*Equity income from unconsolidated joint ventures.* For the year ended December 31, 2013, equity income from unconsolidated joint ventures increased \$10 million to \$64 million. The increase was primarily the result of: (i) a one-time distribution received from a senior housing development joint venture that exceeded our investment balance and (ii) the improved operating performance from our HCRMC equity investment.

*Discontinued operations.* Income from discontinued operations for the year ended December 31, 2013 was \$74 million, compared to \$46 million for the comparable period in 2012. The increase is primarily due to an increase in gains on real estate dispositions of \$38 million, partially offset by a decline in operating income from discontinued operations of \$8 million and impairment charges in discontinued operations of \$1 million.

*Preferred stock dividends.* On March 22, 2012, we announced the redemption of all outstanding shares of preferred stock. On April 23, 2012, we redeemed all outstanding shares of our preferred stock and paid all accrued and unpaid dividends to the redemption date. During the year ended December 31, 2012, we incurred a redemption charge of \$10 million related to the original issuance costs of the preferred stock (this charge is presented as an additional preferred stock dividend in our consolidated income statements).

## **Liquidity and Capital Resources**

We anticipate satisfying our distributions to our shareholders and non-controlling interest members for the next 12 months by primarily using cash flow from operations and available cash balances. Additionally, we expect to meet our scheduled financing maturities for 2015 (excluding future acquisitions) with the proceeds from our January 2015 \$600 million senior unsecured note offering.

Our principal investing liquidity needs for the next 12 months are to:

- fund capital expenditures, including tenant improvements and leasing costs; and
- fund future acquisition, transactional and development activities.

We anticipate satisfying these future investing needs using one or more of the following:

- issuance of common or preferred stock;
- issuance of additional debt, including unsecured notes and mortgage debt;
- draws on our credit facilities; and/or
- sale or exchange of ownership interests in properties.

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as our ability to fund future acquisitions and development through the issuance of additional securities or secured debt. Credit ratings impact our ability to access capital and directly impact our cost of capital as well. For example, as noted below, our revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon our credit ratings. We also pay a facility fee on the entire revolving commitment that depends upon our credit ratings. As of January 30, 2015, we had a credit rating of BBB+ from Fitch, Baa1 from Moody's and BBB+ from S&P on our senior unsecured debt securities.

## **Cash Flow Summary**

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below.

Cash and cash equivalents were \$184 million and \$301 million at December 31, 2014 and 2013, respectively, representing a decrease of \$117 million. The following table sets forth changes in cash flows (dollars in thousands):

|   | Year Ended December 31, |             |             |
|---|-------------------------|-------------|-------------|
|   | 2014                    | 2013        | Change      |
| Net cash provided by operating activities           | \$ 1,248,621            | \$1,148,987 | \$ 99,634   |
| Net cash used in investing activities               | (1,511,879)             | (196,648)   | (1,315,231) |
| Net cash provided by (used in) financing activities | 144,797                 | (900,416)   | 1,045,213   |

The increase in operating cash flows is primarily the result of the following: (i) the impact from our investments, (ii) redevelopment assets placed in service and (iii) rent escalations and resets. Our cash flows from operations are dependent upon the occupancy levels of our buildings, rental rates on leases, our tenants' performance on their lease obligations, the level of operating expenses and other factors.

The following are significant investing and financing activities for the year ended December 31, 2014:

- paid dividends on common stock of \$1 billion, which were funded by cash provided by our operating activities;
- made investments and capital expenditures of \$1.7 billion (e.g., debt investments, the CCRC JV, acquisition and development of real estate, etc.) and repaid \$935 million of mortgages and senior unsecured notes; and
- raised proceeds of \$2 billion primarily from issuing senior unsecured notes and revolving line of credit facility borrowings and an additional \$224 million from sales of real estate and loan repayments.

## **Debt**

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*Bank line of credit and Term Loans.* On March 31, 2014, we amended our unsecured revolving line of credit facility (the "Facility") with a syndicate of banks, which was scheduled to mature in March 2016, increasing the borrowing capacity by \$500 million to \$2 billion. The amended Facility matures on March 31, 2018, with a one-year committed extension option. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends upon our credit ratings. We pay a facility fee on the entire revolving commitment that depends on our credit ratings. Based on our credit ratings at January 30, 2015, the margin on the Facility was 0.925%, and the facility fee was 0.15%. The Facility also includes a feature that will allow us to increase the borrowing capacity by an aggregate amount of up to \$500 million, subject to securing additional commitments from existing lenders or new lending institutions. At December 31, 2014, we had \$839 million (includes £355 million) outstanding under the Facility with a weighted average effective interest rate of 1.60%.

On July 30, 2012, we entered into a credit agreement with a syndicate of banks for a £137 million (\$214 million at December 31, 2014) four-year unsecured term loan (the "2012 Term Loan"). Based on our credit ratings at January 30, 2014, the Term Loan accrues interest at a rate of GBP LIBOR plus 1.20%. Concurrent with the closing of the Term Loan, we entered into a four-year interest rate swap contract that fixes the rate of the Term Loan at 1.81%, subject to adjustments based on our credit ratings. The 2012 Term Loan contains a one-year committed extension option.

On January 12, 2015, we entered into a credit agreement with a syndicate of banks for a £220 million (\$333 million) four-year unsecured term loan (the "2015 Term Loan") that accrues interest at a rate of GBP LIBOR plus 0.975%, subject to adjustments based on our credit ratings. At closing, we entered into a three-year interest rate swap agreement that effectively fixes the rate of the term loan at 1.79% (the 2012 and 2015 Term Loans are collectively the "Term Loans"). Proceeds from the 2015 Term Loan were used to repay £220 million outstanding on the Facility as of the closing date.

The Facility and Term Loans contain certain financial restrictions and other customary requirements. Among other things, these covenants, using terms defined in the agreements, (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60% and (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times. The Facility and Term Loans also require a Minimum Consolidated Tangible Net Worth of \$9.5 billion at December 31, 2014 (applicable to the Facility and 2012 Term Loan). At December 31, 2014, we were in compliance with each of these restrictions and requirements of the Facility and 2012 Term Loan.

*Senior unsecured notes.* At December 31, 2014, we had senior unsecured notes outstanding with an aggregate principal balance of \$7.6 billion. Interest rates on the notes ranged from 2.79% to 6.99% with a weighted average effective interest rate of 4.95% and a weighted average maturity of six years at December 31, 2014. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. At December 31, 2014, we believe we were in compliance with these covenants.

On January 21, 2015, we issued \$600 million of 3.40% senior unsecured notes due 2025. The notes were priced at 99.185% of the principal amount with an effective yield-to-maturity of 3.497%; net proceeds from this offering were \$591 million.

A portion of the proceeds from these senior notes was used to repay the entire \$105 million U.S. dollar amount outstanding on the Facility as of the closing date.

*Mortgage debt.* At December 31, 2014, we had \$1 billion in aggregate principal amount of mortgage debt outstanding that is secured by 70 healthcare facilities (including redevelopment properties) with a carrying value of \$1.3 billion. Interest rates on the mortgage debt ranged from 0.44% to 8.41% with a weighted average effective interest rate of 6.16% and a weighted average maturity of three years at December 31, 2014.

Mortgage debt generally requires monthly principal and interest payments, is collateralized by real estate assets and is generally non-recourse. Mortgage debt typically restricts transfer of the encumbered assets, prohibits additional liens, restricts prepayment, requires payment of real estate taxes, requires maintenance of the assets in good condition, requires maintenance of insurance on the assets, and includes conditions to obtain lender consent to enter into and terminate material leases. Some of the mortgage debt is also cross-collateralized by multiple assets and may require tenants or operators to maintain compliance with the applicable leases or operating agreements of such real estate assets.

**Debt Maturities.** The following table summarizes our stated debt maturities and scheduled principal repayments at December 31, 2014 (in thousands):

| Year           | Bank Line of Credit <sup>(1)(2)</sup> | Term Loan <sup>(3)</sup> | Senior Unsecured Notes | Mortgage         | Total <sup>(4)</sup> |
|----------------|---------------------------------------|--------------------------|------------------------|------------------|----------------------|
| 2015           | \$ —                                  | \$ —                     | \$ 400,000             | \$ 40,628        | \$ 440,628           |
| 2016           | —                                     | 213,610                  | 900,000                | 292,222          | 1,405,832            |
| 2017           | —                                     | —                        | 750,000                | 581,891          | 1,331,891            |
| 2018           | 838,516                               | —                        | 600,000                | 6,583            | 1,445,099            |
| 2019           | —                                     | —                        | 450,000                | 2,072            | 452,072              |
| Thereafter     | —                                     | —                        | 4,550,000              | 63,170           | 4,613,170            |
|                | 838,516                               | 213,610                  | 7,650,000              | 986,566          | 9,688,692            |
| Discounts, net | —                                     | —                        | (23,806)               | (2,135)          | (25,941)             |
|                | <u>\$838,516</u>                      | <u>\$213,610</u>         | <u>\$7,626,194</u>     | <u>\$984,431</u> | <u>\$9,662,751</u>   |

(1) Includes £355 million translated into U.S. dollars as of December 31, 2014.

(2) In January 2015, we repaid all but £135 million outstanding under the Facility primarily with proceeds from the January 2015 senior unsecured notes issuance and term loan.

(3) Represents £137 million translated into U.S. dollars.

(4) Excludes \$97 million of other debt that represents life care bonds and demand notes that have no scheduled maturities that are discussed in Note 11 to the Consolidated Financial Statements.

## Derivative Financial Instruments

We use derivative financial instruments to mitigate the effects of interest rate and foreign exchange fluctuations on specific forecasted transactions as well as recognized financial obligations or assets. We do not use derivative financial instruments for speculative or trading purposes.

The following table summarizes our outstanding interest-rate and foreign currency swap contracts as of December 31, 2014 (dollars and GBP in thousands):

| Date Entered             | Maturity Date | Hedge Designation | Fixed Rate/Buy Amount | Floating/Exchange Rate Index | Notional/Sell Amount | Fair Value |
|--------------------------|---------------|-------------------|-----------------------|------------------------------|----------------------|------------|
| July 2005 <sup>(1)</sup> | July 2020     | Cash Flow         | 3.82%                 | BMA Swap Index               | \$ 45,600            | \$(5,939)  |
| November 2008            | October 2016  | Cash Flow         | 5.95%                 | 1 Month LIBOR+1.50%          | \$ 26,000            | (1,724)    |
| July 2012                | June 2016     | Cash Flow         | 1.81%                 | 1 Month GBP LIBOR+1.20%      | £137,000             | 178        |
| July 2012                | June 2016     | Cash Flow         | \$34,100              | Buy USD/Sell GBP             | £ 21,700             | 276        |
| July 2014                | December 2015 | Cash Flow         | \$ 7,500              | Buy USD/Sell GBP             | £ 4,400              | 653        |

(1) Represents three interest-rate swap contracts, which hedge fluctuations in interest payments on variable-rate secured debt due to overall changes in hedged cash flows.

For a more detailed description of our derivative financial instruments, see Note 24 to the Consolidated Financial Statements and in Item 7A in this report.

## Equity

At December 31, 2014, we had 460 million shares of common stock outstanding. At December 31, 2014, equity totaled \$11 billion, and our equity securities had a market value of \$21 billion.

As of December 31, 2014, there were a total of 4 million DownREIT units outstanding in five limited liability companies in which we are the managing member. The DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our

option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications).

### **Shelf Registration**

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We have a prospectus that we filed with the SEC as part of a registration statement on Form S-3ASR, using a shelf registration process which expires in July 2015. Under the “shelf” process, we may sell any combination of the securities described in the prospectus in one or more offerings. The securities described in the prospectus include common stock, preferred stock, depositary shares, debt securities and warrants.

## Non-GAAP Financial Measures—FFO and FAD

### Funds From Operations

The following is a reconciliation from net income applicable to common shares, the most directly comparable financial measure calculated and presented in accordance with GAAP, to FFO and FFO as adjusted (in thousands, except per share data):

|   | Year Ended December 31, |                    |                    |                    |                  |
|---|-------------------------|--------------------|--------------------|--------------------|------------------|
|   | <b>2014</b>             | <b>2013</b>        | <b>2012</b>        | <b>2011</b>        | <b>2010</b>      |
| Net income applicable to common shares  | \$ 919,796              | \$ 969,103         | \$ 812,289         | \$ 515,302         | \$307,498        |
| Depreciation and amortization of real estate, in-place lease and other intangibles:               |                         |                    |                    |                    |                  |
| Continuing operations   | 459,995                 | 423,312            | 353,704            | 346,055            | 303,957          |
| Discontinued operations   | —                       | 5,862              | 12,808             | 11,340             | 9,490            |
| Other depreciation and amortization   | 18,864                  | 14,326             | 12,756             | 8,840              | —                |
| Gain on sales of real estate  | (31,298)                | (69,866)           | (31,454)           | (3,107)            | (19,925)         |
| Impairments of real estate  | —                       | 1,372              | —                  | —                  | —                |
| Gain upon consolidation of joint venture  | —                       | —                  | —                  | (7,769)            | —                |
| Impairments of interests in unconsolidated joint venture  | —                       | —                  | —                  | —                  | 71,693           |
| Equity income from unconsolidated joint ventures  | (49,570)                | (64,433)           | (54,455)           | (46,750)           | (4,770)          |
| FFO from unconsolidated joint ventures  | 70,873                  | 74,324             | 64,933             | 56,887             | 25,288           |
| Noncontrolling interests' and participating securities' share in earnings                         | 16,795                  | 15,903             | 17,547             | 18,062             | 15,767           |
| Noncontrolling interests' and participating securities' share in FFO                              | (23,821)                | (20,639)           | (21,620)           | (20,953)           | (18,361)         |
| FFO applicable to common shares   | <u>\$1,381,634</u>      | <u>\$1,349,264</u> | <u>\$1,166,508</u> | <u>\$ 877,907</u>  | <u>\$690,637</u> |
| Distributions on dilutive convertible units   | <u>13,799</u>           | <u>13,276</u>      | <u>13,028</u>      | <u>6,916</u>       | <u>11,847</u>    |
| Diluted FFO applicable to common shares   | <u>\$1,395,433</u>      | <u>\$1,362,540</u> | <u>\$1,179,536</u> | <u>\$ 884,823</u>  | <u>\$702,484</u> |
| Diluted FFO per common share  | <u>\$ 3.00</u>          | <u>\$ 2.95</u>     | <u>\$ 2.72</u>     | <u>\$ 2.19</u>     | <u>\$ 2.25</u>   |
| Weighted average shares used to calculate diluted FFO per common share                            | <u>464,845</u>          | <u>461,710</u>     | <u>434,328</u>     | <u>403,864</u>     | <u>312,797</u>   |
| Diluted earnings per common share   | <u>\$ 2.00</u>          | <u>\$ 2.13</u>     | <u>\$ 1.90</u>     | <u>\$ 1.29</u>     | <u>\$ 1.00</u>   |
| Depreciation and amortization of real estate, in-place lease and other intangibles                | 1.00                    | 0.93               | 0.85               | 0.89               | 1.02             |
| Impairments on real estate and DFL depreciation   | 0.04                    | 0.03               | 0.03               | 0.02               | 0.23             |
| Gain on sales of real estate and upon consolidation of joint venture                              | (0.07)                  | (0.15)             | (0.07)             | (0.03)             | (0.06)           |
| Joint venture and participating securities FFO adjustments  | 0.03                    | 0.01               | 0.01               | 0.02               | 0.06             |
| Diluted FFO per common share  | <u>\$ 3.00</u>          | <u>\$ 2.95</u>     | <u>\$ 2.72</u>     | <u>\$ 2.19</u>     | <u>\$ 2.25</u>   |
| Impact of adjustments to FFO:   |                         |                    |                    |                    |                  |
| Transaction-related items <sup>(1)</sup>  | \$ (18,856)             | \$ 6,191           | \$ 5,339           | \$ 29,558          | \$ 11,003        |
| Other impairments (recoveries) <sup>(2)</sup>   | 35,913                  | —                  | 7,878              | 15,400             | (11,900)         |
| Severance-related charges   | —                       | 27,244             | 5,642              | 4,827              | —                |
| Preferred stock redemption charge   | —                       | —                  | 10,432             | —                  | —                |
| Litigation settlement and provision charges   | —                       | —                  | —                  | 125,000            | —                |
|   | <u>\$ 17,057</u>        | <u>\$ 33,435</u>   | <u>\$ 29,291</u>   | <u>\$ 174,785</u>  | <u>\$ (897)</u>  |
| FFO as adjusted applicable to common shares   | <u>\$1,398,691</u>      | <u>\$1,382,699</u> | <u>\$1,195,799</u> | <u>\$1,052,692</u> | <u>\$689,740</u> |
| Distributions on dilutive convertible units and other   | <u>13,766</u>           | <u>13,220</u>      | <u>12,957</u>      | <u>11,646</u>      | <u>12,089</u>    |
| Diluted FFO as adjusted applicable to common shares   | <u>\$1,412,457</u>      | <u>\$1,395,919</u> | <u>\$1,208,756</u> | <u>\$1,064,338</u> | <u>\$701,829</u> |
| Diluted FFO as adjusted per common share  | <u>\$ 3.04</u>          | <u>\$ 3.02</u>     | <u>\$ 2.79</u>     | <u>\$ 2.71</u>     | <u>\$ 2.25</u>   |
| Weighted average shares used to calculate diluted FFO as adjusted per common share <sup>(3)</sup> | <u>464,845</u>          | <u>461,710</u>     | <u>433,607</u>     | <u>393,237</u>     | <u>311,285</u>   |

(1) For the year ended December 31, 2014, transaction-related items include a net benefit from the Brookdale Transaction, partially offset by acquisition and pursuit costs. For the years ended December 31, 2013 and 2012, transaction-related items are primarily attributable to acquisition and pursuit costs. For the years ended December 31, 2011 and 2010, transaction-related items are primarily attributable to our HCRMC acquisition.

(2) For the year ended December 31, 2014, other impairments (recoveries) relate to our equity ownership interest in HCRMC.

- (3) Our weighted average shares for the year ended December 31, 2012 used to calculate diluted FFO as adjusted eliminate the impact of 22 million shares from our common stock offering completed on October 19, 2012; proceeds from this offering were used to fund the Blackstone JV acquisition. Our weighted average shares used to calculate diluted FFO as adjusted eliminate the impact of 46 million shares of common stock from our December 2010 offering and 30 million shares from our March 2011 common stock offering (excludes 4.5 million shares sold to the underwriters upon exercise of their option to purchase additional shares), which issuances increased our weighted average shares by 12.9 million and 1.5 million for the years ended December 31, 2011 and 2010, respectively. Proceeds from these offerings were used to fund a portion of the cash consideration for the HCRMC acquisition.

### Funds Available for Distribution

The following is a reconciliation of FFO as adjusted to FAD (in thousands, except per share data):

|  | Year Ended December 31, |                    |                   |                   |                  |
|--|-------------------------|--------------------|-------------------|-------------------|------------------|
|  | 2014                    | 2013               | 2012              | 2011              | 2010             |
| FFO as adjusted applicable to common shares                            | \$1,398,691             | \$1,382,699        | \$1,195,799       | \$1,052,692       | \$689,740        |
| Amortization of market lease intangibles, net                          | (949)                   | (6,646)            | (2,232)           | (4,510)           | (6,378)          |
| Amortization of deferred compensation <sup>(1)</sup>                   | 21,885                  | 23,327             | 23,277            | 20,034            | 14,924           |
| Amortization of deferred financing costs, net <sup>(2)</sup>           | 19,260                  | 18,541             | 16,501            | 13,716            | 9,078            |
| Straight-line rents  | (41,032)                | (39,587)           | (47,311)          | (59,173)          | (47,243)         |
| DFL accretion <sup>(3)</sup>   | (77,568)                | (86,055)           | (94,240)          | (74,007)          | (10,641)         |
| Other depreciation and amortization                                    | (18,864)                | (14,326)           | (12,756)          | (8,840)           | —                |
| Deferred revenues—tenant improvement related                           | (2,306)                 | (2,906)            | (1,570)           | (2,371)           | (3,714)          |
| Deferred revenues—additional rents                                     | 422                     | 63                 | (85)              | 52                | (270)            |
| Leasing costs and tenant and capital improvements                      | (74,464)                | (64,557)           | (61,440)          | (52,903)          | (54,237)         |
| Lease restructure payments   | 9,425                   | —                  | —                 | —                 | —                |
| Joint venture adjustments—CCRC entrance fees                           | 11,443                  | —                  | —                 | —                 | —                |
| Joint venture and other FAD adjustments <sup>(3)</sup>                 | (67,121)                | (52,471)           | (61,298)          | (46,250)          | (6,143)          |
|  | <u>\$1,178,822</u>      | <u>\$1,158,082</u> | <u>\$ 954,645</u> | <u>\$ 838,440</u> | <u>\$585,116</u> |
| Distributions on dilutive convertible units                            | 13,799                  | 13,276             | 7,714             | 6,916             | 6,676            |
|  | <u>\$1,192,621</u>      | <u>\$1,171,358</u> | <u>\$ 962,359</u> | <u>\$ 845,356</u> | <u>\$591,792</u> |
| Diluted FAD applicable to common shares                                | \$ 2.57                 | \$ 2.54            | \$ 2.23           | \$ 2.16           | \$ 1.92          |
|  | <u>464,845</u>          | <u>461,710</u>     | <u>431,429</u>    | <u>390,944</u>    | <u>308,953</u>   |
| Weighted average shares used to calculate diluted FAD per common share |                         |                    |                   |                   |                  |

(1) Excludes \$16.7 million related to the acceleration of deferred compensation for restricted stock units and options that vested upon termination of the our former chief executive officer, which is included in severance-related charges for the year ended December 31, 2013.

(2) Excludes \$11.3 million related to the write-off of unamortized loan fees related to an expired bridge loan commitment and \$0.8 million related to the amortization of deferred issuance costs of the senior notes, which costs are included in transaction-related items for the year ended December 31, 2011.

- (3) Our ownership interest in HCRMC is accounted for using the equity method, which requires an ongoing elimination of DFL income that is proportional to our ownership in HCRMC. Further, our share of earnings from HCRMC (equity income) increases for the corresponding elimination of related lease expense recognized at the HCRMC entity level, which we present as a non-cash joint venture FAD adjustment.

## Off-Balance Sheet Arrangements

We own interests in certain unconsolidated joint ventures as described under Note 8 to the Consolidated Financial Statements. Except in limited circumstances, our risk of loss is limited to our investment in the joint venture and any outstanding loans receivable. In addition, we have certain properties which serve as collateral for debt that is owed by a previous owner of certain of our facilities, as described under Note 12 to the Consolidated Financial Statements. Our risk of loss for these certain properties is limited to the outstanding debt balance plus penalties, if any. We have no other material off-balance sheet arrangements that we expect would materially affect our liquidity and capital resources except those described below under *Contractual Obligations*.

## Contractual Obligations

The following table summarizes our material contractual payment obligations and commitments at December 31, 2014 (in thousands):

|  | Total <sup>(1)</sup> | Less than One Year | 2016-2017          | 2018-2019          | More than Five Years |
|--|----------------------|--------------------|--------------------|--------------------|----------------------|
| Bank line of credit <sup>(2)(3)</sup>        | \$ 838,516           | \$ —               | \$ —               | \$ 838,516         | \$ —                 |
| Term loan <sup>(4)</sup>                     | 213,610              | —                  | 213,610            | —                  | —                    |
| Senior unsecured notes                       | 7,650,000            | 400,000            | 1,650,000          | 1,050,000          | 4,550,000            |
| Mortgage debt                                | 986,566              | 40,628             | 874,113            | 8,655              | 63,170               |
| U.K. loan facility commitment <sup>(5)</sup> | 49,894               | 24,947             | 24,947             | —                  | —                    |
| Construction loan commitments <sup>(6)</sup> | 10,535               | 10,535             | —                  | —                  | —                    |
| Development commitments <sup>(7)</sup>       | 66,840               | 66,840             | —                  | —                  | —                    |
| Ground and other operating leases            | 245,490              | 6,756              | 11,208             | 10,264             | 217,262              |
| Interest <sup>(8)</sup>                      | 2,552,894            | 428,741            | 716,362            | 445,797            | 961,994              |
| <b>Total</b>                                 | <b>\$12,614,345</b>  | <b>\$978,447</b>   | <b>\$3,490,240</b> | <b>\$2,353,232</b> | <b>\$5,792,426</b>   |

(1) Excludes \$97 million of other debt that represents life care bonds and demand notes that have no scheduled maturities.

(2) Includes £355 million translated into U.S. dollars as of December 31, 2014.

(3) In January 2015, we repaid all but £135 million outstanding under the Facility primarily with proceeds from the January 2015 senior unsecured notes issuance and term loan.

(4) Represents £137 million translated into U.S. dollars as of December 31, 2014.

(5) Represents £32 million translated into U.S. dollars as of December 31, 2014 for commitments to fund our U.K. loan facility.

(6) Represents commitments to finance development projects and related working capital financings.

(7) Represents construction and other commitments for developments in progress.

(8) Interest on variable-rate debt is calculated using rates in effect at December 31, 2014.

## Inflation

Our leases often provide for either fixed increases in base rents or indexed escalators, based on the Consumer Price Index or other measures, and/or additional rent based on increases in the tenants' operating revenues. Most of our MOB leases require the tenant to pay a share of property operating costs such as real estate taxes, insurance and utilities. Substantially all of our senior housing, life science, post-acute/skilled nursing and hospital leases require the tenant or operator to pay all of the property operating costs or reimburse us for all such costs. We believe that inflationary increases in expenses will be offset, in part, by the tenant or operator expense reimbursements and contractual rent increases described above.

## Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires our management to use judgment in the application of accounting policies, including making estimates and assumptions. We base estimates on the best information available to us at the time, our experience and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting would have been applied, resulting in a different presentation of our consolidated financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. For a more detailed discussion of our significant accounting policies, see Note 2 to the Consolidated Financial Statements. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

### **Principles of Consolidation**

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The consolidated financial statements include the accounts of HCP, Inc., our wholly owned subsidiaries and joint ventures that we control, through voting rights or other means. We consolidate investments in variable interest entities (“VIEs”) when we are the primary beneficiary of the VIE. A variable interest holder is considered to be the primary beneficiary of a VIE if it has the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE.

We make judgments about which entities are VIEs based on an assessment of whether (i) the equity investors as a group, if any, do not have a controlling financial interest, or (ii) the equity investment at risk is insufficient to finance that entity’s activities without additional subordinated financial support. We make judgments with respect to our level of influence or control of an entity and whether we are (or are not) the primary beneficiary of a VIE. Consideration of various factors includes, but is not limited to, our ability to direct the activities that most significantly impact the entity’s economic performance, our form of ownership interest, our representation on the entity’s governing body, the size and seniority of our investment, our ability and the rights of other investors to participate in policy making decisions, replace the manager and/or liquidate the entity, if applicable. Our ability to correctly assess our influence or control over an entity when determining the primary beneficiary of a VIE affects the presentation of these entities in our consolidated financial statements. When we perform a re-analysis of the primary beneficiary at a date other than at inception of the variable interest entity, our assumptions may be different and may result in the identification of a different primary beneficiary.

If we determine that we are the primary beneficiary of a VIE, our consolidated financial statements would include the operating results of the VIE (either tenant or borrower) rather than the results of the variable interest in the VIE. We would require the VIE to provide us timely financial information and would review the internal control of the VIE to determine if we could rely on the financial information they provide. If the VIE has deficiencies in its internal controls over financial reporting, or does not provide us with timely financial information, this may adversely impact the quality and/or timing of our financial reporting and our internal control over financial reporting.

## **Revenue Recognition**

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At the inception of a new lease arrangement, including new leases that arise from amendments, we assess the terms and conditions to determine the proper lease classification. A lease arrangement is classified as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee, (ii) lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is equal to 75% or more of the underlying property's economic life, or (iv) the present value of future minimum lease payments (excluding executory costs) are equal to 90% or more of the excess estimated fair value (over retained tax credits) of the leased building. If one of the four criteria is met and the minimum lease payments are determined to be reasonably predictable and collectible, the lease arrangement is generally accounted for as a direct financing lease. If the assumptions utilized in the above classification assessments were different, our lease classification for accounting purposes may have been different; thus the timing and amount of our revenue recognized would have been impacted, which may be material to our consolidated financial statements.

We recognize rental revenue for operating leases on a straight-line basis over the lease term when collectibility of all minimum lease payments is reasonably assured and the tenant has taken possession or controls the physical use of a leased asset. If the lease provides for tenant improvements, we determine whether the tenant improvements are owned by the tenant or us. When we are the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. The determination of ownership of the tenant improvements is subject to significant judgment. If our assessment of the owner of the tenant improvements was different, the timing and amount of our revenue recognized would be impacted.

Certain leases provide for additional rents that are contingent upon a percentage of the facility's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds. The recognition of additional rents requires us to make estimates of amounts owed and to a certain extent are dependent on the accuracy of the facility results reported to us. Our estimates may differ from actual results, which could be material to our consolidated financial statements.

We maintain an allowance for doubtful accounts, including an allowance for operating lease straight-line rent receivables, for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. We monitor the liquidity and creditworthiness of our tenants and operators on a continuous basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For straight-line rent amounts, our assessment is based on income recoverable over the term of the lease. We exercise judgment in establishing allowances and consider payment history and current credit status in developing these estimates. These estimates may differ from actual results, which could be material to our consolidated financial statements.

We use the direct finance method of accounting to record income from DFLs. For leases accounted for as DFLs, future minimum lease payments are recorded as a receivable. For leases accounted for as DFLs, the net investment in the DFL represents receivables for the sum of minimum lease payments receivable and the estimated residual values of the leased properties, less the unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectibility of the lease payments is reasonably assured. Investments in DFLs are presented net of unamortized unearned income. The determination of estimated useful lives and residual values are subject to significant judgment. If these assessments were to change, the timing and amount of our revenue recognized would be impacted.

Loans receivable are classified as held-for-investment based on management's intent and ability to hold the loans for the foreseeable future or to maturity. We recognize interest income on loans, including the

amortization of discounts and premiums, using the interest method applied on a loan-by-loan basis when collectibility of the future payments is reasonably assured. Premiums, discounts and related costs are recognized as yield adjustments over the term of the related loans. If management determined that certain loans should no longer be classified as held for maturity, the timing and amount of our interest income recognized would be impacted.

Loans and DFLs are placed on non-accrual status at such time as management determines that collectibility of contractual amounts is not reasonably assured. While on non-accrual status, loans and DFLs are either accounted for on a cash basis, in which income is recognized only upon receipt of cash, or on a cost-recovery basis, where cash receipts reduce the carrying value of the loan or DFL, based on management's judgment of collectibility.

Allowances are established for loans and DFLs based upon an estimate of probable losses on an individual basis if they are determined to be impaired. Loans and DFLs are impaired when it is deemed probable that we will be unable to collect all amounts due on a timely basis in accordance with the contractual terms of the loan or lease. Determining the adequacy of the allowance is complex and requires significant judgment by us about the effect of matters that are inherently uncertain. The allowance is based upon our assessment of the borrower's or lessee's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the net realizable value of any collateral. These estimates consider all available evidence including, as appropriate, the performance of our tenants, operators or borrowers, the present value of the expected future cash flows discounted at the loan's or DFL's effective interest rate, the fair value of collateral, general economic conditions and trends, historical and industry loss experience, and other relevant factors. While our assumptions are based in part upon historical data, our estimates may differ from actual results, which could be material to our consolidated financial statements.

## **Real Estate**

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We make estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the relative fair value of each component. The most significant components of our allocations are typically the allocation of fair value to the buildings as-if-vacant, land and in-place leases. In the case of the fair value of buildings and the allocation of value to land and other intangibles, our estimates of the values of these components will affect the amount of depreciation and amortization we record over the estimated useful life of the property acquired or the remaining lease term. In the case of the value of in-place leases, we make our best estimates based on our evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. Our assumptions affect the amount of future revenue that we will recognize over the remaining lease term for the acquired in-place leases.

A variety of costs are incurred in the development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes and other costs incurred during the period of development. We consider a construction project as substantially completed and available for occupancy and cease capitalization of costs upon the completion of the related tenant improvements.

## **Impairment of Long-Lived Assets and Goodwill**

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We assess the carrying value of our real estate assets and related intangibles ("real estate assets") when events or changes in circumstances indicate that the carrying amount of the real estate assets may not be

recoverable. Recoverability of real estate assets is measured by comparing the carrying amount of the real estate assets to the respective estimated future undiscounted cash flows. The estimated future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. In order to review our real estate assets for recoverability, we consider market conditions, as well as our intent with respect to holding or disposing of the asset. If our analysis indicates that the carrying value of the real estate assets is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the fair value of the real estate asset.

Goodwill is tested for impairment at least annually based on certain qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Potential impairment indicators and qualitative factors include a significant decline in real estate valuations, restructuring plans, current macroeconomic conditions, state of the equity and capital markets or a significant decline in the value of our market capitalization. If we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we apply the required two-step quantitative approach. The quantitative procedures of the two-step approach (i) compare the fair value of a reporting unit with its carrying amount, including goodwill and, if necessary, (ii) compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill as if it had been acquired in a business combination at the date of the impairment test. The excess fair value of the reporting unit over the fair value of assets and liabilities is the implied value of goodwill and is used to determine the amount of impairment, if any. We estimate the fair value of the assets and liabilities in the reporting unit through various valuation techniques, including applying capitalization rates to segment net operating income, quoted market values and third-party appraisals, as necessary. The fair value of the reporting unit may also include an allocation of an enterprise value premium that we estimate a third party would be willing to pay for the company.

The determination of the fair value of real estate assets and goodwill involves significant judgment. This judgment is based on our analysis and estimates of fair value of real estate assets and reporting units, future operating results and resulting cash flows of each real estate asset whose carrying amount may not be recoverable. Our ability to accurately predict future operating results, resulting cash flows and estimate and allocate fair values impacts the timing and recognition of impairments. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

#### **Investments in Unconsolidated Joint Ventures**

The initial carrying value of investments in unconsolidated joint ventures is based on the amount paid to purchase the joint venture interest or the carrying value of the assets prior to the sale or contribution of the interests to the joint venture. We evaluate our equity method investments for impairment indicators based upon a comparison of the fair value of the equity method investment to our carrying value. If we determine there is a decline in the fair value of our investment in an unconsolidated joint venture below its carrying value and it is other-than-temporary, an impairment is recorded. The determination of the fair value and as to whether a deficiency in fair value is “other-than-temporary” of investments in unconsolidated joint ventures involves significant judgment. Our estimates consider all available evidence including, as appropriate, the present value of the expected future cash flows discounted at market rates, general economic conditions and trends, severity and duration of the fair value deficiency, and other relevant factors. Capitalization rates, discount rates and credit spreads utilized in our valuation models are based upon rates that we believe to be within a reasonable range of current market rates for the respective investments. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

## **Income Taxes**

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As part of the process of preparing our consolidated financial statements, significant management judgment is required to evaluate our compliance with REIT requirements. Our determinations are based on interpretation of tax laws, and our conclusions may have an impact on the income tax expense recognized. Adjustments to income tax expense may be required as a result of: (i) audits conducted by federal, state and local tax authorities, (ii) our ability to qualify as a REIT, (iii) the potential for built-in gain recognition, and (iv) changes in tax laws. Adjustments required in any given period are included within the income tax provision.

## **Recent Accounting Pronouncements**

See Note 2 to the Consolidated Financial Statements for the impact of new accounting standards. There were no accounting pronouncements that were issued, but not yet adopted by us, that we believe will materially impact our consolidated financial statements.

## **ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk**

We use derivative financial instruments in the normal course of business to mitigate interest rate and foreign currency risk. We do not use derivative financial instruments for speculative or trading purposes. Derivatives are recorded on the consolidated balance sheets at their fair value (see Note 24 to the Consolidated Financial Statements).

To illustrate the effect of movements in the interest rate and foreign currency markets, we performed a market sensitivity analysis on our hedging instruments. We applied various basis point spreads to the underlying interest rate curves and foreign currency exchange rates of the derivative portfolio in order to determine the instruments' change in fair value. Assuming a one percentage point change in the underlying interest rate curve and foreign currency exchange rates, the estimated change in fair value of each of the underlying derivative instruments would not exceed \$4 million. See Note 24 to the Consolidated Financial Statements for additional analysis details.

### **Interest Rate Risk**

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At December 31, 2014, we are exposed to market risks related to fluctuations in interest rates primarily on variable rate investments, which have been predominately hedged through interest rate swap contracts.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt and assets unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a one percentage point increase in the interest rate related to the variable-rate investments and variable-rate debt, and assuming no other changes in the outstanding balance as of December 31, 2014, our annual interest expense would increase by approximately \$9 million, or \$0.02 per common share on a diluted basis.

### **Foreign Currency Exchange Rate Risk**

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At December 31, 2014, our exposure to foreign currencies primarily relates to U.K. investments in leased real estate, loan investments, senior unsecured notes and the related GBP denominated cash flows from such investments. Our foreign currency exposure is partially mitigated through the use of GBP denominated borrowings and foreign currency swap contracts.

## Market Risk

We have investments in marketable debt securities classified as held-to-maturity because we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded at amortized cost and adjusted for the amortization of premiums and discounts through maturity. We consider a variety of factors in evaluating an other-than-temporary decline in value, such as: the length of time and the extent to which the market value has been less than our current adjusted carrying value; the issuer's financial condition, capital strength and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the market value, if any. At December 31, 2014, the fair value and carrying value of marketable debt securities were \$252 million and \$231 million, respectively.

The principal amount and the average interest rates for our loans receivable and debt categorized by maturity dates is presented in the table below. The fair value for our senior unsecured notes payable is based on prevailing market prices. The fair value estimates for loans receivable and mortgage debt payable are based on discounting future cash flows utilizing current rates for loans and debt of the same type and remaining maturity.

The table below summarizes the carrying amounts and fair values of our financial instruments exposed to interest rate risk (dollars in thousands):

|  | Maturity                 |            |            |            |            |              |              |              |
|--|--------------------------|------------|------------|------------|------------|--------------|--------------|--------------|
|  | 2015                     | 2016       | 2017       | 2018       | 2019       | Thereafter   | Total        | Fair Value   |
| <b>Assets:</b>   |                          |            |            |            |            |              |              |              |
| Loans receivable (USD)                                 | \$ 17,470 <sup>(1)</sup> | \$ 79,251  | \$ 237,796 | \$ 18,715  | \$ 553,729 | \$ —         | \$ 906,961   | \$ 898,522   |
| Weighted average interest rate                         | 14.00%                   | 8.50%      | 12.29%     | 8.00%      | 7.50%      | —%           | 8.98%        |              |
| Debt securities held to maturity (USD)                 | \$ —                     | \$ —       | \$ —       | \$ —       | \$ —       | \$ 17,370    | \$ 17,370    | \$ 17,370    |
| Weighted average interest rate                         | —%                       | —%         | —%         | —%         | —%         | —%           | 4.43%        | 4.43%        |
| Debt securities held to maturity (GBP) <sup>(3)</sup>  | \$ —                     | \$ —       | \$ —       | \$ —       | \$ —       | \$ 214,072   | \$ 214,072   | \$ 234,755   |
| Weighted average interest rate                         | —%                       | —%         | —%         | —%         | —%         | —%           | 12.25%       | 12.25%       |
| <b>Liabilities<sup>(2)</sup>:</b>                      |                          |            |            |            |            |              |              |              |
| Variable rate debt:                                    |                          |            |            |            |            |              |              |              |
| Line of credit (USD) <sup>(4)</sup>                    | \$ —                     | \$ —       | \$ —       | \$ 285,000 | \$ —       | \$ —         | \$ 285,000   | \$ 285,000   |
| Weighted average interest rate                         | —%                       | —%         | —%         | 1.37%      | —%         | —%           | 1.37%        |              |
| Line of credit (GBP) <sup>(5)</sup>                    | \$ —                     | \$ —       | \$ —       | \$ 553,516 | \$ —       | \$ —         | \$ 553,516   | \$ 553,516   |
| Weighted average interest rate                         | —%                       | —%         | —%         | 1.71%      | —%         | —%           | 1.71%        |              |
| Term loan (GBP) <sup>(3)</sup>                         | \$ —                     | \$ 213,610 | \$ —       | \$ —       | \$ —       | \$ —         | \$ 213,610   | \$ 213,610   |
| Weighted average interest rate                         | —%                       | 1.70%      | —%         | —%         | —%         | —%           | —%           | 1.70%        |
| Mortgage debt payable (USD)                            | \$ 8,500                 | \$ 25,789  | \$ —       | \$ —       | \$ —       | \$ 45,610    | \$ 79,899    | \$ 72,210    |
| Weighted average interest rate                         | 0.38%                    | 1.67%      | —%         | —%         | —%         | —%           | 0.06%        | 0.61%        |
| Fixed rate debt:                                       |                          |            |            |            |            |              |              |              |
| Senior unsecured notes payable (USD)                   | \$ 400,000               | \$ 900,000 | \$ 750,000 | \$ 600,000 | \$ 450,000 | \$ 4,550,000 | \$ 7,650,000 | \$ 8,187,458 |
| Weighted average interest rate                         | 6.57%                    | 5.10%      | 6.02%      | 6.82%      | 3.96%      | 4.45%        | 4.95%        |              |
| Mortgage debt payable (USD)                            | \$ 12,489                | \$ 256,102 | \$ 606,492 | \$ 4,971   | \$ —       | \$ 26,613    | \$ 906,667   | \$ 935,594   |
| Weighted average interest rate                         | 5.79%                    | 6.54%      | 5.69%      | 5.90%      | —%         | 5.87%        | 5.94%        |              |
| <b>Interest rate derivatives assets (liabilities):</b> |                          |            |            |            |            |              |              |              |
| Variable rate mortgage debt:                           |                          |            |            |            |            |              |              |              |
| Variable to fixed (USD)                                | \$ —                     | \$ (1,724) | \$ —       | \$ —       | \$ —       | \$ (5,939)   | \$ (7,663)   | \$ (7,663)   |
| Weighted average pay rate                              | —%                       | 5.95%      | —%         | —%         | —%         | 3.82%        | 4.30%        |              |
| Weighted average receive rate                          | —%                       | 2.49%      | —%         | —%         | —%         | 1.86%        | 2.00%        |              |
| Variable rate 2012 Term Loan:                          |                          |            |            |            |            |              |              |              |
| Variable to fixed (GBP)                                | \$ —                     | \$ 178     | \$ —       | \$ —       | \$ —       | \$ —         | \$ 178       | \$ 178       |
| Weighted average pay rate                              | —%                       | 1.81%      | —%         | —%         | —%         | —%           | 1.81%        |              |
| Weighted average receive rate                          | —%                       | 1.89%      | —%         | —%         | —%         | —%           | 1.89%        |              |

- (1) Effective January 1, 2011, a senior secured loan to Delphis was placed on non-accrual status. For additional information regarding the senior secured loan to Delphis, see Note 7 to the Consolidated Financial Statements.
- (2) Excludes \$97 million of other debt that represents life care bonds and demand notes that have no scheduled maturities.
- (3) Represents approximately £137 million translated into U.S. dollars.
- (4) In January 2015, we repaid the outstanding amount under the line of credit (USD) in full with cash on hand and a portion of the proceeds from the 2015 senior unsecured notes issuance.
- (5) Represents approximately £355 million translated into U.S. dollars. In January 2015, we repaid all but £135 million outstanding under the line of credit (GBP) with proceeds from the 2015 Term Loan.

**ITEM 8. Financial Statements and Supplementary Data**  
**HCP, Inc.**

**Index to Consolidated Financial Statements**

|   |    |
|---|----|
| Report of Independent Registered Public Accounting Firm   | 73 |
| Financial Statements:   |    |
| Consolidated Balance Sheets—December 31, 2014 and 2013  | 74 |
| Consolidated Statements of Income—for the years ended December 31, 2014, 2013 and 2012                  | 75 |
| Consolidated Statements of Comprehensive Income—for the years ended December 31, 2014,<br>2013 and 2012 | 76 |
| Consolidated Statements of Equity—for the years ended December 31, 2014, 2013 and 2012                  | 77 |
| Consolidated Statements of Cash Flows—for the years ended December 31, 2014, 2013 and<br>2012           | 78 |
| Notes to Consolidated Financial Statements  | 79 |

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of HCP, Inc.  
Irvine, California

We have audited the accompanying consolidated balance sheets of HCP, Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, 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 Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement 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, such consolidated financial statements present fairly, in all material respects, the financial position of HCP, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also 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 the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

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/s/ Deloitte & Touche LLP

Los Angeles, California  
February 10, 2015

# HCP, Inc.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

|  | December 31,        |                     |
|--|---------------------|---------------------|
|  | 2014                | 2013                |
| <b>ASSETS</b>  |                     |                     |
| Real estate:   |                     |                     |
| Buildings and improvements   | \$10,972,973        | \$10,544,110        |
| Development costs and construction in progress   | 275,233             | 225,869             |
| Land   | 1,889,438           | 1,822,862           |
| Accumulated depreciation and amortization  | (2,250,757)         | (1,965,592)         |
| Net real estate  | <u>10,886,887</u>   | <u>10,627,249</u>   |
| Net investment in direct financing leases  | 7,280,334           | 7,153,399           |
| Loans receivable, net  | 906,961             | 366,001             |
| Investments in and advances to unconsolidated joint ventures   | 605,448             | 196,576             |
| Accounts receivable, net of allowance of \$3,785 and \$1,529, respectively   | 36,339              | 27,494              |
| Cash and cash equivalents  | 183,810             | 300,556             |
| Restricted cash  | 48,976              | 37,229              |
| Intangible assets, net   | 481,013             | 489,842             |
| Real estate assets held for sale, net  | —                   | 9,819               |
| Other assets, net  | 940,172             | 867,705             |
| Total assets <sup>(1)</sup>  | <u>\$21,369,940</u> | <u>\$20,075,870</u> |
| <b>LIABILITIES AND EQUITY</b>  |                     |                     |
| Bank line of credit  | \$ 838,516          | \$ —                |
| Term loan  | 213,610             | 226,858             |
| Senior unsecured notes   | 7,626,194           | 6,963,375           |
| Mortgage debt  | 984,431             | 1,396,485           |
| Other debt   | 97,022              | 74,909              |
| Intangible liabilities, net  | 84,723              | 98,810              |
| Accounts payable and accrued liabilities   | 432,934             | 318,427             |
| Deferred revenue   | 95,411              | 65,872              |
| Total liabilities <sup>(2)</sup>   | <u>10,372,841</u>   | <u>9,144,736</u>    |
| Commitments and contingencies  |                     |                     |
| Common stock, \$1.00 par value: 750,000,000 shares authorized; 459,746,267 and 456,960,648 shares issued and outstanding, respectively | 459,746             | 456,961             |
| Additional paid-in capital   | 11,431,987          | 11,334,041          |
| Cumulative dividends in excess of earnings   | (1,132,541)         | (1,053,215)         |
| Accumulated other comprehensive loss   | (23,895)            | (14,487)            |
| Total stockholders' equity   | 10,735,297          | 10,723,300          |
| Joint venture partners   | 73,214              | 23,729              |
| Non-managing member unitholders  | 188,588             | 184,105             |
| Total noncontrolling interests   | <u>261,802</u>      | <u>207,834</u>      |
| Total equity   | <u>10,997,099</u>   | <u>10,931,134</u>   |
| Total liabilities and equity   | <u>\$21,369,940</u> | <u>\$20,075,870</u> |

(1) The Company's consolidated total assets at December 31, 2014 and 2013 include assets of certain variable interest entities ("VIEs") that can only be used to settle the liabilities of those VIEs. Total assets at December 31, 2014 include VIE assets as follows: buildings and improvements \$677 million; land \$113 million; accumulated depreciation and amortization \$111 million; accounts receivable \$5 million; cash \$42 million; and other assets \$23 million. Total assets at December 31, 2013 include other assets of \$1 million from VIEs. See Note 21 to the Consolidated Financial Statements for additional details.

(2) The Company's consolidated total liabilities at December 31, 2014 and 2013 include liabilities of certain VIEs for which the VIE creditors do not have recourse to HCP, Inc. Total liabilities at December 31, 2014, include accounts payable and accrued liabilities of \$34 million and deferred revenue of \$12 million from VIEs. Total liabilities at December 31, 2013 include accounts payable and accrued liabilities of \$9 million from VIEs. See Note 21 to the Consolidated Financial Statements for additional details.

See accompanying Notes to Consolidated Financial Statements.

**HCP, Inc.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands, except per share data)

|  | <b>Year Ended December 31,</b> |                   |                   |
|--|--------------------------------|-------------------|-------------------|
|  | <b>2014</b>                    | <b>2013</b>       | <b>2012</b>       |
| <b>Revenues:</b>   |                                |                   |                   |
| Rental and related revenues  | \$1,174,256                    | \$1,128,054       | \$ 997,767        |
| Tenant recoveries  | 110,688                        | 100,649           | 94,626            |
| Resident fees and services   | 241,965                        | 146,288           | 139,073           |
| Income from direct financing leases  | 663,070                        | 636,881           | 622,073           |
| Interest income  | 74,491                         | 86,159            | 24,536            |
| Investment management fee income   | 1,809                          | 1,847             | 1,895             |
| Total revenues   | <u>2,266,279</u>               | <u>2,099,878</u>  | <u>1,879,970</u>  |
| <b>Costs and expenses:</b>   |                                |                   |                   |
| Interest expense   | 439,742                        | 435,252           | 416,172           |
| Depreciation and amortization  | 459,995                        | 423,312           | 353,704           |
| Operating  | 384,603                        | 298,282           | 280,716           |
| General and administrative   | 82,175                         | 103,042           | 68,414            |
| Acquisition and pursuit costs  | 17,142                         | 6,191             | 10,981            |
| Impairments  | —                              | —                 | 7,878             |
| Total costs and expenses   | <u>1,383,657</u>               | <u>1,266,079</u>  | <u>1,137,865</u>  |
| Gain on sales of real estate, net of income taxes  | 3,288                          | —                 | —                 |
| Other income, net  | <u>7,528</u>                   | <u>18,216</u>     | <u>2,976</u>      |
| Total other income, net  | <u>10,816</u>                  | <u>18,216</u>     | <u>2,976</u>      |
| <b>Income before income taxes and equity income from and impairment of unconsolidated joint ventures</b> |                                |                   |                   |
| Income taxes   | (250)                          | (5,815)           | 1,654             |
| Equity income from unconsolidated joint ventures   | 49,570                         | 64,433            | 54,455            |
| Impairment of investments in unconsolidated joint ventures   | (35,913)                       | —                 | —                 |
| <b>Income from continuing operations</b>   | <u>893,438</u>                 | <u>852,015</u>    | <u>745,081</u>    |
| Income before impairment losses and gain on sales of real estate, net of income taxes                    | —                              | —                 | —                 |
| Impairment losses on real estate   | —                              | —                 | —                 |
| Gain on sales of real estate, net of income taxes  | 28,010                         | 69,866            | 31,454            |
| Total discontinued operations  | <u>29,746</u>                  | <u>74,373</u>     | <u>45,652</u>     |
| <b>Net income</b>  | <u>906,845</u>                 | <u>910,633</u>    | <u>801,190</u>    |
| Noncontrolling interests' share in earnings  | —                              | —                 | —                 |
| <b>Net income attributable to HCP, Inc.</b>  | <u>936,591</u>                 | <u>985,006</u>    | <u>846,842</u>    |
| Preferred stock dividends  | (14,358)                       | (14,169)          | (14,302)          |
| Participating securities' share in earnings  | —                              | —                 | (17,006)          |
| <b>Net income applicable to common shares</b>  | <u>922,233</u>                 | <u>970,837</u>    | <u>832,540</u>    |
| Continuing operations  | (2,437)                        | (1,734)           | (3,245)           |
| Discontinued operations  | —                              | —                 | —                 |
| Net income applicable to common shares   | <u>\$ 919,796</u>              | <u>\$ 969,103</u> | <u>\$ 812,289</u> |
| <b>Basic earnings per common share:</b>  |                                |                   |                   |
| Continuing operations  | \$ 1.94                        | \$ 1.97           | \$ 1.80           |
| Discontinued operations  | 0.07                           | 0.16              | 0.10              |
| Net income applicable to common shares   | <u>\$ 2.01</u>                 | <u>\$ 2.13</u>    | <u>\$ 1.90</u>    |
| <b>Diluted earnings per common share:</b>  |                                |                   |                   |
| Continuing operations  | \$ 1.94                        | \$ 1.97           | \$ 1.80           |
| Discontinued operations  | 0.06                           | 0.16              | 0.10              |
| Net income applicable to common shares   | <u>\$ 2.00</u>                 | <u>\$ 2.13</u>    | <u>\$ 1.90</u>    |
| <b>Weighted average shares used to calculate earnings per common share:</b>                              |                                |                   |                   |
| Basic  | <u>458,425</u>                 | <u>455,002</u>    | <u>427,047</u>    |
| Diluted  | <u>458,796</u>                 | <u>455,702</u>    | <u>428,316</u>    |

See accompanying Notes to Consolidated Financial Statements.

**HCP, Inc.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In thousands)

|   | <b>Year Ended December 31,</b> |                  |                  |
|---|--------------------------------|------------------|------------------|
|   | <b>2014</b>                    | <b>2013</b>      | <b>2012</b>      |
| Net income  | \$936,591                      | \$985,006        | \$846,842        |
| Other comprehensive income (loss):                                  |                                |                  |                  |
| Change in net unrealized gains on securities:                       |                                |                  |                  |
| Unrealized gains  | 13                             | 1,355            | 7,776            |
| Reclassification adjustment realized in net income                  | —                              | (9,131)          | —                |
| Change in net unrealized gains (losses) on cash flow hedges:        |                                |                  |                  |
| Unrealized gains (losses)   | 2,258                          | 6,435            | (3,127)          |
| Reclassification adjustment realized in net income                  | (1,085)                        | 1,220            | 387              |
| Change in Supplemental Executive Retirement Plan obligation         | (627)                          | 240              | (356)            |
| Foreign currency translation adjustment                             | <u>(9,967)</u>                 | <u>47</u>        | <u>249</u>       |
| Total other comprehensive income (loss)                             | <u>(9,408)</u>                 | <u>166</u>       | <u>4,929</u>     |
| Total comprehensive income  | 927,183                        | 985,172          | 851,771          |
| Total comprehensive income attributable to noncontrolling interests | <u>(14,358)</u>                | <u>(14,169)</u>  | <u>(14,302)</u>  |
| Total comprehensive income attributable to HCP, Inc.                | <u>\$912,825</u>               | <u>\$971,003</u> | <u>\$837,469</u> |

See accompanying Notes to Consolidated Financial Statements.

## HCP, Inc.

### CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share data)

|   | <b>Preferred Stock</b> | <b>Common Stock</b> |               | <b>Cumulative Dividends In Excess Of Earnings</b> | <b>Additional Paid-In Capital</b> | <b>Accumulated Other Comprehensive Income (Loss)</b> | <b>Total Stockholders' Equity</b> | <b>Total Noncontrolling Interests</b> | <b>Total Equity</b> |
|---|------------------------|---------------------|---------------|---|-----------------------------------|--|-----------------------------------|---------------------------------------|---------------------|
|   | <b>Shares</b>          | <b>Amount</b>       | <b>Shares</b> | <b>Amount</b>                                     | <b>\$</b>                         | <b>\$</b>  | <b>\$</b>                         | <b>\$</b>                             | <b>\$</b>           |
| <b>January 1, 2012</b>                    |                        |                     |               |   |                                   |  |                                   |                                       |                     |
| Net income                                | 11,820                 | \$ 285,173          | 408,629       | \$ 408,629  |                                   | \$ 9,383,536   | \$ (1,024,274)                    | \$ 187,140                            | \$ 9,220,622        |
| Other comprehensive income                | —                      | —                   | —             | —   |                                   | 832,540  | 832,540                           | —                                     | 846,842             |
| Preferred stock redemption                | (11,820)               | (285,173)           | —             | —   |                                   | (10,327)   | 4,929                             | (25,029)                              | 4,929               |
| Issuance of common stock, net             | —                      | —                   | 42,468        | 42,468  |                                   | 1,739,357  | —                                 | 1,781,825                             | (295,500)           |
| Repurchase of common stock                | —                      | (361)               | (361)         | (15,271)  |                                   | (49,167)   | —                                 | (15,632)                              | 1,756,796           |
| Exercise of stock options                 | —                      | 2,455               | 2,455         | 23,277  |                                   | —  | —                                 | 51,622                                | (15,632)            |
| Amortization of deferred compensation     | —                      | —                   | —             | —   |                                   | (6,679)  | —                                 | 23,277                                | 51,622              |
| Preferred dividends                       | —                      | —                   | —             | —   |                                   | (858,627)  | —                                 | (6,679)                               | (6,679)             |
| Common dividends (\$2.00 per share)       | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | (858,627)           |
| Distributions to noncontrolling interests | —                      | —                   | —             | —   |                                   | —  | —                                 | (15,631)                              | (15,631)            |
| Noncontrolling interests in acquisitions  | —                      | —                   | —             | —   |                                   | —  | —                                 | 42,734                                | 42,734              |
| Issuance of noncontrolling interests      | —                      | —                   | —             | —   |                                   | —  | —                                 | 1,584                                 | 1,584               |
| Purchase of noncontrolling interests      | —                      | —                   | —             | —   |                                   | —  | —                                 | (2,560)                               | (2,560)             |
| <b>December 31, 2012</b>                  |                        |                     |               |   |                                   |  |                                   |                                       |                     |
| Net income                                | —                      | —                   | 453,191       | 453,191   |                                   | 11,180,066   | (1,067,367)                       | (14,653)                              | 10,551,237          |
| Other comprehensive income                | —                      | —                   | —             | —   |                                   | —  | 970,837                           | —                                     | 970,837             |
| Issuance of common stock, net             | 3,136                  | 3,136               | —             | —   |                                   | 107,565  | —                                 | 166                                   | 166                 |
| Repurchase of common stock                | (242)                  | (242)               | (10,196)      | (10,196)  |                                   | (16,626)   | —                                 | —                                     | (10,438)            |
| Exercise of stock options                 | 876                    | 876                 | —             | —   |                                   | 39,980   | —                                 | —                                     | —                   |
| Amortization of deferred compensation     | —                      | —                   | —             | —   |                                   | (956,685)  | —                                 | 39,980                                | 17,502              |
| Common dividends (\$2.10 per share)       | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | (10,438)            |
| Distributions to noncontrolling interests | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | 39,980              |
| Issuance of noncontrolling interests      | —                      | —                   | —             | —   |                                   | —  | —                                 | (956,685)                             | (956,685)           |
| <b>December 31, 2013</b>                  |                        |                     |               |   |                                   |  |                                   |                                       |                     |
| Net income                                | 456,961                | 456,961             | 11,334,041    | 11,334,041  |                                   | (1,053,215)  | (14,487)                          | (10,931,134)                          | 10,931,134          |
| Other comprehensive loss                  | —                      | —                   | —             | —   |                                   | 922,233  | (9,408)                           | 922,233                               | 922,233             |
| Issuance of common stock, net             | 2,939                  | 2,939               | 89,749        | 89,749  |                                   | —  | —                                 | (9,408)                               | 14,338              |
| Repurchase of common stock                | (323)                  | (323)               | (12,380)      | (12,380)  |                                   | —  | —                                 | 92,688                                | 92,688              |
| Exercise of stock options                 | 169                    | 169                 | 4,292         | 4,292   |                                   | —  | —                                 | (12,703)                              | (12,703)            |
| Amortization of deferred compensation     | —                      | —                   | 21,885        | 21,885  |                                   | (1,001,559)  | —                                 | 4,461                                 | 4,461               |
| Common dividends (\$2.18 per share)       | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | 21,885              |
| Distributions to noncontrolling interests | —                      | —                   | —             | —   |                                   | —  | —                                 | (1,001,559)                           | (1,001,559)         |
| Issuance of noncontrolling interests      | —                      | —                   | —             | —   |                                   | —  | —                                 | (15,611)                              | 57,746              |
| Purchase of noncontrolling interests      | —                      | —                   | —             | —   |                                   | —  | —                                 | (1,968)                               | (7,568)             |
| <b>December 31, 2014</b>                  |                        |                     |               |   |                                   |  |                                   |                                       |                     |
| Net income                                | 459,746                | 459,746             | 11,431,987    | 11,431,987  |                                   | \$ (1,132,541)                                       | \$ (23,895)                       | \$ 10,755,297                         | \$ 10,997,099       |
| Other comprehensive loss                  | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | —                   |
| Issuance of common stock, net             | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | —                   |
| Repurchase of common stock                | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | —                   |
| Exercise of stock options                 | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | —                   |
| Amortization of deferred compensation     | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | —                   |
| Common dividends (\$2.18 per share)       | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | —                   |
| Distributions to noncontrolling interests | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | —                   |
| Issuance of noncontrolling interests      | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | —                   |
| Purchase of noncontrolling interests      | —                      | —                   | —             | —   |                                   | —  | —                                 | —                                     | —                   |

See accompanying Notes to Consolidated Financial Statements.

**HCP, Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

|   | <b>Year Ended December 31,</b> |                   |                    |
|---|--------------------------------|-------------------|--------------------|
|   | <b>2014</b>                    | <b>2013</b>       | <b>2012</b>        |
| <b>Cash flows from operating activities:</b>  |                                |                   |                    |
| Net income  | \$ 936,591                     | \$ 985,006        | \$ 846,842         |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                |                   |                    |
| Depreciation and amortization of real estate, in-place lease and other intangibles: |                                |                   |                    |
| Continuing operations   | 459,995                        | 423,312           | 353,704            |
| Discontinued operations   | —                              | 5,862             | 12,808             |
| Amortization of market lease intangibles, net                                       | (949)                          | (6,646)           | (2,232)            |
| Amortization of deferred compensation   | 21,885                         | 39,980            | 23,277             |
| Amortization of deferred financing costs, net                                       | 19,260                         | 18,541            | 16,501             |
| Straight-line rents   | (41,032)                       | (39,587)          | (47,311)           |
| Loan and direct financing lease interest accretion                                  | (78,286)                       | (86,314)          | (95,444)           |
| Deferred rental revenues  | (1,884)                        | (2,843)           | (1,655)            |
| Equity income from unconsolidated joint ventures                                    | (49,570)                       | (64,433)          | (54,455)           |
| Distributions of earnings from unconsolidated joint ventures                        | 5,045                          | 3,989             | 3,384              |
| Lease termination income, net   | (38,001)                       | —                 | —                  |
| Gain on sales of real estate  | (31,298)                       | (69,866)          | (31,454)           |
| Marketable securities and other (gains) losses, net                                 | (2,270)                        | (10,817)          | 43                 |
| Impairments   | 35,913                         | 1,372             | 7,878              |
| Changes in:   |                                |                   |                    |
| Accounts receivable, net  | (8,845)                        | 6,656             | (7,469)            |
| Other assets  | (6,287)                        | (58,290)          | (3,814)            |
| Accounts payable and other accrued liabilities                                      | 28,354                         | 3,065             | 14,267             |
| Net cash provided by operating activities   | <u>1,248,621</u>               | <u>1,148,987</u>  | <u>1,034,870</u>   |
| <b>Cash flows from investing activities:</b>  |                                |                   |                    |
| Cash used to acquire the CCRC unconsolidated joint venture interest, net            | (370,186)                      | —                 | —                  |
| Other acquisitions of real estate   | (503,470)                      | (64,678)          | (186,478)          |
| Senior housing portfolio acquisition  | —                              | —                 | (1,701,410)        |
| Development of real estate  | (178,513)                      | (130,317)         | (133,596)          |
| Leasing costs and tenant and capital improvements                                   | (71,734)                       | (64,557)          | (61,440)           |
| Proceeds from sales and pending sales of real estate, net                           | 104,557                        | 95,816            | 150,943            |
| Contributions to other unconsolidated joint ventures                                | (2,935)                        | —                 | —                  |
| Distributions in excess of earnings from unconsolidated joint ventures              | 2,657                          | 14,102            | 2,915              |
| Purchases of marketable securities  | —                              | (16,706)          | (214,859)          |
| Proceeds from sales of marketable securities  | —                              | 28,403            | —                  |
| Principal repayments on loans receivable and direct financing leases                | 119,511                        | 263,445           | 45,046             |
| Investments in loans receivable and other   | (600,019)                      | (322,775)         | (218,978)          |
| (Increase) decrease in restricted cash  | (11,747)                       | 619               | 3,705              |
| Net cash used in investing activities   | <u>(1,511,879)</u>             | <u>(196,648)</u>  | <u>(2,314,152)</u> |
| <b>Cash flows from financing activities:</b>  |                                |                   |                    |
| Net borrowings (repayments) under bank line of credit                               | 845,190                        | —                 | (454,000)          |
| Borrowings under term loan  | —                              | —                 | 214,789            |
| Issuance of senior unsecured notes  | 1,150,000                      | 800,000           | 1,550,000          |
| Repayments of senior unsecured notes  | (487,000)                      | (550,000)         | (250,000)          |
| Issuance of mortgage and other debt   | 35,445                         | 6,798             | —                  |
| Repayments of mortgage debt   | (447,784)                      | (302,119)         | (155,565)          |
| Deferred financing costs  | (16,550)                       | (7,300)           | (27,565)           |
| PREFERRED stock redemption  | —                              | —                 | (295,500)          |
| Issuance of common stock and exercise of options                                    | 96,592                         | 114,082           | 1,792,786          |
| Repurchase of common stock  | (12,703)                       | —                 | —                  |
| Dividends paid on common and preferred stock  | (1,001,559)                    | (956,685)         | (865,306)          |
| Issuance of noncontrolling interests  | 4,674                          | 12,472            | 1,584              |
| Purchase of noncontrolling interests  | (5,897)                        | —                 | (2,143)            |
| Distributions to noncontrolling interests   | (15,611)                       | (17,664)          | (15,631)           |
| Net cash provided by (used in) financing activities                                 | <u>144,797</u>                 | <u>(900,416)</u>  | <u>1,493,449</u>   |
| Effect of foreign exchange on cash and cash equivalents                             | 1,715                          | 960               | —                  |
| Net increase (decrease) in cash and cash equivalents                                | (116,746)                      | 52,883            | 214,167            |
| Cash and cash equivalents, beginning of year  | 300,556                        | 247,673           | 33,506             |
| Cash and cash equivalents, end of year  | <u>\$ 183,810</u>              | <u>\$ 300,556</u> | <u>\$ 247,673</u>  |

See accompanying Notes to Consolidated Financial Statements.

# **HCP, Inc.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 1. Business**

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HCP, Inc., an S&P 500 company, is a Maryland corporation that is organized to qualify as a real estate investment trust (“REIT”) which, together with its consolidated entities (collectively, “HCP” or the “Company”), invests primarily in real estate serving the healthcare industry in the United States (“U.S.”). The Company acquires, develops, leases, manages and disposes of healthcare real estate and provides financing to healthcare providers.

### **NOTE 2. Summary of Significant Accounting Policies**

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#### *Use of Estimates*

Management is required to make estimates and assumptions in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”). These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management’s estimates.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of HCP, its wholly-owned subsidiaries and joint ventures or variable interest entities that it controls through voting rights or other means. Intercompany transactions and balances have been eliminated upon consolidation.

The Company is required to continually evaluate its VIE relationships and consolidate these entities when it is determined to be the primary beneficiary of their operations. A VIE is broadly defined as an entity where either (i) the equity investment at risk is insufficient to finance that entity’s activities without additional subordinated financial support; (ii) substantially all of an entity’s activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights, or (iii) the equity investors as a group lack, if any: (a) the power through voting or similar rights to direct the activities of an entity that most significantly impact the entity’s economic performance; (b) the obligation to absorb the expected losses of an entity; or (c) the right to receive the expected residual returns of an entity.

A variable interest holder is considered to be the primary beneficiary of a VIE if it has the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The Company qualitatively assesses whether it is (or is not) the primary beneficiary of a VIE. Consideration of various factors includes, but is not limited to, its form of ownership interest, its representation on the VIE’s governing body, the size and seniority of its investment, its ability and the rights of other investors to participate in policy making decisions and its ability to replace the manager of and/or liquidate the entity.

For its investments in joint ventures that are not considered to be VIEs, the Company evaluates the type of ownership rights held by the limited partner(s) that may preclude consolidation in circumstances in which the sole general partner would otherwise consolidate the limited partnership. The assessment of limited partners’ rights and their impact on the presumption of control over a limited partnership by the sole general partner should be made when an investor becomes the sole general partner and should be reassessed if (i) there is a change to the terms or in the exercisability of the rights of the limited partners, (ii) the sole general partner increases or decreases its ownership in the limited partnership interests, or (iii) there is an increase or decrease in the number of outstanding limited partnership interests. The Company similarly evaluates the rights of managing members of limited liability companies.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### *Revenue Recognition*

At the inception of a new lease arrangement, including new leases that arise from amendments, the Company assesses its terms and conditions to determine the proper lease classification. A lease arrangement is classified as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee, (ii) lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is equal to 75% or more of the underlying property's economic life, or (iv) the present value of future minimum lease payments (excluding executory costs) are equal to 90% or more of the excess estimated fair value (over retained tax credits) of the leased property. If one of the four criteria is met and the minimum lease payments are determined to be reasonably predictable and collectible, the lease arrangement is generally accounted for as a direct financing lease ("DFL").

The Company utilizes the direct finance method of accounting to record income from DFLs. For leases accounted for as DFLs, the net investment in the DFL represents receivables for the sum of minimum lease payments receivable and the estimated residual values of the leased properties, less the unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectibility of the lease payments is reasonably assured.

The Company recognizes rental revenue for operating lease arrangements when the tenant has taken possession or controls the physical use of a leased asset; the tenant is not considered to have taken physical possession or have control of the physical leased asset until the Company owned tenant improvements are substantially completed. If a lease arrangement provides for tenant improvements, the Company determines whether the tenant improvements are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, any tenant improvements funded by the tenant are treated as lease payments which are deferred and amortized into income over the lease term. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded by the Company is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Ownership of tenant improvements is determined based on various factors including, but not limited to, the following criteria:

- lease stipulations of how and on what a tenant improvement allowance may be spent;
- which party to the arrangement retains legal title to the tenant improvements upon lease expiration;
- whether the tenant improvements are unique to the tenant or general purpose in nature; and
- if the tenant improvements are expected to have significant residual value at the end of the lease term.

Certain leases provide for additional rents that are contingent upon a percentage of the facility's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds, and only after any contingency has been removed (when the related thresholds are achieved). This may result in the recognition of rental revenue in periods subsequent to when such payments are received.

Tenant recoveries subject to operating leases related to the reimbursement of real estate taxes, insurance, repairs and maintenance and other operating expenses are recognized as revenue in the period the expenses are incurred. The reimbursements are recognized and presented gross, as the Company is generally the primary obligor and, with respect to purchasing goods and services from third party suppliers, has discretion in selecting the supplier and bears the associated credit risk.

For operating leases with minimum scheduled rent increases, the Company recognizes income on a straight-line basis over the lease term when collectibility is reasonably assured. Recognizing rental income on a straight-line basis results in a difference in the timing of revenue amounts from what is contractually due from tenants. If the Company determines that collectibility of straight-line rents is not reasonably

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

assured, future revenue recognition is limited to amounts contractually owed and paid, and, when appropriate, an allowance for estimated losses is established.

Resident fee revenue is recorded when services are rendered and includes resident room and care charges, community fees and other resident charges. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly. Revenue for certain care related services is recognized as services are provided and is billed monthly in arrears.

Loans receivable are classified as held-for-investment based on management's intent and ability to hold the loans for the foreseeable future or to maturity. Loans held-for-investment are carried at amortized cost and are reduced by a valuation allowance for estimated credit losses as necessary. The Company recognizes interest income on loans, including the amortization of discounts and premiums, using the interest method. The interest method is applied on a loan-by-loan basis when collectibility of the future payments is reasonably assured. Premiums and discounts are recognized as yield adjustments over the term of the related loans. Loans are transferred from held-for-investment to held for sale when management's intent is to no longer hold the loans for the foreseeable future. Loans held-for-sale are recorded at the lower of cost or fair value.

The Company recognizes gain on sales of real estate upon the closing of a transaction with the purchaser. Gains on properties sold are recognized using the full accrual method when the collectibility of the sales price is reasonably assured, the Company is not obligated to perform additional activities that may be considered significant, the initial investment from the buyer is sufficient and other profit recognition criteria have been satisfied. Gain on sales of real estate may be deferred in whole or in part until the requirements for gain recognition have been met.

The Company receives management fees from its investments in certain joint venture entities for various services it provides as the managing member. Management fees are recorded as revenue when management services have been performed. Intercompany profit for management fees is eliminated.

#### *Allowance for Doubtful Accounts*

The Company evaluates the liquidity and creditworthiness of its tenants, operators and borrowers on a monthly and quarterly basis. The Company's evaluation considers industry and economic conditions, individual and portfolio property performance, credit enhancements, liquidity and other factors. The Company's tenants, borrowers and operators furnish property, portfolio and guarantor/operator-level financial statements, among other information, on a monthly or quarterly basis; the Company utilizes this financial information to calculate the lease or debt service coverages that it uses as a primary credit quality indicator. Lease and debt service coverage information is evaluated together with other property, portfolio and operator performance information, including revenue, expense, net operating income, occupancy, rental rate, reimbursement trends, capital expenditures and EBITDA (defined as earnings before interest, tax, and depreciation and amortization), along with other liquidity measures. The Company evaluates, on a monthly basis or immediately upon a significant change in circumstances, its tenants', operators' and borrowers' ability to service their obligations with the Company.

The Company maintains an allowance for doubtful accounts for straight-line rent receivables resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. For straight-line rent amounts, the Company's assessment is based on amounts estimated to be recoverable over the term of the lease.

Upon the occurrence of a significant event and in connection with the Company's quarterly loans receivable and DFLs (collectively, "Finance Receivables") review process, Finance Receivables are reviewed and

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

assigned an internal rating of Performing, Watch List or Workout. Finance Receivables that are deemed Performing meet all present contractual obligations, and collection and timing of all amounts owed is reasonably assured. Watch List Finance Receivables meet all present contractual obligations; however, the timing and/or collection of all amounts owed may not be reasonably assured. Workout Finance Receivables are defined as Finance Receivables where the Company has determined, based on current information and events, that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the agreement.

Finance Receivables are placed on nonaccrual status when management determines that the collectibility of contractual amounts is not reasonably assured. If the ultimate collectibility of any recorded principal Finance Receivable balance is in doubt, the cost recovery method is used, and cash collected is applied to first reduce the carrying value of the Finance Receivable. Otherwise, the cash basis method is used. Generally, the Company returns a Finance Receivable to accrual status when all delinquent payments become current under the terms of the loan or lease agreements and collectibility of remaining loan or lease payments is no longer in doubt.

Allowances are established for Finance Receivables on an individual basis based upon an estimate of probable losses, if they are determined to be impaired. Finance Receivables are impaired when it is deemed probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan or lease. An allowance is based upon the Company's assessment of the borrower's or lessee's overall financial condition, economic resources, payment record, the prospects for support from any financially responsible guarantors and, if appropriate, the net realizable value of any collateral. These estimates consider all available evidence, including the expected future cash flows discounted at the Finance Receivable's effective interest rate, fair value of collateral, general economic conditions and trends, historical and industry loss experience, and other relevant factors, as appropriate.

#### *Real Estate*

The Company's real estate assets, consisting of land, buildings and improvements are recorded at their fair value at the time of acquisition and/or consolidation. Any assumed liabilities, other acquired tangible assets or identifiable intangibles are also recorded at their fair value. The Company assesses fair value based on available market information, such as capitalization and discount rates, sale transaction comparables and relevant per square foot or unit cost information. A real estate asset's fair value may be determined utilizing cash flow projections that incorporate appropriate discount and/or capitalization rates or other available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, as well as market and economic conditions. The fair value of tangible assets of an acquired property is based on the value of the property as if it is vacant. Transaction costs related to acquisitions of businesses, including properties, are expensed as incurred.

The Company records acquired "above and below market" leases at their fair value using discount rates which reflect the risks associated with the leases acquired. The amount recorded is based on the present value of the difference between (i) the contractual amounts paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each in-place lease, measured over a period equal to the remaining term of the lease for above market leases and the initial term plus the extended term for any leases with bargain renewal options. Other intangible assets acquired include amounts for in-place lease values that are based on the Company's evaluation of the specific characteristics of each property and the respective tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. In estimating carrying

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

costs, the Company includes estimates of lost rents at estimated market rates during the hypothetical expected lease-up periods, which are dependent on local market conditions and expected trends. In estimating costs to execute similar leases, the Company considers leasing commissions, legal and other related costs.

The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the development or construction of a real estate asset. The Company capitalizes construction and development costs while substantive activities are ongoing to prepare an asset for its intended use. The Company considers a construction project as substantially complete and held available for occupancy upon the completion of Company owned tenant improvements, but no later than one year from cessation of significant construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as incurred. For redevelopment of existing operating properties, the Company capitalizes certain costs based on the net carrying value of the existing property under redevelopment plus the cost for the construction and improvement incurred in connection with the redevelopment. Costs previously capitalized related to abandoned developments/redevelopments are charged to earnings. Expenditures for repairs and maintenance are expensed as incurred. The Company considers costs incurred in conjunction with re-leasing properties, including tenant improvements and lease commissions, to represent the acquisition of productive assets and, accordingly, such costs are reflected as investing activities in the Company's consolidated statement of cash flows.

The Company computes depreciation on properties using the straight-line method over the assets' estimated useful life. Depreciation is discontinued when a property is identified as held for sale. Buildings and improvements are depreciated over useful lives ranging up to 60 years. Market lease intangibles are amortized primarily to revenue over the remaining noncancellable lease terms and bargain renewal periods, if any. In-place lease intangibles are amortized to expense over the remaining noncancellable lease term and bargain renewal periods, if any.

#### *Impairment of Long-Lived Assets and Goodwill*

The Company assesses the carrying value of real estate assets and related intangibles ("real estate assets") when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company tests its real estate assets for impairment by comparing the sum of the expected future undiscounted cash flows to the carrying value of the real estate assets. The estimated future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. If the carrying value exceeds the expected future undiscounted cash flows, an impairment loss will be recognized to the extent that the carrying value of the real estate assets is greater than its fair value.

Goodwill is tested for impairment at least annually based on certain qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Potential impairment indicators and qualitative factors include a significant decline in real estate values, restructuring plans, current macroeconomic conditions, state of the equity and capital markets or a significant decline in the value of the Company's market capitalization. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company applies the required two-step quantitative approach. The quantitative procedures of the two-step approach (i) compare the fair value of a reporting unit with its carrying amount, including goodwill, and, if necessary, (ii) compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill as if it had been acquired in a business combination at the date of the impairment test. The excess fair value

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of the reporting unit over the fair value of assets and liabilities is the implied value of goodwill and is used to determine the amount of impairment, if any. The Company has selected the fourth quarter of each fiscal year to perform its annual impairment test.

#### *Assets Held for Sale and Discontinued Operations*

Prior to the Company's adoption of Accounting Standards Update No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ("ASU 2014-08"), a discontinued operation was a component of an entity that had either been disposed of or was deemed to be held for sale and, (i) the operations and cash flows of the component had been or was to be eliminated from ongoing operations as a result of the disposal transaction, and (ii) the entity was not to have any significant continuing involvement in the operations of the component after the disposal transaction. Accordingly, certain long-lived assets were classified as held for sale and reported at the lower of their carrying value or their fair value less costs to sell and were no longer depreciated. Subsequent to the Company's adoption of ASU 2014-08 on April 1, 2014, a discontinued operation must further represent that a disposal is a strategic shift that has (or will have) a major effect on the Company's operations and financial results.

#### *Investments in Unconsolidated Joint Ventures*

Investments in entities which the Company does not consolidate but has the ability to exercise significant influence over operating and financial policies are reported under the equity method of accounting. Under the equity method of accounting, the Company's share of the investee's earnings or losses is included in the Company's consolidated results of operations.

The initial carrying value of investments in unconsolidated joint ventures is based on the amount paid to purchase the joint venture interest or the fair value of the assets prior to the sale of interests in the joint venture. To the extent that the Company's cost basis is different from the basis reflected at the joint venture level, the basis difference is generally amortized over the lives of the related assets and liabilities, and such amortization is included in the Company's share of equity in earnings of the joint venture. The Company evaluates its equity method investments for impairment based upon a comparison of the fair value of the equity method investment to its carrying value. When the Company determines a decline in the fair value of an investment in an unconsolidated joint venture below its carrying value is other-than-temporary, an impairment is recorded. The Company recognizes gains on the sale of interests in joint ventures to the extent the economic substance of the transaction is a sale.

The Company's fair values for its equity method investments are based on discounted cash flow models that include all estimated cash inflows and outflows over a specified holding period and, where applicable, any estimated debt premiums or discounts. Capitalization rates, discount rates and credit spreads utilized in these models are based upon assumptions that the Company believes to be within a reasonable range of current market rates for the respective investments.

#### *Share-Based Compensation*

Compensation expense for share-based awards granted to employees, including grants of employee stock options, are recognized in the consolidated statements of income based on their grant date fair market value. Compensation expense for awards with graded vesting schedules is generally recognized ratably over the period from the grant date to the date when the award is no longer contingent on the employee providing additional services.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand and short-term investments with maturities of three months or less when purchased.

#### *Restricted Cash*

Restricted cash primarily consists of amounts held by mortgage lenders to provide for (i) real estate tax expenditures, tenant improvements and capital expenditures, and (ii) security deposits and net proceeds from property sales that were executed as tax-deferred dispositions.

#### *Derivatives*

During its normal course of business, the Company uses certain types of derivative instruments for the purpose of managing interest rate and currency risk. To qualify for hedge accounting, derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge. In addition, at inception of a qualifying cash flow hedging relationship, the underlying transaction or transactions, must be, and are expected to remain, probable of occurring in accordance with the Company's related assertions.

The Company recognizes all derivative instruments, including embedded derivatives required to be bifurcated, as assets or liabilities in the consolidated balance sheets at their fair value. Changes in the fair value of derivative instruments that are not designated in hedging relationships or that do not meet the criteria of hedge accounting are recognized in earnings. For derivatives designated in qualifying cash flow hedging relationships, the change in fair value of the effective portion of the derivatives is recognized in accumulated other comprehensive income (loss), whereas the change in fair value of the ineffective portion is recognized in earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes designating all derivatives that are part of a hedging relationship to specific forecasted transactions as well as recognized obligations or assets in the consolidated balance sheets. The Company also assesses and documents, both at inception of the hedging relationship and on a quarterly basis thereafter, whether the derivatives are highly effective in offsetting the designated risks associated with the respective hedged items. If it is determined that a derivative ceases to be highly effective as a hedge, or that it is probable the underlying forecasted transaction will not occur, the Company discontinues hedge accounting prospectively and records the appropriate adjustment to earnings based on the current fair value of the derivative.

#### *Income Taxes*

HCP, Inc. elected REIT status and believes it has always operated so as to continue to qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, HCP, Inc. will not be subject to U.S. federal income tax, provided that it continues to qualify as a REIT and makes distributions to stockholders equal to or in excess of its taxable income. In addition, the Company has formed several consolidated subsidiaries, which have elected REIT status. HCP, Inc. and its consolidated REIT subsidiaries are each subject to the REIT qualification requirements under the Code. If any REIT fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates and may be ineligible to qualify as a REIT for four subsequent tax years.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

HCP, Inc. and its consolidated REIT subsidiaries are subject to state and local income taxes in some jurisdictions, and in certain circumstances each REIT may also be subject to federal excise taxes on undistributed income. In addition, certain activities that the Company undertakes may be conducted by entities which have elected to be treated as taxable REIT subsidiaries (“TRSs”). TRSs are subject to both federal and state income taxes. The Company recognizes tax penalties relating to unrecognized tax benefits as additional income tax expense. Interest relating to unrecognized tax benefits is recognized as interest expense.

#### *Marketable Securities*

The Company classifies its marketable equity securities as available-for-sale. These securities are carried at their fair value with unrealized gains and losses recognized in stockholders' equity as a component of accumulated other comprehensive income (loss). Gains or losses on securities sold are determined based on the specific identification method. The Company classifies its marketable debt securities as held-to-maturity, because the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded at amortized cost and adjusted for the amortization of premiums and discounts through maturity. When the Company determines declines in fair value of marketable securities are other-than-temporary, a loss is recognized in earnings.

#### *Capital Raising Issuance Costs*

Costs incurred in connection with the issuance of common shares are recorded as a reduction of additional paid-in capital. Debt issuance costs are deferred, included in other assets and amortized to interest expense over the remaining term of the related debt utilizing the interest method.

#### *Segment Reporting*

The Company's segments are based on its internal method of reporting which classifies operations by healthcare sector. The Company's business operations include five segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital.

#### *Noncontrolling Interests*

The Company reports arrangements with noncontrolling interests as a component of equity separate from the parent's equity. The Company accounts for purchases or sales of equity interests that do not result in a change in control as equity transactions. In addition, net income attributable to the noncontrolling interest is included in net income on the consolidated statements of income and, upon a gain or loss of control, the interest purchased or sold, as well as any interest retained, is recorded at its fair value with any gain or loss recognized in earnings.

The Company consolidates non-managing member limited liability companies (“DownREITs”) because it exercises control, and the noncontrolling interests in these entities are carried at cost. The non-managing member LLC units (“DownREIT units”) are exchangeable for an amount of cash approximating the then-current market value of shares of the Company's common stock or, at the Company's option, shares of the Company's common stock (subject to certain adjustments, such as stock splits and reclassifications). Upon exchange of DownREIT units for the Company's common stock, the carrying amount of the DownREIT units is reclassified to stockholders' equity.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### *Foreign Currency Translation and Transactions*

Assets and liabilities denominated in foreign currencies that are translated into U.S. dollars use exchange rates in effect at the end of the period, and revenues and expenses denominated in foreign currencies that are translated into U.S. dollars use average rates of exchange in effect during the related period. Gains or losses resulting from translation are included in accumulated other comprehensive income (loss), a component of stockholders' equity on the consolidated balance sheets. Gains or losses resulting from foreign currency transactions are translated into U.S. dollars at the rates of exchange prevailing at the dates of the transactions. The effects of transaction gains or losses are included in other income, net in the consolidated statements of income.

#### *Life Care Bonds Payable*

Certain of the Company's continuing care retirement communities ("CCRCs") issue non-interest bearing life care bonds payable to certain residents of the CCRCs. Generally, the bonds are refundable to the resident or to the resident's estate upon termination or cancellation of the CCRC agreement or upon the successful resale of the unit. Proceeds from the issuance of new bonds are used to retire existing bonds, and since the maturity of the obligations for the facilities is not determinable, no interest is imputed. These amounts are included in other debt in the Company's consolidated balance sheets.

#### *Fair Value Measurement*

The Company measures and discloses the fair value of nonfinancial and financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

- *Level 1*—quoted prices for *identical* instruments in active markets;
- *Level 2*—quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- *Level 3*—fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

The Company measures fair value using a set of standardized procedures that are outlined herein for all assets and liabilities which are required to be measured at fair value. When available, the Company utilizes quoted market prices from an independent third party source to determine fair value and classifies such items in Level 1. In some instances where a market price is available, but the instrument is in an inactive or over-the-counter market, the Company consistently applies the dealer (market maker) pricing estimate and classifies the asset or liability in Level 2.

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option volatilities, credit spreads and/or market capitalization rates. Items valued using such internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or Level 3 even though there may be some significant inputs that are readily observable. Internal fair value models and techniques used by the Company include discounted cash flow and Black-Scholes valuation models. The Company

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

also considers its counterparty's and own credit risk on derivatives and other liabilities measured at their fair value. The Company has elected the mid-market pricing expedient when determining fair value.

#### *Earnings per Share*

Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of shares of common stock outstanding during the period. The Company accounts for unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities, which are included in the computation of earnings per share pursuant to the two-class method. Diluted earnings per common share is calculated by including the effect of dilutive securities.

#### *Recent Accounting Pronouncements*

In January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-1, *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items* ("ASU 2015-01"). ASU 2015-01 eliminates from GAAP the concept of extraordinary items. ASU 2015-01 is effective for fiscal years and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company early adopted ASU 2015-01 as of December 31, 2014; the adoption of ASU 2015-01 did not have a material impact on the Company's consolidated financial position or results of operations.

In November 2014, the FASB issued Accounting Standards Update No. 2014-16, *Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* ("ASU 2014-16"). ASU 2014-16 clarifies how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features—including the embedded derivative feature being evaluated for bifurcation—in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. ASU 2014-16 is effective for fiscal years and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company early adopted ASU 2014-16 as of December 31, 2014; the adoption of ASU 2014-16 did not have a material impact on the Company's consolidated financial position or results of operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). This update changes the guidance for recognizing revenue. ASU 2014-09 provides guidance for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To recognize revenue, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract; (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is not permitted. The Company is evaluating the impact of the adoption of ASU 2014-09 on January 1, 2017 to its consolidated financial position and results of operations.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. This update changes the requirements for reporting and the definition of discontinued operations. Based on the current revisions, the disposal of a component of an entity, or a group of components of an entity, is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when certain defined criteria are met. ASU 2014-08 is effective for fiscal years and interim periods beginning after December 15, 2014 and shall be applied prospectively. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. On April 1, 2014, the Company early adopted ASU 2014-08; the adoption of ASU 2014-08 did not have a material impact on the Company's consolidated financial position or results of operations.

#### *Reclassifications*

Certain amounts in the Company's consolidated financial statements have been reclassified for prior periods to conform to the current period presentation. As a result of the Company's increasing transaction volume, "acquisition and pursuit costs" are separately presented on the consolidated income statements from "general and administrative expenses."

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#### **NOTE 3. Brookdale Lease Amendments and Terminations and the Formation of Two RIDEA Joint Ventures ("Brookdale Transaction")**

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On July 31, 2014, Brookdale Senior Living ("Brookdale") completed its acquisition of Emeritus Corporation ("Emeritus"). On August 29, 2014, the Company and Brookdale completed a multiple-element transaction with three major components:

- amended existing lease agreements on 153 HCP-owned senior housing communities previously leased and operated by Emeritus, that included the termination of embedded purchase options in leases relating to 30 properties and future rent reductions;
- terminated existing lease agreements on 49 HCP-owned senior housing properties previously leased and operated by Emeritus, that included the termination of embedded purchase options in these leases relating to 19 properties. At closing, the Company contributed 48 of these properties to a newly formed consolidated partnership that is operated under a structure permitted by the Housing and Economic Recovery Act of 2008 (commonly referred to as "RIDEA") ("RIDEA Subsidiaries"); the 49<sup>th</sup> property was contributed on January 1, 2015. Brookdale owns a 20% noncontrolling equity interest in the RIDEA Subsidiaries and manages the facilities on behalf of the partnership; and
- entered into new unconsolidated joint ventures that own 14 campuses of continuing care retirement communities ("CCRC") in a RIDEA structure (collectively, the "CCRC JV") with the Company owning a 49% equity interest and Brookdale owning a 51% equity interest. Brookdale manages these communities on behalf of this partnership.

#### *Leases Amended on 153 Properties ("NNN Lease Restructuring")*

The Company and Brookdale entered into amended and restated triple-net master leases for 153 properties formerly leased to Emeritus. As part of the lease amendments, Brookdale forfeited purchase option rights related to 30 of these properties. The master leases have weighted average initial terms of 15 years, with two extension options that average 10 years each. While the total base rent for 2014 remained unchanged, these leases provide for reduced escalators beginning in 2015 compared to those which were in-place; the leases contain reduced rent payments of \$6.5 million in 2016 and \$7.5 million each

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

subsequent year thereafter. All obligations under the amended and restated leases are guaranteed by Brookdale. In addition, the new leases include a purchase option in favor of Brookdale that was exercised with eight communities sold in January 2015 for \$51 million in proceeds; one community is pending sale in March 2015 for \$9 million.

Effectively, the Company paid consideration of \$129 million to terminate the existing purchase options and received consideration of: (i) \$76 million for lower rent payments and escalators discussed above and (ii) \$53 million to settle the amount that the Company owed to Brookdale for the RIDEA Subsidiaries transaction discussed below. See the Fair Value Measurement Techniques and Quantitative Information section below for additional information.

The Company will amortize the \$53 million of net consideration paid to Brookdale for the NNN Lease Restructuring as a reduction in rental income on a straight-line basis over the term of the new leases. Additionally, the lease-related intangibles, initial direct costs and straight-line rent receivables associated with the previous leases will be amortized prospectively over the new (or amended) lease terms.

#### *Lease Terminations of 49 Properties that were contributed to a RIDEA Structure (RIDEA Subsidiaries)*

The Company and Brookdale terminated leases for a 49 property portfolio, which resulted in Brookdale forfeiting its purchase option rights to 19 of these properties; the net value of the terminated leases and forfeited purchase options was \$108 million (\$131 million for the value of the terminated leases, less \$23 million for the value of the forfeited purchase options). At closing, the Company contributed the properties into partnerships, with Brookdale owning a 20% noncontrolling equity interest in each of the RIDEA Subsidiaries (“SH PropCo” and “SH OpCo”). Brookdale’s 20% interest in the RIDEA Subsidiaries was valued at \$47 million. Brookdale also manages the properties on behalf of the RIDEA Subsidiaries under long-term management contracts. See the Fair Value Measurement Techniques and Quantitative Information section below for additional information.

As consideration for the net value of \$108 million for the terminated leases and the \$47 million sale to Brookdale of the 20% noncontrolling interest in the RIDEA Subsidiaries, the Company received the following: (i) a \$34 million short-term receivable recorded in other assets; (ii) a \$68 million note from Brookdale (the “Brookdale Receivable”) recorded in loans receivable (see Note 7) that was repaid in November 2014; and (iii) an effective offset for the \$53 million associated with the additional consideration owed by the Company to Brookdale for the NNN Lease Restructuring transaction discussed above. The fair values of the short-term receivable and Brookdale Receivable were estimated based on similar instruments available in the marketplace and are considered to be Level 2 measurements within the fair value hierarchy.

As a result of terminating these leases, the Company recognized a net gain of \$38 million consisting of: (i) \$108 million gain based on the fair value of the net consideration received; less (ii) \$70 million to write-off the direct leasing costs and straight-line rent receivables related to the former in-place leases.

The Company has identified the SH PropCo and SH OpCo entities as VIEs (see Note 21 for additional information).

#### *Continuing Care Retirement Communities Joint Venture*

HCP and Brookdale formed new unconsolidated joint ventures that own 14 CCRC campuses in a RIDEA structure (“CCRC PropCo” and “CCRC OpCo”). HCP and Brookdale own 49% and 51%, respectively, of CCRC PropCo and CCRC OpCo, based on each company’s respective contributions. CCRC PropCo owns eight campuses that are leased to CCRC OpCo; CCRC OpCo owns six campuses and the operations of the

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

campuses leased from CCRC PropCo. Brookdale manages the campuses of the CCRC JV under long-term management contracts.

At closing, Brookdale contributed eight of its owned campuses; the Company contributed two campuses previously leased to Brookdale valued at \$162 million (carrying value of \$92 million) and \$370 million of cash (includes amounts used to fund the purchase of properties and working capital), which was primarily used to acquire four additional campuses from third parties. At closing, the CCRC JV campuses were encumbered by \$569 million of mortgage and entrance fee obligations.

The Company has identified the CCRC OpCo entity as a VIE (see Note 21 for additional information).

#### *Fair Value Measurement Techniques and Quantitative Information*

The fair values of the forfeited rental payments and purchase option rights related to the NNN Lease Restructuring and the RIDEA Subsidiaries were based on the income approach and are considered Level 3 measurements within the fair value hierarchy. The Company utilized discounted cash flow models with observable and unobservable valuation inputs. These fair value measurements, or valuation techniques, were based on current market participant expectations and information available as of the close of the transaction on August 29, 2014.

A summary of the quantitative information about fair value measurements for the NNN Lease Restructuring and RIDEA Subsidiaries transactions follows (dollars in thousands):

|  | <u>Fair Value</u> | <u>Valuation Technique(s)</u> | <u>Valuation Inputs</u>   | <u>Input Average or Range</u>           |
|--|-------------------|-------------------------------|---|---|
| <b>NNN Lease Restructuring</b>                           |                   |                               |   |   |
| Rental payment concessions by HCP (benefiting Brookdale) | \$ 76,000         | Discounted Cash Flow          | NNN Rent Coverage Ratio<br>NNN Rent Growth Rate<br>Discount Rate                        | 1.20x<br>3.0%<br>8.00%-8.50%            |
| Forfeited purchase options by Brookdale (benefiting HCP) | \$(129,000)       | Discounted Cash Flow          | Capitalization Rates<br>Discount Rate<br>Exercise Probability                           | 7.50%-9.25%<br>10.50%-11.00%<br>100.00% |
| <b>RIDEA Subsidiaries</b>                                |                   |                               |   |   |
| Forfeited rental payments by HCP (benefiting Brookdale)  | \$ 131,000        | Discounted Cash Flow          | NNN Rent Coverage Ratio<br>NNN Rent Growth Rate<br>EBITDAR Growth Rate<br>Discount Rate | 1.20x<br>3.0%<br>5.5%<br>8.00%-11.00%   |
| Forfeited purchase options by Brookdale (benefiting HCP) | \$ (23,000)       | Discounted Cash Flow          | Capitalization Rates<br>Discount Rate<br>Exercise Probability                           | 7.50%-9.25%<br>10.50%-11.00%<br>100.00% |

In determining which valuation technique the Company would utilize to calculate fair value for the multiple elements of this transaction, the Company considered the market approach and obtained published investor survey and sales transaction data, where available. The information obtained was consistent with the valuation inputs and assumptions used by the Company in the discounted cash flow approach that was applied to this transaction. Investor survey and sales transaction data reviewed for similar transactions in similar marketplaces, included, but were not limited to, sales price per unit, rent coverage ratios, rental rate growth as well as capitalization and discount rates.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Rental Payment Concessions.* The fair value of the rental payment concessions related to the NNN Lease Restructuring Transaction was determined as the present value of the difference between (i) the remaining contractual rental payments of the in-place leases, limited to first purchase option date, where available; thereafter market rents to complete the initial lease term of the amended Brookdale leases and (ii) the contractual rental payments under the amended Brookdale leases.

The fair value of the forfeited rental payments related to the RIDEA Subsidiaries transaction was calculated as the present value of the difference between (i) the remaining contractual rental payments of the terminated in-place leases, limited to first purchase option date, where available and (ii) the forecasted cash flows of the facility-level operating results of the RIDEA Subsidiaries.

*Forfeited Purchase Option Rights.* The fair value of the forfeited purchase option rights was determined as the present value of the difference between (i) the fair value of the underlying property as of the initial exercise date and (ii) the exercise price for purchase option rights as defined in the lease agreement. To determine the fair value of the underlying property as of the initial exercise date, the Company utilized a cash flow model that incorporated growth rates to forecast the underlying property's operating results and applied capitalization rates to establish its expected fair value. The Company utilized an appropriate risk-adjusted discount rate to estimate the present value as of the closing date of the transaction.

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#### **NOTE 4. Other Real Estate Property Investments**

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##### *Senior Housing Portfolio Acquisition*

During the fourth quarter of 2012 and first quarter of 2013, the Company acquired 133 senior housing communities for \$1.74 billion from a joint venture between Emeritus and Blackstone Real Estate Partners VI, an affiliate of the Blackstone Group (the "Blackstone JV"). Located in 29 states, the portfolio encompasses a diversified care mix of 61% assisted living, 25% independent living, 13% memory care and 1% skilled nursing based on units. Based on operating performance at closing, the 133 communities consisted of 99 that were stabilized and 34 that were in lease-up. The transaction closed in two stages: (i) 129 senior housing facilities during the fourth quarter of 2012 for \$1.7 billion; and (ii) four senior housing facilities during the first quarter of 2013 for \$38 million. The Company paid \$1.73 billion in cash consideration and assumed \$13 million of mortgage debt to acquire: (i) real estate with a fair value of \$1.57 billion, (ii) intangible assets with a fair value of \$174 million; and (iii) assumed intangible liabilities with a fair value of \$4 million. The lease-up intangibles assets recognized were attributable to the value of the acquired underlying operating resident leases of the senior housing communities that were stabilized or nearly stabilized (e.g., resident occupancy above 80%).

Emeritus operated the 133 communities pursuant to triple-net master leases, which as part of the Brookdale Transaction were either amended or terminated under the NNN Lease Restructuring or the RIDEA Subsidiaries lease termination (see Note 3). From the 2012 acquisition dates to December 31, 2012, the Company recognized revenues and income of \$22 million and \$14 million, respectively, related to its acquisition of the 129 senior housing communities.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### *Pro Forma Results of Operations*

The following unaudited pro forma consolidated results of operations assume that the Blackstone JV acquisition was completed as of January 1, 2012 (in thousands, except per share amounts):

|                                    | December 31,<br>2012 |
|------------------------------------|----------------------|
| Revenues                           | \$1,966,303          |
| Net income                         | 870,802              |
| Net income applicable to HCP, Inc. | 856,500              |
| Basic earnings per common share    | \$ 1.88              |
| Diluted earnings per common share  | 1.88                 |

#### *Other Real Estate Acquisitions*

A summary of other real estate acquisitions for the year ended December 31, 2014 follows (in thousands):

| Acquisitions                  | Consideration    |                                    |                         | Assets Acquired  |                 |
|-------------------------------|------------------|------------------------------------|-------------------------|------------------|-----------------|
|                               | Cash Paid        | Debt and Other Liabilities Assumed | Noncontrolling Interest | Real Estate      | Net Intangibles |
| Senior housing <sup>(1)</sup> | \$233,797        | \$ 3,351                           | \$6,321 <sup>(2)</sup>  | \$215,255        | 28,214          |
| Life science                  | 43,500           | 250                                | —                       | 41,281           | 2,469           |
| Medical office                | 226,173          | 33,677                             | —                       | 226,510          | 33,340          |
|                               | <b>\$503,470</b> | <b>\$37,278</b>                    | <b>\$6,321</b>          | <b>\$483,046</b> | <b>\$64,023</b> |

(1) Includes the acquisition of a \$147 million (£88 million) portfolio of 23 care homes in the United Kingdom ("U.K.").

(2) Includes \$5 million of non-managing member limited liability company units.

In addition to the Blackstone JV acquisition (discussed above), during the year ended December 31, 2013, the Company acquired a senior housing facility for \$18 million, exercised its purchase option for a senior housing facility it previously leased for \$16 million and acquired 38 acres of land to be developed for use in the post-acute/skilled nursing segment for \$400,000.

During the years ended December 31, 2014 and 2013, the Company funded an aggregate of \$273 million and \$173 million, respectively, for construction, tenant and other capital improvement projects, primarily in its life science, medical office and senior housing segments.

#### **NOTE 5. Dispositions of Real Estate and Discontinued Operations**

On August 29, 2014, in conjunction with the Brookdale Transaction, the Company contributed three senior housing facilities with a carrying value of \$92 million into the CCRC JV (an unconsolidated joint venture with Brookdale discussed in Note 3). The Company recorded its investment in the CCRC JV for the contribution of these properties at their carrying value (carryover basis) and therefore did not recognize either a gain or loss upon the contribution.

During the year ended December 31, 2014, the Company sold the following: (i) two post-acute/skilled nursing facilities for \$22 million, (ii) a hospital for \$17 million, (iii) a senior housing facility for \$16 million and (iii) a medical office building ("MOB") for \$145,000.

During the year ended December 31, 2013, the Company sold the following: (i) eight post-acute/skilled nursing facilities for \$68 million, (ii) two senior housing facilities for \$22 million and (iii) two MOBs for

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$6 million. In addition, in September 2013, the Company sold a 62-bed hospital located in Greenfield, Wisconsin in exchange for a 60-bed hospital located in Webster, Texas and recognized a gain of \$8 million based on the fair value of the hospital acquired in excess of the carrying value of the hospital sold.

The Company separately presented as discontinued operations the results of operations for all consolidated assets disposed of and all properties held for sale, if any, prior to the adoption of ASU 2014-08 on April 1, 2014. The amounts included in discontinued operations, for the year ended December 31, 2014 represent the activity for properties sold prior to the adoption date. No properties sold subsequent to the adoption date met the new criteria for reporting discontinued operations (see Note 2).

At December 31, 2013, one hospital and two post-acute/skilled nursing facilities were classified as held for sale, with a carrying value of \$10 million. The following table summarizes income from discontinued operations, impairments and gain on sales of real estate included in discontinued operations (dollars in thousands):

|   | Year Ended December 31, |          |          |
|---|-------------------------|----------|----------|
|   | 2014                    | 2013     | 2012     |
| Rental and related revenues   | \$ 1,810                | \$16,649 | \$33,777 |
| Depreciation and amortization expenses  | —                       | 5,862    | 12,808   |
| Operating expenses  | 54                      | 3,929    | 3,304    |
| Other expense, net  | 20                      | 979      | 3,467    |
| Income before impairments and gain on sales of real estate, net of income taxes | \$ 1,736                | \$ 5,879 | \$14,198 |
| Impairments   | \$ —                    | \$ 1,372 | \$ —     |
| Gain on sales of real estate, net of income taxes                               | \$28,010                | \$69,866 | \$31,454 |
| Number of properties included in discontinued operations                        | 3                       | 16       | 20       |

#### NOTE 6. Net Investment in Direct Financing Leases

The components of net investment in DFLs consisted of the following (dollars in thousands):

|   | December 31,  |               |
|---|---------------|---------------|
|   | 2014          | 2013          |
| Minimum lease payments receivable             | \$ 24,182,525 | \$ 24,808,386 |
| Estimated residual values                     | 4,126,426     | 4,134,405     |
| Less unearned income                          | (21,028,617)  | (21,789,392)  |
| Net investment in direct financing leases     | \$ 7,280,334  | \$ 7,153,399  |
| Properties subject to direct financing leases | 363           | 364           |

The minimum lease payments receivable are primarily attributable to HCR ManorCare, Inc. ("HCRMC") (\$23.0 billion and \$23.5 billion at December 31, 2014 and 2013, respectively). The triple-net master lease with HCRMC provides for annual rent of \$524 million beginning April 1, 2014 (prior to April 1, 2014, annual rent was \$506 million). The rent increases by 3.5% per year over the next two years and by a minimum of 3% for the remaining portion of the initial lease term. The properties are grouped into four pools, and HCRMC has extension options for each pool with rent increased for the first year of the

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

extension option to the greater of fair market rent or a 3% increase over the rent for the prior year. Including the extension options, which the Company determined at inception to be bargain renewal options, the four leased pools had total initial terms ranging from 23 to 35 years. See Notes 8 and 17 for additional discussion on the Company's 9.4% equity interest in HCRMC and related December 2014 impairment charge.

During the year ended December 31, 2014, the Company received a \$13 million payoff from the HCRMC proceeds of the sale of a post-acute/skilled nursing facility that collateralized this DFL.

During the year ended December 31, 2013, the Company reached an agreement with Tenet Healthcare Corporation to modify and extend three acute care hospital leases. The leases were extended at then-current rent levels and contain annual CPI-based escalators under staggered terms from three to eight years with purchase options exercisable for a fixed price at the end of each term. As a result of these lease modifications, the Company reassessed the classification of the leases and accounted for the lease agreements as DFLs.

The following table summarizes the Company's internal ratings for net investment in DFLs at December 31, 2014 (dollars in thousands):

| Investment Type            | Carrying Amount    | Percentage of DFL Portfolio | Internal Ratings   |                  |              |
|----------------------------|--------------------|-----------------------------|--------------------|------------------|--------------|
|                            |                    |                             | Performing DFLs    | Watch List DFLs  | Workout DFLs |
| Senior housing             | \$1,497,136        | 20                          | \$1,127,043        | \$370,093        | \$—          |
| Post-acute/skilled nursing | 5,659,307          | 78                          | 5,659,307          | —                | —            |
| Hospital                   | 123,891            | 2                           | 123,891            | —                | —            |
|                            | <u>\$7,280,334</u> | <u>100</u>                  | <u>\$6,910,241</u> | <u>\$370,093</u> | <u>\$—</u>   |

Beginning September 30, 2013, the Company placed a 14-property senior housing DFL (the "DFL Portfolio") on non-accrual status. The Company determined that the collection of all rental payments was and continues to be no longer reasonably assured; therefore, rental revenue for the DFL Portfolio has been recognized on a cash basis. The Company re-assessed the DFL Portfolio for impairment on December 31, 2014 and determined that the DFL Portfolio was not impaired based on its belief that: (i) it was not probable that it will not collect all of the rental payments under the terms of the lease; and (ii) the fair value of the underlying collateral exceeded the DFL Portfolio's \$370 million carrying amount. The fair value of the DFL Portfolio was estimated based on a discounted cash flow model, the inputs to which are considered to be a Level 3 measurement within the fair value hierarchy. Inputs to this valuation model include real estate capitalization rates, industry growth rates and operating margins, some of which influence the Company's expectation of future cash flows from the DFL Portfolio and, accordingly, the fair value of its investment. During the years ended December 31, 2014, 2013 and 2012, the Company recognized DFL income of \$19 million, \$24 million and \$28 million, respectively, and received cash payments each year of \$24 million from the DFL Portfolio. The carrying value of the DFL Portfolio was \$370 million and \$374 million at December 31, 2014 and 2013, respectively.

Certain leases contain provisions that allow the tenants to elect to purchase the properties during or at the end of the lease terms for the aggregate initial investment amount plus adjustments, if any, as defined in the lease agreements. Certain leases also permit the Company to require the tenants to purchase the properties at the end of the lease terms.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum lease payments contractually due under DFLs at December 31, 2014, were as follows (in thousands):

| Year       | Amount                     |
|------------|----------------------------|
| 2015       | \$ 614,886                 |
| 2016       | 625,637                    |
| 2017       | 637,666                    |
| 2018       | 655,121                    |
| 2019       | 674,206                    |
| Thereafter | 20,975,009                 |
|            | <u><u>\$24,182,525</u></u> |

#### **NOTE 7. Loans Receivable**

The following table summarizes the Company's loans receivable (in thousands):

|                                       | December 31,            |                         |                         |                         |                         |                         |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                       | 2014                    |                         |                         | 2013                    |                         |                         |
|                                       | Real Estate Secured     | Other Secured           | Total                   | Real Estate Secured     | Other Secured           | Total                   |
| Mezzanine                             | \$ —                    | \$799,064               | \$799,064               | \$ —                    | \$234,455               | \$234,455               |
| Other                                 | 135,363                 | —                       | 135,363                 | 147,669                 | —                       | 147,669                 |
| Unamortized discounts, fees and costs | —                       | (14,056)                | (14,056)                | —                       | (2,713)                 | (2,713)                 |
| Allowance for loan losses             | —                       | (13,410)                | (13,410)                | —                       | (13,410)                | (13,410)                |
|                                       | <u><u>\$135,363</u></u> | <u><u>\$771,598</u></u> | <u><u>\$906,961</u></u> | <u><u>\$147,669</u></u> | <u><u>\$218,332</u></u> | <u><u>\$366,001</u></u> |

The following table summarizes the Company's internal ratings for loans receivable at December 31, 2014 (dollars in thousands):

| Investment Type     | Carrying Amount         | Percentage of Loan Portfolio | Internal Ratings        |                   |                        |
|---------------------|-------------------------|------------------------------|-------------------------|-------------------|------------------------|
|                     |                         |                              | Performing Loans        | Watch List Loans  | Workout Loans          |
| Real estate secured | \$135,363               | 15                           | \$135,363               | \$—               | \$—                    |
| Other secured       | 771,598                 | 85                           | 754,128                 | —                 | 17,470                 |
|                     | <u><u>\$906,961</u></u> | <u><u>100</u></u>            | <u><u>\$889,491</u></u> | <u><u>\$—</u></u> | <u><u>\$17,470</u></u> |

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### Real Estate Secured Loans

Following is a summary of loans receivable secured by real estate at December 31, 2014 (dollars in thousands):

| Final Maturity Date | Number of Loans        | Payment Terms  | Principal Amount | Carrying Amount  |
|---------------------|------------------------|--|------------------|------------------|
| 2016                | 4                      | aggregate monthly interest-only payments, accrues interest at 8.5%, and secured by four senior housing facilities in Maryland, Pennsylvania, Tennessee and Texas | \$ 75,143        | \$ 79,251        |
| 2017                | 2                      | aggregate monthly interest-only payments, accrues interest at 8.5%, and secured by two senior housing facilities in New Jersey and Pennsylvania                  | 36,875           | 37,397           |
| 2018                | 1                      | monthly interest-only payments, accrues interest at 8.00% and secured by a senior housing facility in Pennsylvania   | 17,914           | 18,715           |
|                     | <u>7<sup>(1)</sup></u> |  | <u>\$129,932</u> | <u>\$135,363</u> |

(1) Represents commitments to fund an aggregate of \$141 million for seven development projects that are at or near completion as of December 31, 2014.

At December 31, 2014, future contractual principal payments to be received on loans receivable secured by real estate are \$75 million in 2016, \$37 million in 2017 and \$18 million in 2018.

#### Other Secured Loans

*U.K. Loan Facility.* In November 2014, the Company was the lead investor in the financing for Formation Capital and Safanad's acquisition of NHP, a company that, at closing, owned 273 nursing and residential care homes representing over 12,500 beds in the U.K. principally operated by HC-One. The Company provided a loan facility (the "U.K. Loan Facility"), secured by substantially all of NHP's assets, totaling £395 million, with £363 million (\$574 million) drawn at closing. The U.K. Loan Facility has a five-year term and was funded by a £355 million draw on the Company's revolving line of credit facility that is discussed in Note 11.

*Brookdale Receivable.* In conjunction with the Brookdale Transaction, on August 29, 2014, the Company provided a \$68 million interest-only loan, which was repaid in full in November 2014. See additional information regarding the Brookdale Transaction in Note 3.

*Barchester Loan.* On May 2, 2013, the Company acquired £121 million of subordinated debt at a discount for £109 million (\$170 million). The loans were secured by an interest in facilities leased and operated by Barchester Healthcare ("Barchester"). On September 6, 2013, the Company received £129 million (\$202 million) for the par payoff of these debt investments, recognizing interest income of \$24 million for the related unamortized loan discounts.

*Tandem Health Care Loan.* On July 31, 2012, the Company closed a mezzanine loan facility to lend up to \$205 million to Tandem Health Care ("Tandem"), as part of the recapitalization of a post-acute/skilled nursing portfolio. At closing, this loan was subordinate to \$400 million in senior mortgage debt and \$137 million in other senior mezzanine debt. The Company funded \$100 million (the "First Tranche") at closing and funded an additional \$102 million (the "Second Tranche") in June 2013. The Second Tranche was used by Tandem to repay a portion of the senior mezzanine debt. At December 31, 2014, the loans

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

were subordinate to \$437 million of senior mortgage debt. The loans bear interest at fixed rates of 12% and 14% per annum for the First and Second Tranches, respectively. This loan facility matures in October 2017, is prepayable at the borrower's option and is secured by real estate partnership interests. The loans are subject to prepayment premiums if repaid on or before the third anniversary from the First Tranche closing date.

*Delphis Operations, L.P. Loan.* The Company holds a secured term loan made to Delphis Operations, L.P. ("Delphis" or the "Borrower") that is collateralized by all of the assets of the Borrower. The Borrower's collateral is comprised primarily of interests in partnerships operating surgical facilities, of which one partnership leases a property owned by the Company. The Company has previously determined that the loan was impaired and placed the loan on cost-recovery status; accrual of interest income is suspended, and any payments received from the Borrower have been applied to reduce the recorded investment in this loan.

As part of a March 2012 agreement (the "2012 Agreement") between Delphis, certain past and current principals of Delphis and the Cirrus Group, LLC (the "Guarantors"), and the Company, the Company agreed, among other things, to allow the distribution of \$1.5 million to certain of the Guarantors from funds generated from sales of assets that were pledged as additional collateral for this loan. Further, the Company agreed to provide financial incentives to the Borrower regarding the liquidation of the primary collateral assets for this loan.

Pursuant to the 2012 Agreement, the Company has subsequently received cash and other consideration from the Guarantors and net proceeds from the sales of primary collateral assets, which proceeds, together with the cash payments and other consideration, were applied to reduce the carrying value of this loan. During the years ended December 31, 2014, 2013 and 2012, the Company received cash payments of \$1 million, \$13 million and \$43 million, respectively. The carrying value of the loan, net of an allowance for loan losses, was \$17 million and \$18 million at December 31, 2014 and 2013, respectively. At December 31, 2014, 2013 and 2012 the allowance related to the Company's senior secured loan to Delphis was \$13 million with no additional allowances recognized in any of the three years ended December 31, 2014. At December 31, 2014, the Company believes the fair value of the collateral supporting this loan is in excess of the loan's carrying value.

#### **NOTE 8. Investments in and Advances to Unconsolidated Joint Ventures**

On August 29, 2014, as part of the Brookdale Transaction discussed in Note 3, HCP and Brookdale formed unconsolidated joint ventures that own 14 CCRC campuses in a RIDEA structure. At closing, Brookdale contributed eight of its owned campuses; the Company contributed two campuses previously leased to Brookdale valued at \$162 million (carrying value of \$92 million) and \$370 million of cash. At closing, the CCRC JV campuses were encumbered by \$569 million of mortgage and entrance fee obligations. See additional information in Notes 3 and 5.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company owns interests in the following entities that are accounted for under the equity method at December 31, 2014 (dollars in thousands):

| Entity <sup>(1)</sup>                          | Segment                               | Investment <sup>(2)</sup> | Ownership % |
|--|---------------------------------------|---------------------------|-------------|
| CCRC JV <sup>(3)</sup>                         | senior housing                        | \$456,796                 | 49          |
| HCRMC <sup>(4)</sup>                           | post-acute/skilled nursing operations | 38,915                    | 9.4         |
| HCP Ventures III, LLC                          | medical office                        | 6,778                     | 30          |
| HCP Ventures IV, LLC                           | medical office and hospital           | 26,876                    | 20          |
| HCP Life Science <sup>(5)</sup>                | life science                          | 70,333                    | 50-63       |
| Suburban Properties, LLC                       | medical office                        | 5,510                     | 67          |
| Advances to unconsolidated joint ventures, net |                                       | 240                       |             |
|  |                                       | <u>\$605,448</u>          |             |
| Edgewood Assisted Living Center, LLC           | senior housing                        | \$ (392)                  | 45          |
| Seminole Shores Living Center, LLC             | senior housing                        | <u>(568)</u>              | 50          |
|  |                                       | <u>\$ (960)</u>           |             |

- (1) These entities are not consolidated because the Company does not control, through voting rights or other means, the joint ventures.
- (2) Represents the carrying value of the Company's investment in the unconsolidated joint ventures. Negative balances are recorded in accounts payable and accrued liabilities on the Company's Consolidated Balance Sheets. Includes a 72% interest in a senior housing partnership that has a zero investment balance.
- (3) Includes two unconsolidated joint ventures between the Company and Brookdale: (i) CCRC PropCo (\$210 million) and (ii) CCRC OpCo (\$250 million). See additional information regarding the CCRC JV and the Brookdale Transaction in Note 3.
- (4) In December 2014, the Company recognized an impairment charge of \$36 million reducing its investment in HCRMC to \$39 million. See Note 17 for additional information regarding this impairment charge; also, see Note 6 regarding the Company's related HCRMC DFL investment.
- (5) Includes three unconsolidated joint ventures between the Company and an institutional capital partner for which the Company is the managing member. HCP Life Science includes the following partnerships (and the Company's ownership percentage): (i) Torrey Pines Science Center, LP (50%); (ii) Britannia Biotech Gateway, LP (55%); and (iii) LASDK, LP (63%).

Summarized combined financial information for the Company's unconsolidated joint ventures follows (in thousands):

|   | December 31,        |                    |
|---|---------------------|--------------------|
|   | 2014 <sup>(1)</sup> | 2013               |
| Real estate, net                            | \$ 5,134,587        | \$3,662,450        |
| Goodwill and other assets, net              | <u>4,986,310</u>    | <u>5,384,553</u>   |
| Total assets                                | <u>\$10,120,897</u> | <u>\$9,047,003</u> |
| Capital lease obligations and mortgage debt | \$ 7,197,940        | \$6,768,815        |
| Accounts payable and other                  | 1,015,912           | 1,045,260          |
| Other partners' capital                     | 1,281,413           | 1,098,228          |
| HCP's capital <sup>(2)</sup>                | 625,632             | 134,700            |
| Total liabilities and partners' capital     | <u>\$10,120,897</u> | <u>\$9,047,003</u> |

(1) Includes the financial information of the CCRC JV, which the Company formed on August 29, 2014.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (2) The combined basis difference of the Company's investments in these joint ventures of \$22 million, as of December 31, 2014, is primarily attributable to goodwill, real estate, capital lease obligations, deferred tax assets and lease-related net intangibles.

|  | Year Ended December 31, |             |             |
|--|-------------------------|-------------|-------------|
|  | 2014 <sup>(1)</sup>     | 2013        | 2012        |
| Total revenues                         | \$4,363,815             | \$4,269,156 | \$4,260,319 |
| Loss from discontinued operations      | (9,000)                 | (8,300)     | —           |
| Net loss <sup>(2)</sup>                | (411,385)               | (354,079)   | (15,865)    |
| HCP's share in earnings <sup>(2)</sup> | 49,570                  | 64,433      | 54,455      |
| Fees earned by HCP                     | 1,809                   | 1,847       | 1,895       |
| Distributions received by HCP          | 7,702                   | 18,091      | 6,299       |

(1) Includes the financial information of the CCRC JV, which the Company formed on August 29, 2014.

(2) The net loss in 2014 includes impairments, net of the related tax benefit, of \$396 million related to HCRMC's deferred tax assets and trademark intangible assets. The impairments at HCRMC were the result of a continued shift in patient payor sources from Medicare to Medicare Advantage, which negatively impact reimbursement rates and length of stay for HCRMC's skilled nursing segment and a shift in HCRMC's marketing and branding strategy. The net loss in 2013 includes a charge of \$400 million related to recording of a valuation allowance that reduced the carrying value of HCRMC's deferred tax assets to an amount that is more likely than not to be realized as determined by HCRMC's management. HCRMC's goodwill, intangible assets and deferred tax assets were not previously considered in the Company's initial investments in the operations of HCRMC; therefore, the related impairments and valuation allowance against the carrying value of the deferred tax assets do not impact the Company's recorded investment or impact on the Company's share of earnings from or its investment in HCRMC; however, the circumstances that led to HCRMC's management to reach the determination that it was necessary to reduce the carrying value of their deferred tax and trademark intangible assets in 2014 are consistent with the Company's determination that its investment in HCRMC was impaired in December 2014 (see Note 17). The Company's joint venture interest in HCRMC is accounted for using the equity method and results in an ongoing reduction of DFL income, proportional to HCP's ownership in HCRMC. The elimination of the respective proportional lease expense at the HCRMC level in substance results in \$62 million, \$62 million and \$59 million of DFL income that is recharacterized to the Company's share of earnings from HCRMC (equity income from unconsolidated joint ventures) for the years ended December 31, 2014, 2013 and 2012, respectively.

#### **NOTE 9. Intangibles**

The Company's intangible lease assets were (in thousands):

|   | December 31, |            |
|---|--------------|------------|
|   | 2014         | 2013       |
| <b>Intangible lease assets</b>            |              |            |
| Lease-up intangibles                      | \$ 608,323   | \$ 578,143 |
| Above market tenant lease intangibles     | 163,146      | 144,355    |
| Below market ground lease intangibles     | 58,939       | 58,939     |
| Gross intangible lease assets             | 830,408      | 781,437    |
| Accumulated depreciation and amortization | (349,395)    | (291,595)  |
| Net intangible lease assets               | \$ 481,013   | \$ 489,842 |

The remaining weighted average amortization period of intangible assets were 14 and 15 years at December 31, 2014 and 2013, respectively.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's intangible lease liabilities were (in thousands):

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2014             | 2013             |
| <b>Intangible lease liabilities</b>       |                  |                  |
| Below market lease intangibles            | \$ 203,374       | \$ 201,234       |
| Above market ground lease intangibles     | <u>6,121</u>     | <u>6,121</u>     |
| Gross intangible lease liabilities        | 209,495          | 207,355          |
| Accumulated depreciation and amortization | <u>(124,772)</u> | <u>(108,545)</u> |
| Net intangible lease liabilities          | \$ 84,723        | \$ 98,810        |

The remaining weighted average amortization period of unfavorable market lease intangibles was approximately 9 years at both December 31, 2014 and 2013.

For the years ended December 31, 2014, 2013 and 2012, rental income includes additional revenues of \$3 million, \$9 million and \$4 million, respectively, from the amortization of net below market lease intangibles. For the years ended December 31, 2014, 2013 and 2012, operating expenses include additional expense of \$1 million each year from the amortization of net above market ground lease intangibles. For the years ended December 31, 2014, 2013 and 2012, depreciation and amortization expense includes additional expense of \$60 million, \$59 million and \$44 million, respectively, from the amortization of lease-up and non-compete agreement intangibles.

Estimated aggregate amortization of intangible assets and liabilities for each of the five succeeding fiscal years and thereafter follows (in thousands):

|            | Intangible Assets | Intangible Liabilities |
|------------|-------------------|------------------------|
| 2015       | \$ 78,168         | \$17,069               |
| 2016       | 73,480            | 16,528                 |
| 2017       | 61,252            | 14,101                 |
| 2018       | 46,403            | 11,406                 |
| 2019       | 34,929            | 8,800                  |
| Thereafter | 186,781           | 16,819                 |
|            | <u>\$481,013</u>  | <u>\$84,723</u>        |

## HCP, Inc.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### **NOTE 10. Other Assets**

The Company's other assets consisted of the following (in thousands):

|  | <b>December 31,</b>    |                  |
|--|------------------------|------------------|
|  | <b>2014</b>            | <b>2013</b>      |
| Straight-line rent assets, net of allowance of \$34,182 and \$34,230, respectively | \$355,864              | \$368,919        |
| Marketable debt securities   | 231,442                | 244,089          |
| Leasing costs, net   | 146,500                | 104,601          |
| Deferred financing costs, net  | 47,592                 | 42,106           |
| Goodwill   | 50,346                 | 50,346           |
| Other <sup>(1)</sup>   | 108,428 <sup>(2)</sup> | 57,644           |
| <b>Total other assets</b>  | <b>\$940,172</b>       | <b>\$867,705</b> |

- (1) Includes a \$5.4 million allowance for losses related to accrued interest receivable on the Delphis loan. At both December 31, 2014 and 2013, the net carrying value of interest accrued related to the Delphis loan was zero. See Note 7 for additional information about the Delphis loan and the related impairment. At December 31, 2014 and 2013, includes a loan receivable of \$15 million and \$10 million, respectively, from HCP Ventures IV, LLC, an unconsolidated joint venture (see Note 8) with an interest rate of 12% which matures in May 2015. The loan is senior to equity distributions to the Company's joint venture partner.
- (2) Includes a \$26 million non-interest bearing short-term receivable from Brookdale payable in eight quarterly installments (see Note 3).

During the year ended December 31, 2013, the Company realized gains from the sale of marketable equity securities of \$11 million, which were included in other income, net.

### *Four Seasons Health Care Senior Unsecured Notes*

On June 28, 2012, the Company purchased senior unsecured notes with an aggregate par value of £138.5 million at a discount for £136.8 million (\$215 million). The notes were issued by Elli Investments Limited, a subsidiary of Terra Firma, a European private equity firm, as part of its financing for the acquisition of Four Seasons Health Care ("Four Seasons"), an elderly and specialist care provider in the U.K. The notes mature in June 2020 and are non-callable through June 2016. The notes bear interest on their par value at a fixed rate of 12.25% per annum, with an original issue discount resulting in a yield to maturity of 12.5%. This investment was financed by a GBP denominated unsecured term loan that is discussed in Note 11. These senior unsecured notes are accounted for as marketable debt securities and classified as held-to-maturity.

### **NOTE 11. Debt**

#### *Bank Line of Credit and Term Loans*

On March 31, 2014, the Company amended its unsecured revolving line of credit facility (the "Facility") with a syndicate of banks, which was scheduled to mature in March 2016, increasing the borrowing capacity by \$500 million to \$2 billion. The amended Facility matures on March 31, 2018, with a one-year committed extension option. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends upon the Company's credit ratings. The Company pays a facility fee on the entire revolving commitment that depends on its credit ratings. Based on the Company's credit ratings at December 31, 2014, the margin on the Facility was 0.925%, and the facility fee was 0.15%. The Facility also includes a feature that will allow the Company to increase the borrowing capacity by an aggregate amount of up to \$500 million, subject to

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

securing additional commitments from existing lenders or new lending institutions. At December 31, 2014, the Company had \$839 million (includes £355 million) outstanding under this Facility with a weighted average effective interest rate of 1.60%.

On July 30, 2012, the Company entered into a credit agreement with a syndicate of banks for a £137 million (\$214 million at December 31, 2014) four-year unsecured term loan (the “2012 Term Loan”). Based on the Company’s credit ratings at December 31, 2014, the 2012 Term Loan accrues interest at a rate of GBP LIBOR plus 1.20%. Concurrent with the closing of the 2012 Term Loan, the Company entered into a four-year interest rate swap contract that fixes the interest rate of the 2012 Term Loan at 1.81%, subject to adjustments based on the Company’s credit ratings. The 2012 Term Loan contains a one-year committed extension option.

On January 12, 2015, the Company entered into a credit agreement with a syndicate of banks for a £220 million (\$333 million) four-year unsecured term loan (the “2015 Term Loan”) that accrues interest at a rate of GBP LIBOR plus 0.975%, subject to adjustments based on the Company’s credit ratings. Concurrently, the Company entered into a three-year interest rate swap agreement that effectively fixes the rate of the 2015 Term Loan at 1.79%. Proceeds from the 2015 Term Loan were used to repay £220 million of the £355 million outstanding balance on the Facility that the Company used to fund the aforementioned November 2014 U.K. debt investment (the 2012 and 2015 Term Loans are collectively, the “Term Loans”).

The Facility and Term Loans contain certain financial restrictions and other customary requirements, including cross-default provisions to other indebtedness. Among other things, these covenants, using terms defined in the agreements, (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60% and (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times. The Facility and Term Loans also require a Minimum Consolidated Tangible Net Worth of \$9.5 billion at December 31, 2014 (applicable to the Facility and 2012 Term Loan). At December 31, 2014, the Company was in compliance with each of these restrictions and requirements of the Facility and 2012 Term Loan.

#### *Senior Unsecured Notes*

At December 31, 2014, the Company had senior unsecured notes outstanding with an aggregate principal balance of \$7.6 billion. At December 31, 2014, interest rates on the notes ranged from 2.79% to 6.99% with a weighted average effective rate of 4.95% and a weighted average maturity of six years. Discounts and premiums are amortized to interest expense over the term of the related senior unsecured notes. The senior unsecured notes contain certain covenants including limitations on debt, cross-acceleration provisions and other customary terms. As of December 31, 2014, the Company believes it was in compliance with these covenants.

On January 21, 2015, the Company issued \$600 million of 3.40% senior unsecured notes due 2025. The notes were priced at 99.185% of the principal amount with an effective yield-to-maturity of 3.497%; net proceeds from this offering were \$591 million. A portion of the proceeds from these senior notes was used to repay the entire \$105 million U.S. dollar amount outstanding on the Facility as of the closing date.

On August 14, 2014, the Company issued \$800 million of 3.875% senior unsecured notes due 2024. The notes were priced at 99.63% of the principal amount with an effective yield-to-maturity of 3.92%; net proceeds from this offering were \$792 million.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On February 12, 2014, the Company issued \$350 million of 4.20% senior unsecured notes due 2024. The notes were priced at 99.537% of the principal amount with an effective yield-to-maturity of 4.257%; net proceeds from this offering were \$346 million.

On February 1, 2014, the Company repaid \$400 million of maturing senior unsecured notes, which accrued interest at a rate of 2.7%. The senior unsecured notes were repaid with a portion of the proceeds from the Company's November 2013 bond offering.

On December 16, 2013, the Company repaid \$400 million of maturing senior unsecured notes, which accrued interest at a rate of 5.65%. The senior unsecured notes were repaid with a portion of the proceeds from the Company's November 2013 bond offering.

On November 12, 2013, the Company issued \$800 million of 4.25% senior unsecured notes due in 2023. The notes were priced at 99.540% of the principal amount with an effective yield-to-maturity of 4.307%; net proceeds from this offering were \$789 million.

On February 28, 2013, the Company repaid \$150 million of maturing 5.625% senior unsecured notes.

#### *Mortgage Debt*

At December 31, 2014, the Company had \$1 billion in aggregate principal amount of mortgage debt outstanding that was secured by 70 healthcare facilities (including redevelopment properties) that had a carrying value of \$1.3 billion. At December 31, 2014, interest rates on the mortgage debt ranged from 0.44% to 8.41% with a weighted average effective interest rate of 6.16% and a weighted average maturity of three years.

Mortgage debt generally requires monthly principal and interest payments, is collateralized by real estate assets and is generally non-recourse. Mortgage debt typically restricts transfer of the encumbered assets, prohibits additional liens, restricts prepayment, requires payment of real estate taxes, requires maintenance of the assets in good condition, requires maintenance of insurance on the assets and includes conditions to obtain lender consent to enter into or terminate material leases. Some of the mortgage debt is also cross-collateralized by multiple assets and may require tenants or operators to maintain compliance with the applicable leases or operating agreements of such real estate assets.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### *Debt Maturities*

The following table summarizes the Company's stated debt maturities and scheduled principal repayments at December 31, 2014 (dollars in thousands):

| Year           | Line of Credit <sup>(1)(2)</sup> | Term Loan <sup>(3)</sup> | Senior Unsecured Notes    |               | Mortgage Debt           |               | Total <sup>(4)</sup>      |
|----------------|----------------------------------|--------------------------|---------------------------|---------------|-------------------------|---------------|---------------------------|
|                |                                  |                          | Amount                    | Interest Rate | Amount                  | Interest Rate |                           |
| 2015           | \$ —                             | \$ —                     | \$ 400,000                | 6.57%         | \$ 40,628               | 3.58%         | \$ 440,628                |
| 2016           | —                                | 213,610                  | 900,000                   | 5.10%         | 292,222                 | 6.87%         | 1,405,832                 |
| 2017           | —                                | —                        | 750,000                   | 6.02%         | 581,891                 | 6.07%         | 1,331,891                 |
| 2018           | 838,516                          | —                        | 600,000                   | 6.82%         | 6,583                   | 5.90%         | 1,445,099                 |
| 2019           | —                                | —                        | 450,000                   | 3.96%         | 2,072                   | —             | 452,072                   |
| Thereafter     | —                                | —                        | 4,550,000                 | 4.45%         | 63,170                  | 4.99%         | 4,613,170                 |
|                | 838,516                          | 213,610                  | 7,650,000                 | 4.95%         | 986,566                 | 6.16%         | 9,688,692                 |
| Discounts, net | —                                | —                        | (23,806)                  |               | (2,135)                 |               | (25,941)                  |
|                | <u><u>\$838,516</u></u>          | <u><u>\$213,610</u></u>  | <u><u>\$7,626,194</u></u> |               | <u><u>\$984,431</u></u> |               | <u><u>\$9,662,751</u></u> |

(1) Includes £355 million translated into U.S. dollars as of December 31, 2014.

(2) In January 2015, the Company repaid all but £135 million outstanding under the Facility primarily with proceeds from the January 2015 senior unsecured notes issuance and term loan.

(3) Represents £137 million translated into U.S. dollars.

(4) Excludes \$97 million of other debt that represents Life Care Bonds and Demand Notes that have no scheduled maturities.

#### *Other Debt*

At December 31, 2014, the Company had \$71 million of non-interest bearing life care bonds at two of its continuing care retirement communities and non-interest bearing occupancy fee deposits at two of its senior housing facilities, all of which were payable to certain residents of the facilities (collectively, "Life Care Bonds"). The Life Care Bonds are generally refundable to the residents upon the termination of the contract or upon the successful resale of the unit.

In conjunction with the Brookdale Transaction, on August 29, 2014, the Company borrowed \$26 million from the CCRC JV in the form of on-demand notes ("Demand Notes"). The Demand Notes bear interest at a rate of 4.5%. See additional information regarding the Brookdale Transaction in Note 3.

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### **NOTE 12. Commitments and Contingencies**

#### *Legal Proceedings*

From time to time, the Company is a party to legal proceedings, lawsuits and other claims that arise in the ordinary course of the Company's business. The Company is not aware of any legal proceedings or claims that it believes may have, individually or taken together, a material adverse effect on the Company's business, prospects, financial condition, results of operations or cash flows. The Company's policy is to accrue legal expenses as they are incurred.

#### *DownREIT LLCs*

In connection with the formation of certain DownREIT limited liability companies ("LLCs"), members may contribute appreciated real estate to a DownREIT LLC in exchange for DownREIT units. These

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

contributions are generally tax-deferred, so that the pre-contribution gain related to the property is not taxed to the member. However, if a contributed property is later sold by the DownREIT LLC, the unamortized pre-contribution gain that exists at the date of sale is specifically allocated and taxed to the contributing members. In many of the DownREITs, the Company has entered into indemnification agreements with those members who contributed appreciated property into the DownREIT LLC. Under these indemnification agreements, if any of the appreciated real estate contributed by the members is sold by the DownREIT LLC in a taxable transaction within a specified number of years, the Company will reimburse the affected members for the federal and state income taxes associated with the pre-contribution gain that is specially allocated to the affected member under the Code (“make-whole payments”). These make-whole payments include a tax gross-up provision. These indemnification agreements have expiration terms that range through 2033.

#### *Commitments*

The following table summarizes our material commitments at December 31, 2014 (in thousands):

|  | Total            | Less than One Year | 2016-2017       | 2018-2019       | More than Five Years |
|--|------------------|--------------------|-----------------|-----------------|----------------------|
| U.K. loan facility commitment <sup>(1)</sup> | \$ 49,894        | \$ 24,947          | \$24,947        | \$ —            | \$ —                 |
| Construction loan commitments <sup>(2)</sup> | 10,535           | 10,535             | —               | —               | —                    |
| Development commitments <sup>(3)</sup>       | 66,840           | 66,840             | —               | —               | —                    |
| Ground and other operating leases            | 245,490          | 6,756              | 11,208          | 10,264          | 217,262              |
| Total  | <u>\$372,759</u> | <u>\$109,078</u>   | <u>\$36,155</u> | <u>\$10,264</u> | <u>\$217,262</u>     |

(1) Represents £32 million translated into U.S. dollars as of December 31, 2014 for commitments to fund the U.K. Loan Facility.

(2) Represents commitments to finance development projects and related working capital financings.

(3) Represents construction and other commitments for developments in progress.

#### *Credit Enhancement Guarantee*

Certain of the Company's senior housing facilities serve as collateral for \$105 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. This indebtedness is guaranteed by the previous owner who has an investment grade credit rating. These senior housing facilities, which are classified as DFLs, had a carrying value of \$370 million as of December 31, 2014.

#### *Environmental Costs*

The Company monitors its properties for the presence of hazardous or toxic substances. The Company is not aware of any environmental liability with respect to the properties that would have a material adverse effect on the Company's business, financial condition or results of operations. The Company carries environmental insurance and believes that the policy terms, conditions, limitations and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage and current industry practice.

#### *General Uninsured Losses*

The Company obtains various types of insurance to mitigate the impact of property, business interruption, liability, flood, windstorm, earthquake, environmental and terrorism related losses. The Company attempts to obtain appropriate policy terms, conditions, limits and deductibles considering the relative risk of loss,

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the cost of such coverage and current industry practice. There are, however, certain types of extraordinary losses, such as those due to acts of war or other events that may be either uninsurable or not economically insurable. In addition, the Company has a large number of properties that are exposed to earthquake, flood and windstorm occurrences for which the related insurances carry high deductibles.

#### *Tenant Purchase Options*

Certain leases, including DFLs, contain purchase options whereby the tenant may elect to acquire the underlying real estate. Annualized base rent from leases subject to purchase options, summarized by the year the purchase options are exercisable are as follows (dollars in thousands):

| Year                | Annualized<br>Base Rent <sup>(1)</sup> | Number of<br>Properties |
|---------------------|--|-------------------------|
| 2015 <sup>(2)</sup> | \$ 22,257                              | 28                      |
| 2016                | 33,188                                 | 10                      |
| 2017                | 9,393                                  | 3                       |
| 2018                | 18,697                                 | 4                       |
| 2019                | 25,304                                 | 14                      |
| Thereafter          | 64,918                                 | 33                      |
|                     | <u><u>\$173,757</u></u>                | <u><u>92</u></u>        |

- (1) Represents the most recent month's base rent including additional rent floors and cash income from direct financing leases annualized for 12 months. Base rent does not include tenant recoveries, additional rents in excess of floors and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles, DFL interest accretion and deferred revenues).  
(2) Includes 8 properties that were sold for \$51 million on January 1, 2015. These properties contain purchase options with aggregate annualized base rents of \$5 million.

#### *Rental Expense*

The Company's rental expense attributable to continuing operations for the years ended December 31, 2014, 2013 and 2012 was approximately \$8 million, \$8 million and \$7 million, respectively. These rental expense amounts include ground rent and other leases. Ground leases generally require fixed annual rent payments and may also include escalation clauses and renewal options. These leases have terms that are up to 99 years, excluding extension options. Future minimum lease obligations under non-cancelable ground and other operating leases as of December 31, 2014 were as follows (in thousands):

| Year       | Amount                  |
|------------|-------------------------|
| 2015       | \$ 6,756                |
| 2016       | 5,950                   |
| 2017       | 5,258                   |
| 2018       | 5,075                   |
| 2019       | 5,189                   |
| Thereafter | <u><u>217,262</u></u>   |
|            | <u><u>\$245,490</u></u> |

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **NOTE 13. Equity**

##### *Common Stock*

On January 29, 2015, the Company announced that its Board declared a quarterly cash dividend of \$0.565 per share. The common stock cash dividend will be paid on February 24, 2015 to stockholders of record as of the close of business on February 9, 2015.

On October 19, 2012, the Company completed a \$979 million offering of 22 million shares of common stock, which was primarily used to acquire the 129 senior housing communities from the Blackstone JV.

In June 2012, the Company completed a \$376 million offering of 9 million shares of common stock, which was primarily used to repay \$250 million of maturing senior unsecured notes, which accrued interest at a rate of 6.45%.

In March 2012, the Company completed a \$359 million offering of 9 million shares of common stock, which was primarily used to redeem all outstanding shares of the Company's preferred stock.

During the years ended December 31, 2014, 2013 and 2012, the Company declared and paid common stock cash dividends of \$2.18, \$2.10 and \$2.00 per share.

The following is a summary of the Company's other issuances of common stock (shares in thousands):

|  | Year Ended<br>December 31, |       |       |
|--|----------------------------|-------|-------|
|  | 2014                       | 2013  | 2012  |
| Dividend Reinvestment and Stock Purchase Plan    | 2,299                      | 2,441 | 1,064 |
| Conversion of DownREIT units                     | 27                         | 100   | 736   |
| Exercise of stock options                        | 169                        | 876   | 2,455 |
| Vesting of restricted stock units <sup>(1)</sup> | 614                        | 471   | 707   |
| Repurchase of common stock                       | 323                        | 242   | 361   |

(1) Issued under the Company's 2006 Performance Incentive Plan, as amended and restated.

##### *Preferred Stock*

On April 23, 2012, the Company redeemed all of its outstanding preferred stock consisting of 4,000,000 shares of its 7.25% Series E preferred stock and 7,820,000 shares of its 7.10% Series F preferred stock. The shares of Series E and Series F preferred stock were redeemed at a price of \$25 per share, or \$295.5 million in aggregate, plus all accrued and unpaid dividends to the redemption date. As a result of the redemption, the Company incurred a charge of \$10.4 million related to the original issuance costs of the preferred stock (this charge is presented as an additional preferred stock dividend in the Company's consolidated statements of income).

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### *Accumulated Other Comprehensive Loss*

The following is a summary of the Company's accumulated other comprehensive loss (in thousands):

|  | <b>December 31,</b>      |                          |
|--|--------------------------|--------------------------|
|  | <b>2014</b>              | <b>2013</b>              |
| Cumulative foreign currency translation adjustment       | \$(10,747)               | \$ (780)                 |
| Unrealized losses on cash flow hedges, net               | (9,624)                  | (10,797)                 |
| Supplemental Executive Retirement Plan minimum liability | (3,537)                  | (2,910)                  |
| Unrealized gains on available for sale securities        | 13                       | —                        |
| Total accumulated other comprehensive loss               | <u><u>\$(23,895)</u></u> | <u><u>\$(14,487)</u></u> |

#### *Noncontrolling Interests*

At December 31, 2014, there were 4 million non-managing member units (6 million shares of HCP common stock are issuable upon conversion) outstanding in five DownREIT LLCs, in all of which the Company is the managing member. At December 31, 2014, the carrying and market values of the 4 million DownREIT units were \$189 million and \$268 million, respectively.

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#### **NOTE 14. Segment Disclosures**

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The Company evaluates its business and makes resource allocations based on its five business segments: (i) senior housing, (ii) post-acute/skilled nursing, (iii) life science, (iv) medical office and (v) hospital. Under the medical office segment, the Company invests through the acquisition and development of medical office buildings ("MOBs"), which generally require a greater level of property management. Otherwise, the Company primarily invests, through the acquisition and development of real estate, in single tenant and operator properties and debt issued by tenants and operators in these sectors. The accounting policies of the segments are the same as those described under Summary of Significant Accounting Policies (see Note 2). There were no intersegment sales or transfers during the years ended December 31, 2014, 2013 and 2012. The Company evaluates performance based upon property net operating income from continuing operations ("NOI"), adjusted NOI (or "cash NOI") and interest income of the combined investments in each segment.

Non-segment assets consist primarily of corporate assets including cash and cash equivalents, restricted cash, accounts receivable, net, marketable equity securities, deferred financing costs and, if any, real estate held for sale. Interest expense, depreciation and amortization and non-property specific revenues and expenses are not allocated to individual segments in determining the Company's segment-level performance.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Summary information for the reportable segments follows (in thousands):

For the year ended December 31, 2014:

| Segments                   | Rental Revenues <sup>(1)</sup> | Resident Fees and Services | Interest Income | Investment Management Fee Income | Total Revenues     | NOI <sup>(2)</sup> | Adjusted (Cash) NOI <sup>(2)</sup> |
|----------------------------|--------------------------------|----------------------------|-----------------|----------------------------------|--------------------|--------------------|------------------------------------|
| Senior housing             | \$ 621,114                     | \$241,965                  | \$14,249        | \$ —                             | \$ 877,328         | \$ 695,672         | \$ 617,475                         |
| Post-acute/skilled nursing | 555,322                        | —                          | 60,242          | —                                | 615,564            | 553,235            | 484,094                            |
| Life science               | 314,114                        | —                          | —               | 4                                | 314,118            | 251,034            | 240,959                            |
| Medical office             | 370,956                        | —                          | —               | 1,805                            | 372,761            | 222,757            | 221,351                            |
| Hospital                   | 86,508                         | —                          | —               | —                                | 86,508             | 82,678             | 83,121                             |
| Total                      | <u>\$1,948,014</u>             | <u>\$241,965</u>           | <u>\$74,491</u> | <u>\$1,809</u>                   | <u>\$2,266,279</u> | <u>\$1,805,376</u> | <u>\$1,647,000</u>                 |

For the year ended December 31, 2013:

| Segments                   | Rental Revenues <sup>(1)</sup> | Resident Fees and Services | Interest Income | Investment Management Fee Income | Total Revenues     | NOI <sup>(2)</sup> | Adjusted (Cash) NOI <sup>(2)</sup> |
|----------------------------|--------------------------------|----------------------------|-----------------|----------------------------------|--------------------|--------------------|------------------------------------|
| Senior housing             | \$ 602,506                     | \$146,288                  | \$11,621        | \$ —                             | \$ 760,415         | \$ 653,191         | \$ 594,492                         |
| Post-acute/skilled nursing | 541,805                        | —                          | 73,595          | —                                | 615,400            | 539,320            | 467,508                            |
| Life science               | 296,879                        | —                          | —               | 4                                | 296,883            | 239,923            | 228,475                            |
| Medical office             | 352,334                        | —                          | —               | 1,843                            | 354,177            | 212,958            | 210,811                            |
| Hospital                   | 72,060                         | —                          | 943             | —                                | 73,003             | 68,198             | 79,752                             |
| Total                      | <u>\$1,865,584</u>             | <u>\$146,288</u>           | <u>\$86,159</u> | <u>\$1,847</u>                   | <u>\$2,099,878</u> | <u>\$1,713,590</u> | <u>\$1,581,038</u>                 |

For the year ended December 31, 2012:

| Segments                   | Rental Revenues <sup>(1)</sup> | Resident Fees and Services | Interest Income | Investment Management Fee Income | Total Revenues     | NOI <sup>(2)</sup> | Adjusted (Cash) NOI <sup>(2)</sup> |
|----------------------------|--------------------------------|----------------------------|-----------------|----------------------------------|--------------------|--------------------|------------------------------------|
| Senior housing             | \$ 481,559                     | \$139,073                  | \$ 3,503        | \$ —                             | \$ 624,135         | \$ 529,209         | \$ 478,671                         |
| Post-acute/skilled nursing | 530,037                        | —                          | 19,993          | —                                | 550,030            | 529,562            | 453,456                            |
| Life science               | 289,664                        | —                          | —               | 4                                | 289,668            | 236,491            | 226,997                            |
| Medical office             | 333,008                        | —                          | —               | 1,891                            | 334,899            | 200,876            | 195,761                            |
| Hospital                   | 80,198                         | —                          | 1,040           | —                                | 81,238             | 76,685             | 75,104                             |
| Total                      | <u>\$1,714,466</u>             | <u>\$139,073</u>           | <u>\$24,536</u> | <u>\$1,895</u>                   | <u>\$1,879,970</u> | <u>\$1,572,823</u> | <u>\$1,429,989</u>                 |

(1) Represents rental and related revenues, tenant recoveries, and income from DFLs.

(2) NOI and Adjusted NOI are non-GAAP supplemental financial measures used to evaluate the operating performance of real estate. The Company defines NOI as rental and related revenues, including tenant recoveries, resident fees and services, and income from DFLs, less property level operating expense; NOI excludes all other financial statement amounts included in net income as presented below. The Company believes NOI provides relevant and useful information because it reflects only income and operating expense items that are incurred at the property level and presents them on an unleveraged basis. Adjusted NOI is calculated as NOI after eliminating the effects of straight-line rents, DFL accretion, amortization of market lease intangibles and lease termination fees. Adjusted NOI is oftentimes referred to as "cash NOI." The Company uses NOI and adjusted NOI to make decisions about resource allocations and to assess and compare property level performance. The Company believes that net income is the most directly comparable GAAP measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income as defined by GAAP because it does not reflect various excluded items. Further, the Company's definition of NOI may not be comparable to the definition used by other REITs or real estate companies, as those companies may use different methodologies for calculating NOI.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a reconciliation from reported net income to NOI and adjusted (cash) NOI (in thousands):

|   | Year ended December 31, |                    |                    |
|---|-------------------------|--------------------|--------------------|
|   | 2014                    | 2013               | 2012               |
| <b>Net income</b>   | \$ 936,591              | \$ 985,006         | \$ 846,842         |
| Interest income   | (74,491)                | (86,159)           | (24,536)           |
| Investment management fee income                            | (1,809)                 | (1,847)            | (1,895)            |
| Interest expense  | 439,742                 | 435,252            | 416,172            |
| Depreciation and amortization                               | 459,995                 | 423,312            | 353,704            |
| Acquisition and pursuit costs                               | 17,142                  | 6,191              | 10,981             |
| General and administrative                                  | 82,175                  | 103,042            | 68,414             |
| Impairments   | —                       | —                  | 7,878              |
| Gains on sales of real estate, net of income taxes          | (3,288)                 | —                  | —                  |
| Other income, net   | (7,528)                 | (18,216)           | (2,976)            |
| Income taxes  | 250                     | 5,815              | (1,654)            |
| Equity income from unconsolidated joint ventures            | (49,570)                | (64,433)           | (54,455)           |
| Impairments of investments in unconsolidated joint ventures | 35,913                  | —                  | —                  |
| Total discontinued operations                               | (29,746)                | (74,373)           | (45,652)           |
| <b>NOI</b>  | 1,805,376               | 1,713,590          | 1,572,823          |
| Straight-line rents   | (41,032)                | (39,587)           | (47,311)           |
| DFL accretion   | (77,568)                | (86,055)           | (94,240)           |
| Amortization of market lease intangibles, net               | (949)                   | (6,646)            | (2,232)            |
| Lease termination fees                                      | (38,816)                | (217)              | (636)              |
| NOI adjustments related to discontinued operations          | (11)                    | (47)               | 1,585              |
| <b>Adjusted (Cash) NOI</b>                                  | <u>\$1,647,000</u>      | <u>\$1,581,038</u> | <u>\$1,429,989</u> |

The Company's total assets by segment were (in thousands):

| Segments                                  | December 31,        |                     |
|---|---------------------|---------------------|
|   | 2014                | 2013                |
| Senior housing                            | \$ 8,383,345        | \$ 7,803,085        |
| Post-acute/skilled nursing                | 6,875,122           | 6,266,938           |
| Life science                              | 4,154,789           | 3,986,187           |
| Medical office                            | 2,988,888           | 2,686,069           |
| Hospital                                  | 640,253             | 639,357             |
| Gross segment assets                      | 23,042,397          | 21,381,636          |
| Accumulated depreciation and amortization | (2,600,072)         | (2,257,188)         |
| Net segment assets                        | 20,442,325          | 19,124,448          |
| Assets held for sale, net                 | —                   | 9,819               |
| Other nonsegment assets                   | 927,615             | 941,603             |
| Total assets                              | <u>\$21,369,940</u> | <u>\$20,075,870</u> |

At both December 31, 2014 and 2013, goodwill of \$50 million was allocated to segment assets as follows:  
(i) senior housing—\$31 million, (ii) post-acute/skilled nursing—\$3 million, (iii) medical office—

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$11 million, and (iv) hospital—\$5 million. The Company completed the required annual impairment test during the fourth quarter ended December 31, 2014; no impairment was recognized based on the results of this impairment test.

#### *Concentration of Credit Risk*

Concentrations of credit risk arise when one or more tenants, operators or obligors related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of risks. The Company does not have significant foreign operations.

The following table provides information regarding the Company's concentrations with respect to certain tenants and operators; the information provided is presented for the gross assets and revenues that are associated with certain tenants and operators as percentages of their respective segment's and total Company's gross assets and revenues:

| Operators                | Percentage of Senior Housing Gross Assets |      | Percentage of Senior Housing Revenues |      |      |
|--------------------------|---|------|---------------------------------------|------|------|
|                          | December 31,                              |      | Year Ended December 31,               |      |      |
|                          | 2014                                      | 2013 | 2014                                  | 2013 | 2012 |
| Brookdale <sup>(1)</sup> | 36  | 48   | 37                                    | 46   | 37   |
| HCRMC                    | 11  | 11   | 8                                     | 10   | 11   |

| Operators | Percentage of Post-Acute/ Skilled Nursing Gross Assets |      | Percentage of Post-Acute/ Skilled Nursing Revenues |      |      |
|-----------|--|------|--|------|------|
|           | December 31,   |      | Year Ended December 31,                            |      |      |
|           | 2014   | 2013 | 2014   | 2013 | 2012 |
| HCRMC     | 82   | 89   | 85   | 83   | 91   |

| Operators                | Percentage of Total Company Gross Assets |      | Percentage of Total Company Revenues |      |      |
|--------------------------|--|------|--------------------------------------|------|------|
|                          | December 31,                             |      | Year Ended December 31,              |      |      |
|                          | 2014                                     | 2013 | 2014                                 | 2013 | 2012 |
| HCRMC                    | 31                                       | 32   | 26                                   | 28   | 30   |
| Brookdale <sup>(1)</sup> | 13                                       | 19   | 14                                   | 17   | 12   |

(1) On July 31, 2014, Brookdale completed its acquisition of Emeritus. These percentages of segment gross assets, total gross assets, segment revenues and total revenues, for all periods presented are prepared on a pro forma basis to reflect the combined concentration for Brookdale and Emeritus, as if the merger had occurred as of the beginning of the periods presented. On August 29, 2014, the Company and Brookdale amended or terminated all former leases with Emeritus and entered into two RIDEA joint ventures (see Note 3). Percentages do not include senior housing facilities that Brookdale manages (is not a tenant) under a RIDEA structure.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of January 1, 2015, Brookdale provided comprehensive facility management and accounting services with respect to 69 of the Company's senior housing facilities and 14 CCRCs owned by the CCRC JV, for which the Company or joint venture pay annual management fees pursuant to long-term management agreements. Most of the management agreements have terms ranging from 10 to 15 years, with 5-year renewals. The base management fees are 4.5% to 5.0% of gross revenues (as defined) generated by the RIDEA facilities. In addition, there are incentive management fees payable to Brookdale if operating results of the RIDEA properties exceed pre-established EBITDAR (as defined) thresholds.

Brookdale is subject to the registration and reporting requirements of the U.S. Securities and Exchange Commission ("SEC") and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to Brookdale contained or referred to in this report has been derived from SEC filings made by Brookdale or other publicly available information, or was provided to the Company by Brookdale, and the Company has not verified this information through an independent investigation or otherwise. The Company has no reason to believe that this information is inaccurate in any material respect, but the Company cannot assure the reader of its accuracy. The Company is providing this data for informational purposes only, and encourages the reader to obtain Brookdale's publicly available filings, which can be found at the SEC's website at [www.sec.gov](http://www.sec.gov).

To mitigate the credit risk of leasing properties to certain senior housing and post-acute/skilled nursing operators, leases with operators are often combined into portfolios that contain cross-default terms, so that if a tenant of any of the properties in a portfolio defaults on its obligations under its lease, the Company may pursue its remedies under the lease with respect to any of the properties in the portfolio. Certain portfolios also contain terms whereby the net operating profits of the properties are combined for the purpose of securing the funding of rental payments due under each lease.

At both December 31, 2014 and 2013, the Company's gross real estate assets in the state of California, excluding assets held for sale, represented approximately 23% of the Company's total gross assets. At both December 31, 2014 and 2013, the Company's gross real estate assets in the state of Texas, excluding assets held for sale, represented approximately 13% of the Company's total gross assets. For the years ended December 31, 2014, 2013 and 2012, the Company's revenues derived from properties located in the states of California represented approximately 23%, 21% and 22% of the Company's total revenues, respectively. For the years ended December 31, 2014, 2013 and 2012, the Company's revenues derived from properties located in the states of Texas represented approximately 12%, 11% and 11% of the Company's total revenues, respectively.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### **NOTE 15. Future Minimum Rents**

Future minimum lease payments to be received, excluding operating expense reimbursements, from tenants under non-cancelable operating leases as of December 31, 2014, are as follows (in thousands):

| <b>Year</b> | <b>Amount</b>              |
|-------------|----------------------------|
| 2015        | \$ 1,322,055               |
| 2016        | 1,290,152                  |
| 2017        | 1,225,030                  |
| 2018        | 1,121,138                  |
| 2019        | 967,927                    |
| Thereafter  | <u>5,432,431</u>           |
|             | <u><u>\$11,358,733</u></u> |

#### **NOTE 16. Compensation Plans**

##### *Stock Based Compensation*

On May 11, 2006, the Company's stockholders approved the 2006 Performance Incentive Plan, which was amended and restated in 2009 ("the 2006 Plan"). On May 1, 2014, the Company's stockholders approved the 2014 Performance Incentive Plan ("the 2014 Plan"). Following the adoption of the 2014 Plan, no new awards will be issued under the 2006 Plan. Similar to the 2006 Plan, the 2014 Plan provides for the granting of stock-based compensation, including stock options, restricted stock and restricted stock units to officers, employees and directors in connection with their employment with or services provided to the Company. The maximum number of shares reserved for awards under the 2014 Plan is 33 million shares; as of December 31, 2014, substantially all of the reserved shares of the 2014 Plan are available for future awards and approximately 22 million shares may be issued as restricted stock and restricted stock units.

##### *Stock Options*

Stock options are granted with an exercise price per share equal to the closing market price of the Company's common stock on the grant date. Stock options generally vest ratably over a three- to five-year period and have a 10-year contractual term. Vesting of certain options may accelerate, as provided in the 2006 or 2014 Plans or in the applicable award agreement, upon retirement, a change in control or other specified events. Upon the exercise of options, the participant is required to pay the exercise price of the options being exercised and the related tax withholding obligation.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the stock option activity in 2014 is presented in the following table (dollars and shares in thousands, except per share amounts):

|  | Shares<br>Under Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|--|-------------------------|--|---|---------------------------------|
| <b>Outstanding as of January 1, 2014</b>   | 2,222                   | \$35.77                                  | 5.0   | \$ 8,870                        |
| Granted                                    | 534                     | 38.83                                    |   |                                 |
| Exercised                                  | <u>(169)</u>            | 26.57                                    |   |                                 |
| <b>Outstanding as of December 31, 2014</b> | <u>2,587</u>            | 37.00                                    | 5.0   | 19,581                          |
| <b>Exercisable as of December 31, 2014</b> | <u>1,681</u>            | 35.58                                    | 3.4   | 15,062                          |

The following table summarizes additional information concerning outstanding and exercisable stock options at December 31, 2014 (shares in thousands):

| Range of<br>Exercise Price | Shares Under<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Currently Exercisable   |  |
|----------------------------|-------------------------|--|---|-------------------------|--|
|                            |                         |  |   | Shares Under<br>Options | Weighted<br>Average<br>Exercise<br>Price |
| \$23.34 - \$25.52          | 352                     | \$23.34                                  | 2.9   | 352                     | \$23.34                                  |
| 27.11 - 28.35              | 306                     | 28.35                                    | 3.6   | 217                     | 28.35                                    |
| 31.95 - 46.92              | <u>1,929</u>            | 40.86                                    | 5.6   | <u>1,112</u>            | 40.86                                    |
|                            | <u>2,587</u>            | 37.00                                    |   | <u>1,681</u>            | 35.58                                    |

The following table summarizes additional information concerning unvested stock options at December 31, 2014 (shares in thousands):

|                                      | Shares<br>Under<br>Options | Weighted<br>Average<br>Grant Date Fair<br>Value |
|--------------------------------------|----------------------------|---|
| <b>Unvested at January 1, 2014</b>   |                            |   |
| Granted                              | 941                        | \$5.09  |
| Vested                               | <u>(569)</u>               | 3.80  |
| <b>Unvested at December 31, 2014</b> | <u>906</u>                 | 4.25  |
|                                      |                            | 4.85  |

The weighted average fair value per share at the date of grant for options awarded during the years ended December 31, 2014, 2013 and 2012 was \$3.80, \$5.89 and \$6.34, respectively. The total vesting date intrinsic value (at vesting) of shares under options vested during the years ended December 31, 2014, 2013 and 2012 was \$7 million, \$12 million and \$18 million, respectively. The total intrinsic value of vested shares under options at December 31, 2014 was \$15 million.

Proceeds received from options exercised under the 2006 Plan for the years ended December 31, 2014, 2013 and 2012 were \$5 million, \$18 million and \$52 million, respectively. The total intrinsic value (at exercise) of options exercised during the years ended December 31, 2014, 2013 and 2012 was \$3 million, \$25 million and \$51 million, respectively.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair value of the stock options granted during the years ended December 31, 2014, 2013 and 2012 was estimated on the date of grant using a Black-Scholes option valuation model that uses the assumptions described below. The risk-free rate is based on the U.S. Treasury yield curve in effect at the grant date. The expected life (estimated period of time outstanding) of the stock options granted was estimated using the historical exercise behavior of employees and turnover rates. For stock options granted in 2014, 2013 and 2012, the expected volatility was based on the average of the Company's: (i) historical volatility of the adjusted closing prices of its common stock for a period equal to the stock option's expected life, ending on the grant date, calculated on a weekly basis and (ii) the implied volatility of traded options on its common stock for a period equal to 30 days ending on the grant date. The following table summarizes the Company's stock option valuation assumptions used with respect to stock options awarded in 2014, 2013 and 2012:

|                          | 2014  | 2013  | 2012  |
|--------------------------|-------|-------|-------|
| Risk-free rate           | 1.34% | 0.78% | 1.09% |
| Expected life (in years) | 4.5   | 4.5   | 5.9   |
| Expected volatility      | 22.9% | 28.9% | 32.7% |
| Expected dividend yield  | 5.4%  | 5.8%  | 5.9%  |

#### *Restricted Stock and Performance Restricted Stock Units*

Under the 2006 and 2014 Plans, restricted stock and performance restricted stock units generally have a contractual life or vest over three- to five-year periods. The vesting of certain restricted shares and units may accelerate, as provided in the 2006 and 2014 Plans or in the applicable award agreement, upon retirement, a change in control or other specified events. When vested, each restricted stock unit or performance restricted stock unit is convertible into one share of common stock. The restricted stock and performance restricted stock units are valued on the grant date based on the closing market price of the Company's common stock on that date. Generally, the Company recognizes the fair value of the awards over the applicable vesting period as compensation expense. Upon any exercise or payment of restricted shares or units, the participant is required to pay the related tax withholding obligation. Participants can generally elect to have the Company reduce the number of shares delivered to pay the related employee tax withholding obligation. The value of the shares withheld is dependent on the closing market price of the Company's common stock on the trading date prior to the relevant transaction occurring. During 2014, 2013 and 2012, the Company withheld 323,000, 242,000 and 361,000 shares, respectively, to offset tax withholding obligations with respect to the restricted stock and restricted stock unit awards.

The following table summarizes additional information concerning restricted stock and restricted stock units at December 31, 2014 (units and shares in thousands):

|                                      | Restricted<br>Stock<br>Units | Weighted<br>Average<br>Grant Date<br>Fair Value | Restricted<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--------------------------------------|------------------------------|---|----------------------|---|
| <b>Unvested at January 1, 2014</b>   | <b>1,208</b>                 | <b>\$38.82</b>                                  | <b>226</b>           | <b>\$35.70</b>                                  |
| Granted                              | 528                          | 39.58   | —                    | —   |
| Vested                               | (614)                        | 39.18   | (113)                | 32.78   |
| Forfeited                            | (222)                        | 31.13   | (1)                  | 26.48   |
| <b>Unvested at December 31, 2014</b> | <b>900</b>                   | <b>40.54</b>                                    | <b>112</b>           | <b>38.69</b>                                    |

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At December 31, 2014, the weighted average remaining vesting period of restricted stock units and restricted stock was one year. The total fair values (at vesting) of restricted stock and restricted stock units which vested for the years ended December 31, 2014, 2013 and 2012 were \$24 million, \$22 million and \$39 million, respectively.

Pursuant to the HCP, Inc. 2006 Plan and effective February 3, 2014, certain officers were granted 176,088 performance units (“3-Year LTIP Awards”). The 3-Year LTIP Awards had a fair value of \$7.2 million (fair value of the awards per target share of \$40.68) on the grant date as determined by a lattice-binomial option-pricing model based on a Monte Carlo simulation. Seventy percent of the 3-Year LTIP Awards vest based upon the relative three-year total shareholder return (“TSR”) of our common stock compared to the TSRs of the MSCI US REIT Index (25% weight) and the NAREIT Health Care Index (75% weight). TSR is measured over the performance period: January 1, 2014 through December 31, 2016. Thirty percent of the 3-Year LTIP Awards vest based upon the Company’s Net Debt to Adjusted Pro Forma EBITDA over the performance period. Compensation expense is charged to earnings on a straight-line basis over the respective performance period. At the end of the respective performance period, each participant will be issued shares of the Company’s common stock equal to the number of units granted to the participant pursuant to the 3-Year LTIP Awards multiplied by a percentage, ranging from zero to 200%, based on the outcome of the performance metrics for the performance period, as described above. The participants will also be entitled to dividend equivalents for shares issued pursuant to vested 3-Year LTIP Awards, which dividend equivalents represent any common dividends that would have been paid with respect to such issued shares after the grant of the 3-Year LTIP Awards and prior to the date of settlement.

As the Company pays dividends on its outstanding common stock, holders of restricted stock awards are generally entitled to any dividends on the underlying restricted shares, and holders of restricted stock units generally have the right to a cash payment equal to the dividends that would be paid on a number of shares of Company common stock equal to the number of outstanding units subject to the award.

In 2012, the Company implemented a clawback policy that is retroactive to prior years pursuant to which its Board of Directors or Compensation Committee shall, in such circumstances as they determine to be appropriate, require reimbursement or cancellation of all or a portion of any short- or long-term cash or equity incentive awards or payments to an officer (or former officer, as the case may be) of the Company where: (i) the amount of, or number of shares included in, any such payment or award was determined based on the achievement of financial results that were subsequently the subject of an accounting restatement due to noncompliance with any financial reporting requirement under the securities laws; (ii) a lesser payment or award of cash or shares would have been made to the individual based upon the restated financial results; and (iii) the payment or award of cash or shares was received by the individual prior to or during the 12-month period following the first public issuance or filing of the financial results that were subsequently restated.

Total share-based compensation expense recognized during the years ended December 31, 2014, 2013 and 2012 was \$22 million, \$40 million and \$23 million, respectively; included in 2013 is a \$27 million charge recognized in general and administrative expenses resulting from the termination of the Company’s former chief executive officer (“CEO”) that was comprised of: (i) the acceleration of \$17 million of deferred compensation for restricted stock units and options that vested upon termination; and (ii) severance payments and other costs of approximately \$10 million; these vestings and severance payments were in accordance with the terms of the former CEO’s employment agreement. As of December 31, 2014, there was \$27 million of deferred compensation cost associated with future employee services, related to unvested share-based compensation arrangements granted under the Company’s incentive plans, which is expected to be recognized over a weighted average period of three years.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

#### *Employee Benefit Plan*

The Company maintains a 401(k) and profit sharing plan that allows for eligible participants to defer compensation, subject to certain limitations imposed by the Code. The Company provides a matching contribution of up to 4% of each participant's eligible compensation. During the years ended December 31, 2014, 2013 and 2012, the Company's matching contributions were approximately \$1 million for each of the years then ended.

#### **NOTE 17. Impairments**

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During the year ended December 31, 2014, the Company concluded that its 9.4% equity ownership interest in HCRMC was other-than-temporarily impaired and recorded an impairment charge of \$36 million. The impairment charge reduced the carrying amount of the Company's investment in HCRMC from \$75 million to its fair value of \$39 million. The impairment determination primarily resulted from the Company's review of HCRMC's preliminary base financial forecast for 2015, received in December 2014, together with HCRMC's year-to-date operating results through November 2014. The preliminary base financial forecast and operating results primarily reflected a continued shift in patient payor sources from Medicare to Medicare Advantage, which negatively impacts reimbursement rates and length of stay for HCRMC's skilled nursing segment. The fair value of the Company's equity investment was based on a discounted cash flow valuation model and inputs were considered to be Level 3 measurements within the fair value hierarchy. Inputs to this valuation model include earnings multiples, discount rate, industry growth rates of revenue, operating expenses and facility occupancy, some of which influence the Company's expectation of future cash flows from its investment in HCRMC and, accordingly, the fair value of its investment.

A summary of the quantitative information about fair value measurements for the impairment related to the Company's equity ownership interest in HCRMC using a discounted cash flow valuation model follows:

| Description of Input(s) to the Valuation               | Valuation Inputs |
|--|------------------|
| Range of revenue growth rates <sup>(1)</sup>           | (0.2%)-3.5%      |
| Range of occupancy growth rates <sup>(1)</sup>         | (0.3%)-0.2%      |
| Range of operating expense growth rates <sup>(1)</sup> | 0.6%-2.8%        |
| Discount rate  | 13.7%            |
| Range of earnings multiples                            | 6.0x-7.0x        |

(1) For growth rates, the value ranges provided represent the highest and lowest input utilized in the valuation model for any forecasted period.

In determining the fair value our interest in HCRMC, the Company applied the above valuation inputs, which resulted in a range of fair values of its investment in HCRMC of \$35 million to \$44 million based on the range of earnings multiples. The Company elected to use the mid-point of the valuation results and recorded an impairment to reduce the carrying value of its investment in HCRMC to \$39.5 million.

During the year ended December 31, 2013, the Company placed two medical office buildings into assets held for sale. As a result, the Company recognized impairment charges of \$1 million, which reduced the carrying value of the Company's aggregate investments from \$7 million to the \$6 million sales price. The fair value of the Company's medical office buildings were based on the projected sales prices from the pending dispositions. The sales prices of the MOBs were considered to be a Level 2 measurement within the fair value hierarchy.

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the year ended December 31, 2012, the Company executed an agreement for the disposition of a land parcel in its life science segment. As a result of the planned disposition of the land parcel, the Company recognized an impairment charge of \$8 million, which reduced the carrying value of the Company's investment from \$26 million to the \$18 million sales price. The fair value of the Company's land parcel was based on the projected sales prices from the pending disposition. The sales price of the land parcel was considered to be a Level 2 measurement within the fair value hierarchy.

#### **NOTE 18. Income Taxes**

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For the years ended December 31, 2014 and 2013, the Company recorded an income tax expense of \$250,000 and \$6 million, respectively, as compared to an income tax benefit of \$2 million for the year ended December 31, 2012. The Company's income tax expense from discontinued operations was insignificant for the years ended December 31, 2014, 2013 and 2012. For the year ended December 31, 2014, the Company recorded a deferred income tax benefit of \$5 million as compared to a deferred income tax expense of \$3 million for the year ended December 31, 2013 and a deferred income tax benefit of \$3 million for the year ended December 31, 2012. The Company's deferred tax assets and liabilities were insignificant as of December 31, 2014, 2013 and 2012.

As a result of acquisitions in the U.K. during 2014, the Company was subject to income taxes under the laws of the U.K. The U.K. income tax benefit included in the consolidated tax provision was \$700,000 for the year ended December 31, 2014.

The Company files numerous U.S. federal, state and local income and franchise tax returns. With a few exceptions, the Company is no longer subject to U.S. federal, state or local tax examinations by taxing authorities for years prior to 2011.

For each of the years ended December 31, 2014 and 2013, the tax basis of the Company's net assets is less than the reported amounts by \$7.7 billion. The difference between the reported amounts and the tax basis is primarily related to the Slough Estates USA, Inc. ("SEUSA") and HCRMC acquisitions, which occurred in 2007 and 2011, respectively. Both SEUSA and HCRMC were corporations subject to federal and state income taxes. As a result of these acquisitions, the Company succeeded to the tax attributes of SEUSA and HCRMC, including the tax basis in the acquired companies' assets and liabilities. The Company generally will be subject to a corporate-level tax on any taxable disposition of SEUSA's pre-acquisition assets that occur within ten years after its August 1, 2007 acquisition, and any taxable disposition of HCRMC pre-acquisition assets that occur within ten years after its April 7, 2011 acquisition.

The corporate-level tax associated with the disposition of assets acquired in connection with the SEUSA and HCRMC acquisitions would be assessed only to the extent of the built-in gain that existed on the date of each acquisition, based on the fair market value of the assets on August 1, 2007, with respect to SEUSA, and April 7, 2011, with respect to HCRMC. The Company does not expect to dispose of any assets included in either acquisition that would result in the imposition of a material tax liability. As a result, the Company has not recorded a deferred tax liability associated with this corporate-level tax. Gains from asset dispositions occurring more than 10 years after either acquisition will not be subject to this corporate-level tax. However, from time to time, the Company may dispose of SEUSA or HCRMC assets before the applicable 10-year periods if it is able to effect a tax deferred exchange.

In connection with the HCRMC acquisition, the Company assumed unrecognized tax benefits of \$2 million. For each of the years ended December 31, 2014 and 2013, the Company had a decrease in unrecognized tax benefits of \$1 million. There were no unrecognized tax benefits balances at December 31, 2014.

**HCP, Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A reconciliation of the Company's beginning and ending unrecognized tax benefits follows (in thousands):

|  | <u>Amount</u> |
|--|---------------|
| <b>Balance at January 1, 2012</b>              | \$ 1,977      |
| Reductions based on prior years' tax positions | —             |
| Additions based on 2012 tax positions          | —             |
| <b>Balance at December 31, 2012</b>            | 1,977         |
| Reductions based on prior years' tax positions | (890)         |
| Additions based on 2013 tax positions          | —             |
| <b>Balance at December 31, 2013</b>            | 1,087         |
| Reductions based on prior years' tax positions | (1,087)       |
| Additions based on 2014 tax positions          | —             |
| <b>Balance at December 31, 2014</b>            | \$ —          |

During the year ended December 31, 2014, the Company reversed the entire balance of the interest expense associated with the unrecognized tax benefits assumed in connection with the acquisition of HCRMC. The amount reversed was insignificant and it was due to the lapse in the statute of limitations. For the years ended December 31, 2013 and 2012, the Company recorded insignificant net increases to interest expense associated with the unrecognized tax benefits.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 19. Earnings Per Common Share

The following table illustrates the computation of basic and diluted earnings per share (dollars in thousands, except per share data):

|   | Year Ended December 31, |                  |                  |
|---|-------------------------|------------------|------------------|
|   | <u>2014</u>             | <u>2013</u>      | <u>2012</u>      |
| <b>Numerator</b>  |                         |                  |                  |
| Income from continuing operations                             | \$906,845               | \$910,633        | \$801,190        |
| Noncontrolling interests' share in continuing operations      | <u>(13,181)</u>         | <u>(14,110)</u>  | <u>(12,411)</u>  |
| Income from continuing operations applicable to HCP, Inc.     | 893,664                 | 896,523          | 788,779          |
| Preferred stock dividends                                     | —                       | —                | (17,006)         |
| Participating securities' share in continuing operations      | <u>(2,437)</u>          | <u>(1,734)</u>   | <u>(3,245)</u>   |
| Income from continuing operations applicable to common shares | 891,227                 | 894,789          | 768,528          |
| Discontinued operations                                       | 29,746                  | 74,373           | 45,652           |
| Noncontrolling interests' share in discontinued operations    | <u>(1,177)</u>          | <u>(59)</u>      | <u>(1,891)</u>   |
| Net income applicable to common shares                        | <u>\$919,796</u>        | <u>\$969,103</u> | <u>\$812,289</u> |
| <b>Denominator</b>  |                         |                  |                  |
| Basic weighted average common shares                          | 458,425                 | 455,002          | 427,047          |
| Dilutive potential common shares                              | <u>371</u>              | <u>700</u>       | <u>1,269</u>     |
| Diluted weighted average common shares                        | <u>458,796</u>          | <u>455,702</u>   | <u>428,316</u>   |
| <b>Basic earnings per common share</b>                        |                         |                  |                  |
| Income from continuing operations                             | \$ 1.94                 | \$ 1.97          | \$ 1.80          |
| Discontinued operations                                       | <u>0.07</u>             | <u>0.16</u>      | <u>0.10</u>      |
| Net income applicable to common stockholders                  | <u>\$ 2.01</u>          | <u>\$ 2.13</u>   | <u>\$ 1.90</u>   |
| <b>Diluted earnings per common share</b>                      |                         |                  |                  |
| Income from continuing operations                             | \$ 1.94                 | \$ 1.97          | \$ 1.80          |
| Discontinued operations                                       | <u>0.06</u>             | <u>0.16</u>      | <u>0.10</u>      |
| Net income applicable to common shares                        | <u>\$ 2.00</u>          | <u>\$ 2.13</u>   | <u>\$ 1.90</u>   |

Restricted stock and certain of the Company's performance restricted stock units are considered participating securities, because dividend payments are not forfeited even if the underlying award does not vest, which require the use of the two-class method when computing basic and diluted earnings per share.

Options to purchase approximately 1 million, 800,000 and 500,000 shares of common stock that had exercises prices in excess of the average market price of the common stock during the years ended December 31, 2014, 2013 and 2012, respectively, were not included because they are anti-dilutive. Additionally, 6 million shares issuable upon conversion of 4 million DownREIT units during the years ended December 31, 2014, 2013 and 2012 were not included because they are anti-dilutive.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### NOTE 20. Supplemental Cash Flow Information

Supplemental cash flow information follows (in thousands):

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2014                    | 2013      | 2012      |
| <i>Supplemental cash flow information:</i>  |                         |           |           |
| Interest paid, net of capitalized interest  | \$410,286               | \$412,011 | \$389,753 |
| Income taxes paid   | 5,071                   | 114       | 1,790     |
| Capitalized interest  | 10,314                  | 13,494    | 23,360    |
| <i>Supplemental schedule of non-cash investing activities:</i>  |                         |           |           |
| Accrued construction costs  | 37,178                  | 15,187    | 14,157    |
| Loan originated in connection with Brookdale Transaction  | 67,640                  | —         | —         |
| Real estate contributed to CCRC JV  | 91,603                  | —         | —         |
| Fair value of real estate acquired in exchange for sale of real estate                                | 32,000                  | 15,204    | —         |
| Tenant funded tenant improvements owned by HCP  | 21,863                  | —         | —         |
| Reclassification of the in-place leases from real estate to DFLs                                      | —                       | 123,891   | —         |
| <i>Supplemental schedule of non-cash financing activities:</i>  |                         |           |           |
| Vesting of restricted stock units   | 614                     | 471       | 707       |
| Cancellation of restricted stock  | 1                       | 20        | 8         |
| Conversion of non-managing member units into common stock   | 473                     | 3,583     | 24,988    |
| Noncontrolling interest issued in connection with Brookdale Transaction                               | 46,751                  | —         | —         |
| Noncontrolling interests issued in connection with real estate acquisition                            | 6,321                   | —         | 42,734    |
| Noncontrolling interest assumed in connection with real estate disposition                            | 1,671                   | —         | —         |
| Mortgages and other liabilities assumed with real estate acquisitions                                 | 37,149                  | 12,767    | 60,597    |
| Foreign currency translation adjustment   | (9,967)                 | 47        | 249       |
| Unrealized gains, net on available for sale securities and derivatives designated as cash flow hedges | 2,271                   | 7,790     | 4,649     |

See discussions related to: (i) the Brookdale Transaction discussed in Note 3 and (ii) the preferred stock redemption in Note 13.

#### NOTE 21. Variable Interest Entities

##### *Unconsolidated Variable Interest Entities*

At December 31, 2014, the Company had investments in: (i) an unconsolidated VIE joint venture; (ii) 48 properties leased to VIE tenants; (iii) a loan to a VIE borrower; and (iv) marketable debt securities of a VIE borrower. The Company has determined that it is not the primary beneficiary of these VIEs. The Company does not consolidate these VIEs because it does not have the ability to control the activities that most significantly impact the VIEs' economic performance. Except for the Company's equity interest in the unconsolidated joint venture (CCRC OpCo) below, the Company has no formal involvement in these VIEs beyond its investments.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company holds an equity interest in CCRC OpCo that has been identified as a VIE (see Note 3). The equity members of CCRC OpCo “lack the power” because they share certain operating rights with Brookdale as manager of the CCRCs. The assets of CCRC OpCo primarily consist of the CCRCs that it owns and leases, resident fees receivable, notes receivable and cash and cash equivalents; its obligations primarily consist of operating lease obligations and accounts payable and expense accruals associated with the cost of its CCRCs’ operations. Assets generated by the CCRC operations (primarily rents from CCRC residents) of CCRC OpCo may only be used to settle its contractual obligations (primarily the rental costs and operating expenses incurred to manage such facilities).

The Company leased 48 properties to a total of seven tenants that have been identified as VIEs (“VIE tenants”). These VIE tenants are “thinly capitalized” entities that rely on the operating cash flows generated from the senior housing facilities to pay operating expenses, including the rent obligations under their leases.

The Company holds an interest-only, senior secured term loan made to a borrower (Delphis Operations, L.P.) that has been identified as a VIE (see Note 7 regarding the Delphis loan). The “thinly capitalized” loan is collateralized by all of the assets of the borrower (comprised primarily of interests in partnerships that operate surgical facilities, of which one partnership is a tenant of the Company).

The Company holds commercial mortgage-backed securities (“CMBS”) issued by Federal Home Loan Mortgage Corporation (“Freddie MAC”) through a special purpose entity that has been identified as a VIE. The CMBS issued by the VIE are backed by mortgage obligations on senior housing facilities.

The classification of the related assets and liabilities and their maximum loss exposure as a result of the Company’s involvement with these VIEs at December 31, 2014 are presented below (in thousands):

| VIE Type                     | Asset/Liability Type                                      | Maximum Loss Exposure <sup>(1)</sup> |
|------------------------------|---|--------------------------------------|
| CCRC OpCo                    | Investments in unconsolidated joint ventures              | \$246,617                            |
| VIE tenants—operating leases | Lease intangibles, net and straight-line rent receivables | 12,862                               |
| VIE tenants—DFLs             | Net investment in DFLs                                    | 600,005                              |
| Loan—senior secured          | Loans receivable, net                                     | 17,470                               |
| CMBS                         | Marketable debt securities                                | 17,682                               |

(1) The Company’s maximum loss exposure represents the aggregate carrying amount.

As of December 31, 2014, the Company has not provided, and is not required to provide, financial support through a liquidity arrangement or otherwise, to its unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash shortfalls). See Notes 3, 6, 7 and 10 for additional descriptions of the nature, purpose and operating activities of the Company’s unconsolidated VIEs and interests therein.

#### *Consolidated Variable Interest Entities*

The Company holds a 90% ownership interest in a joint venture entity formed in September 2011 that operates senior housing properties in a RIDEA structure (“RIDEA OpCo”). The Company historically consolidated RIDEA OpCo as a result of the rights it acquired through the joint venture agreement with Brookdale utilizing the voting interest model. In the third quarter of 2014, upon the occurrence of a reconsideration event (the Brookdale Transaction), it was determined that RIDEA OpCo is a VIE and that the Company is the primary beneficiary because it has the ability to control the activities that most

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

significantly impact the VIE's economic performance. The assets of RIDEA OpCo primarily consist of leasehold interests in senior housing facilities (operating leases), resident fees receivable, and cash and cash equivalents; its obligations primarily consist of lease payments to a non-VIE consolidated subsidiary of the Company and operating expenses of its senior housing facilities (accounts payable and accrued expenses). Assets generated by the senior housing operations (primarily senior housing resident rents) of RIDEA OpCo may only be used to settle its contractual obligations (primarily the rental costs and operating expenses incurred to manage such facilities).

The Company holds an 80% equity interest in joint venture entities that own and operate senior housing properties in the RIDEA Subsidiaries. The Company consolidates RIDEA Subsidiaries (SH PropCo and SH OpCo) as the primary beneficiary because it has the ability to control the activities that most significantly impact the VIEs' economic performance. The assets of SH PropCo primarily consist of leased properties (net real estate), rents receivable and cash and cash equivalents; its obligations primarily consist of a note payable to a non-VIE consolidated subsidiary of the Company. The assets of SH OpCo primarily consist of leasehold interests in senior housing facilities (operating leases), resident fees receivable and cash and cash equivalents; its obligations primarily consist of lease payments to SH PropCo and operating expenses of its senior housing facilities (accounts payable and accrued expenses). Assets generated by the senior housing operations (primarily senior housing resident rents) of RIDEA Subsidiaries may only be used to settle its contractual obligations (primarily the rental costs and operating expenses incurred to manage such facilities). See Note 3 for additional information of the RIDEA Subsidiaries and the Company's interests therein.

The Company made a loan to an entity that entered into a tax credit structure ("Tax Credit Subsidiary") and a loan to an entity that made an investment in a development joint venture ("Development JV") both of which are considered VIEs. The Company consolidates the Tax Credit Subsidiary and Development JV because it is the primary beneficiary as it has the ability to control the activities that most significantly impact the VIEs' economic performance. The assets and liabilities of the Tax Credit Subsidiary and Development JV substantially consist of development in progress, notes receivable, prepaid expenses, notes payable and accounts payable and accrued liabilities generated from their operating activities. Assets generated by the operating activities of the Tax Credit Subsidiary and Development JV may only be used to settle their contractual obligations.

#### **NOTE 22. Fair Value Measurements**

The following table illustrates the Company's financial assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheets. Recognized gains and losses are recorded in other income, net on the Company's consolidated statements of income. During the year ended December 31, 2014, there were no transfers of financial assets or liabilities within the fair value hierarchy.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The financial assets and liabilities carried at fair value on a recurring basis at December 31, 2014 are as follows (in thousands):

| <b>Financial assets and liabilities</b>       | <b>Fair Value</b>     | <b>Level 1</b>     | <b>Level 2</b>          | <b>Level 3</b>        |
|---|-----------------------|--------------------|-------------------------|-----------------------|
| Marketable equity securities                  | \$ 43                 | \$43               | \$ —                    | \$ —                  |
| Interest-rate swap asset <sup>(1)</sup>       | 178                   | —                  | 178                     | —                     |
| Interest-rate swap liabilities <sup>(1)</sup> | (7,663)               | —                  | (7,663)                 | —                     |
| Currency swap assets <sup>(1)</sup>           | 929                   | —                  | 929                     | —                     |
| Warrants <sup>(1)</sup>                       | 2,220                 | —                  | —                       | 2,220                 |
|   | <b><u>\$4,293</u></b> | <b><u>\$43</u></b> | <b><u>\$(6,556)</u></b> | <b><u>\$2,220</u></b> |

(1) Interest rate and currency swaps as well as common stock warrant fair values are determined based on observable and unobservable market assumptions utilizing standardized derivative pricing models.

#### **NOTE 23. Disclosures About Fair Value of Financial Instruments**

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities are reasonable estimates of fair value because of the short-term maturities of these instruments. The fair values of loans receivable, CMBS, bank line of credit, term loan, mortgage debt and other debt are based on rates currently prevailing for similar instruments with similar maturities. The fair values of interest-rate and currency swap contracts as well as common stock warrants are determined based on observable and unobservable market assumptions using standardized pricing models. The fair values of senior unsecured notes and marketable equity and debt securities, excluding CMBS, are determined utilizing market quotes.

The table below summarizes the carrying amounts and fair values of the Company's financial instruments (in thousands):

|  | <b>December 31,</b>    |                   |                        |                   |
|--|------------------------|-------------------|------------------------|-------------------|
|  | <b>2014</b>            |                   | <b>2013</b>            |                   |
|  | <b>Carrying Amount</b> | <b>Fair Value</b> | <b>Carrying Amount</b> | <b>Fair Value</b> |
| Loans receivable, net <sup>(2)</sup>         | \$ 906,961             | \$ 898,522        | \$ 366,001             | \$ 373,441        |
| Marketable debt securities <sup>(1)(3)</sup> | 231,442                | 252,125           | 244,089                | 280,850           |
| Marketable equity securities <sup>(1)</sup>  | 43                     | 43                | —                      | —                 |
| Warrants <sup>(3)</sup>                      | 2,220                  | 2,220             | 114                    | 114               |
| Bank line of credit <sup>(2)</sup>           | 838,516                | 838,516           | —                      | —                 |
| Term loan <sup>(2)</sup>                     | 213,610                | 213,610           | 226,858                | 226,858           |
| Senior unsecured notes <sup>(1)</sup>        | 7,626,194              | 8,187,458         | 6,963,375              | 7,405,817         |
| Mortgage debt <sup>(2)</sup>                 | 984,431                | 1,025,091         | 1,396,485              | 1,421,214         |
| Other debt <sup>(2)</sup>                    | 97,022                 | 97,022            | 74,909                 | 74,909            |
| Interest-rate swap asset <sup>(2)</sup>      | 178                    | 178               | 2,325                  | 2,325             |
| Interest-rate swap liability <sup>(2)</sup>  | 7,663                  | 7,663             | 8,384                  | 8,384             |
| Currency swap assets <sup>(2)</sup>          | 929                    | 929               | 2,756                  | 2,756             |

(1) Level 1: Fair value calculated based on quoted prices in active markets.

(2) Level 2: Fair value based on quoted prices for similar or identical instruments in active or inactive markets, respectively, or calculated utilizing standardized pricing models in which significant inputs or value drivers are observable in active markets.

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (3) Level 3: Fair value determined based on significant unobservable market inputs using standardized derivative or cash flow pricing models.

#### **NOTE 24. Derivative Financial Instruments**

The following table summarizes the Company's outstanding interest-rate and foreign currency swap contracts as of December 31, 2014 (dollars and GBP in thousands):

| Date Entered                 | Maturity Date | Hedge Designation | Fixed Rate/Buy Amount | Floating/Exchange Rate Index | Notional/Sell Amount | Fair Value <sup>(1)</sup> |
|------------------------------|---------------|-------------------|-----------------------|------------------------------|----------------------|---------------------------|
| July 2005 <sup>(2)</sup>     | July 2020     | Cash Flow         | 3.82%                 | BMA Swap Index               | \$ 45,600            | \$(5,939)                 |
| November 2008 <sup>(3)</sup> | October 2016  | Cash Flow         | 5.95%                 | 1 Month LIBOR+1.50%          | \$ 26,000            | (1,724)                   |
| July 2012 <sup>(3)</sup>     | June 2016     | Cash Flow         | 1.81%                 | 1 Month GBP LIBOR+1.20%      | £137,000             | 178                       |
| July 2012 <sup>(4)</sup>     | June 2016     | Cash Flow         | \$34,100              | Buy USD/Sell GBP             | £ 21,700             | 276                       |
| July 2014 <sup>(5)</sup>     | December 2015 | Cash Flow         | \$ 7,500              | Buy USD/Sell GBP             | £ 4,400              | 653                       |

- (1) Derivative assets are recorded in other assets, net and derivative liabilities are recorded in accounts payable and accrued liabilities on the consolidated balance sheets.
- (2) Represents three interest-rate swap contracts, which hedge fluctuations in interest payments on variable-rate secured debt due to overall changes in hedged cash flows.
- (3) Hedges fluctuations in interest payments on variable-rate unsecured debt due to fluctuations in the underlying benchmark interest rate.
- (4) Currency swap contract (buy USD/sell GBP) hedges the foreign currency exchange risk related to a portion of the Company's forecasted interest receipts on GBP denominated senior unsecured notes. Represents a currency swap to sell £7.2 million at a rate of 1.5695 on various dates through June 2016.
- (5) Currency swap contract (buy USD/sell GBP) hedges the foreign currency exchange risk related to the Company's forecasted GBP denominated interest receipts on intercompany loans. Represents a currency swap to sell £0.4 million at a rate of 1.7060 on various dates through December 2015.

The Company uses derivative instruments to mitigate the effects of interest rate and foreign currency fluctuations on specific forecasted transactions as well as recognized financial obligations or assets. Utilizing derivative instruments allows the Company to manage the risk of fluctuations in interest and foreign currency rates related to the potential impact these changes could have on future earnings and forecasted cash flows. The Company does not use derivative instruments for speculative or trading purposes.

The primary risks associated with derivative instruments are market and credit risk. Market risk is defined as the potential for loss in value of a derivative instrument due to adverse changes in market prices. Credit risk is the risk that one of the parties to a derivative contract fails to perform or meet their financial obligation. The Company does not obtain collateral associated with its derivative contracts, but monitors the credit standing of its counterparties on a regular basis. Should its counterparty fail to perform, the Company could incur a financial loss to the extent that the associated derivative contract was in an asset position. At December 31, 2014, the Company does not anticipate non-performance by the counterparties to its outstanding derivative contracts.

On July 16, 2014, the Company entered into a foreign currency swap contract to hedge the foreign currency exchange risk related to GBP interest receipts on two intercompany loans. The cash flow hedge has a fixed USD/GBP exchange rate of 1.7060 (buy \$0.6 million and sell £0.4 million monthly) and matures in December 2015. The fair value of the contract at December 31, 2014 was \$0.7 million and is included in other assets, net. During the year ended December 31, 2014, there was no ineffective portion related to this hedge.

On July 27, 2012, the Company entered into a foreign currency swap contract to hedge the foreign currency exchange risk related to a portion of the forecasted interest receipts from its GBP denominated

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

senior unsecured notes (see additional discussion of the Four Seasons senior unsecured notes in Note 10). The cash flow hedge has a fixed USD/GBP exchange rate of 1.5695 (buy \$11 million and sell £7 million semi-annually) for a portion of its forecasted semi-annual cash receipts denominated in GBP. The foreign currency swap contract matures in June 2016 (the end of the non-call period of the senior unsecured notes). The fair value of the contract at December 31, 2014 was \$0.3 million and is included in other assets, net. During the year ended December 31, 2014, there was no ineffective portion related to this hedge.

On July 27, 2012, the Company entered into an interest-rate swap contract that is designated as hedging the interest payments on its GBP denominated Term Loan due to fluctuations in the underlying benchmark interest rate (see additional discussion of the Term Loan in Note 11). The cash flow hedge has a notional amount of £137 million and expires in June 2016 (the maturity of the Term Loan). The fair value of the contract at December 31, 2014 was an asset of \$0.2 million and is included in other assets, net. During the year ended December 31, 2014, there was no ineffective portion related to this hedge.

In December 2010, the Company assumed a cash flow hedge as part of a real estate acquisition. During the year ended December 31, 2014, the Company determined a portion of the hedge was ineffective and reclassified \$2.2 million of unrealized gains related to this interest-rate swap contract into other income, net.

For the year ended December 31, 2014, the Company earned additional interest income of \$1 million and recognized a reduction in interest expense of \$4 million, resulting from its cash flow hedging relationships. At December 31, 2014, the Company expects that the hedged forecasted transactions for each of the outstanding qualifying cash flow hedging relationships remain probable of occurring, and as a result, no gains or losses recorded to accumulated other comprehensive loss are expected to be reclassified to earnings. During year ended December 31, 2014, there were no ineffective portions related to other outstanding hedges, other than those discussed above.

To illustrate the effect of movements in the interest rate and foreign currency markets, the Company performed a market sensitivity analysis on its outstanding hedging instruments. The Company applied various basis point spreads to the underlying interest rate curves and foreign currency exchange rates of the derivative portfolio in order to determine the instruments' change in fair value. The following table summarizes the results of the analysis performed (dollars in thousands):

| Date Entered             | Maturity Date | Effects of Change in Interest and Foreign Currency Rates |                  |                   |                   |
|--------------------------|---------------|--|------------------|-------------------|-------------------|
|                          |               | +50 Basis Points   | -50 Basis Points | +100 Basis Points | -100 Basis Points |
| <i>Interest rates:</i>   |               |  |                  |                   |                   |
| July 2005                | July 2020     | \$1,170  | \$(1,194)        | \$2,351           | \$(2,375)         |
| November 2008            | October 2016  | 235  | (220)            | 462               | (447)             |
| July 2012                | June 2016     | 1,533  | (1,560)          | 3,079             | (3,106)           |
| <i>Foreign Currency:</i> |               |  |                  |                   |                   |
| July 2012                | June 2016     | (189)  | 149              | (358)             | 319               |
| July 2014                | December 2015 | (38)   | 30               | (72)              | 64                |

#### **NOTE 25. Transactions with Related Parties**

Mr. Klaritch, an executive vice president of the Company, was previously a senior executive and limited liability company member of MedCap Properties, LLC, which was acquired in October 2003 by HCP and a joint venture of which HCP was the managing member. As part of that transaction, MedCap Properties,

## HCP, Inc.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

LLC contributed certain property interests to a newly-formed entity, HCPI/Tennessee, LLC, in exchange for DownREIT units. In connection with the transactions, Mr. Klaritch received 113,431 non-managing member units in HCPI/Tennessee, LLC in a distribution of his interest in MedCap Properties, LLC. Each DownREIT unit is redeemable for an amount of cash approximating the then-current market value of two shares of HCP's common stock or, at HCP's option, two shares of HCP's common stock (subject to certain adjustments, such as stock splits, stock dividends and reclassifications). During the year ended December 31, 2012, Mr. Klaritch and his affiliates exchanged their remaining approximately 45,000 HCPI/Tennessee, LLC DownREIT units for approximately 90,000 shares of the Company's common stock.

#### **NOTE 26. Selected Quarterly Financial Data (Unaudited)**

Selected quarterly information for the years ended December 31, 2014 and 2013 is as follows (in thousands, except per share amounts). Results of operations for properties sold or to be sold have been classified as discontinued operations for all periods presented:

|   | Three Months Ended During 2014 |           |              |             |
|---|--------------------------------|-----------|--------------|-------------|
|   | March 31                       | June 30   | September 30 | December 31 |
| Total revenues  | \$529,992                      | \$536,121 | \$596,638    | \$603,528   |
| Income before income taxes and equity income from<br>and impairments of investments in unconsolidated<br>joint ventures | 220,795                        | 208,926   | 240,946      | 222,771     |
| Total discontinued operations   | 29,746                         | —         | —            | —           |
| Net income  | 263,623                        | 222,279   | 251,059      | 199,630     |
| Net income applicable to HCP, Inc.  | 259,111                        | 218,885   | 247,654      | 196,583     |
| Dividends paid per common share   | 0.545                          | 0.545     | 0.545        | 0.545       |
| Basic earnings per common share   | 0.56                           | 0.48      | 0.54         | 0.43        |
| Diluted earnings per common share   | 0.56                           | 0.48      | 0.54         | 0.43        |
|   | Three Months Ended During 2013 |           |              |             |
|   | March 31                       | June 30   | September 30 | December 31 |
| Total revenues  | \$511,184                      | \$512,239 | \$546,158    | \$530,297   |
| Income before income taxes and equity income from<br>and impairments of investments in unconsolidated<br>joint ventures | 217,667                        | 199,916   | 214,176      | 220,256     |
| Total discontinued operations   | 2,232                          | 2,828     | 9,824        | 59,489      |
| Net income  | 233,784                        | 216,725   | 236,858      | 297,639     |
| Net income applicable to HCP, Inc.  | 230,585                        | 213,401   | 233,756      | 293,095     |
| Dividends paid per common share   | 0.525                          | 0.525     | 0.525        | 0.525       |
| Basic earnings per common share   | 0.51                           | 0.47      | 0.51         | 0.64        |
| Diluted earnings per common share   | 0.51                           | 0.47      | 0.51         | 0.64        |

The above selected quarterly financial data includes the following significant transactions:

- During the three months ended December 31, 2014, the Company concluded that its 9.4% equity ownership interest in HCRMC was impaired and recorded an impairment charge of \$36 million.
- On August 29, 2014, the Company completed the Brookdale Transaction. As a result, the Company recognized a \$38 million net termination fee in rental and related revenues, which represents the

## **HCP, Inc.**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

termination value for the 49 leases related to the RIDEA Subsidiaries, net of the write-off of the related straight-line rent assets and lease intangibles.

- The Company's Board of Directors terminated its former CEO on October 2, 2013. As a result of the termination, the Company incurred general and administrative charges of \$26 million that include: (i) the acceleration of \$17 million of deferred compensation for restricted stock units and options that vested upon termination; and (ii) severance payments and other costs of approximately \$9 million during the quarter ended September 30, 2013.
- The Company received £129 million (\$202 million) from the par payoff of its Barchester debt investments generating \$24 million of interest income during the quarter ended September 30, 2013.

## **ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **ITEM 9A. Controls and Procedures**

*Disclosure Controls and Procedures.* We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014. Based upon that evaluation, our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer) concluded that our disclosure controls and procedures were effective, as of December 31, 2014, at the reasonable assurance level.

*Changes in Internal Control Over Financial Reporting.* There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2014 to which this report relates that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

*Management's Annual Report on Internal Control over Financial Reporting.* Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of HCP, Inc.  
Irvine, California

We have audited the internal control over financial reporting of HCP, Inc. and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 Annual Report on 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 by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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 criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2014, of the Company and our report dated February 10, 2015 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ Deloitte & Touche LLP

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Los Angeles, California  
February 10, 2015

## **ITEM 9B. Other Information**

None.

## **PART III**

### **ITEM 10. Directors, Executive Officers and Corporate Governance**

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors and employees, including our Chief Executive Officer and all senior financial officers, including our principal financial officer, principal accounting officer and controller. We have also adopted a Vendor Code of Business Conduct and Ethics applicable to our vendors and business partners. A current copy of our Code of Business Conduct and Ethics and Vendor Code of Business Conduct and Ethics are posted on the Investor Relations section of our website at [www.hcpi.com](http://www.hcpi.com). In addition, waivers from, and amendments to, our Code of Business Conduct and Ethics that apply to our directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions, will be timely posted in the Investor Relations section of our website at [www.hcpi.com](http://www.hcpi.com).

We hereby incorporate by reference the information appearing under the captions “Proposal No. 1 Election of Directors,” “Our Executive Officers,” “Board of Directors and Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Registrant’s definitive proxy statement relating to its 2015 Annual Meeting of Stockholders to be held on April 30, 2015.

### **ITEM 11. Executive Compensation**

We hereby incorporate by reference the information under the caption “Executive Compensation” in the Registrant’s definitive proxy statement relating to its 2015 Annual Meeting of Stockholders to be held on April 30, 2015.

### **ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

We hereby incorporate by reference the information under the captions “Security Ownership of Principal Stockholders, Directors and Management” and “Proposal No. 4 HCP, Inc. 2014 Performance Incentive Plan Proposal” in the Registrant’s definitive proxy statement relating to its 2015 Annual Meeting of Stockholders to be held on April 30, 2015.

### **ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

We hereby incorporate by reference the information under the captions “Certain Transactions” and “Board of Directors and Corporate Governance” in the Registrant’s definitive proxy statement relating to its 2015 Annual Meeting of Stockholders to be held on April 30, 2015.

### **ITEM 14. Principal Accounting Fees and Services**

We hereby incorporate by reference under the caption “Audit and Non-Audit Fees” in the Registrant’s definitive proxy statement relating to its 2015 Annual Meeting of Stockholders to be held on April 30, 2015.

## PART IV

### ITEM 15. Exhibits, Financial Statement Schedules

#### (a) 1. Financial Statement Schedules

##### Schedule II: Valuation and Qualifying Accounts

| Year Ended December 31, | Allowance Accounts <sup>(1)</sup> |  | Additions                               |                     | Deductions                         |                     |                        |
|-------------------------|-----------------------------------|--|---|---------------------|------------------------------------|---------------------|------------------------|
|                         | Balance at Beginning of Year      |  | Amounts Charged Against Operations, net | Acquired Properties | Uncollectible Accounts Written-off | Disposed Properties | Balance at End of Year |
| 2014                    | \$49,169                          |  | \$5,413                                 | \$—                 | \$(2,512)                          | \$ (693)            | \$51,377               |
| 2013                    | 48,599                            |  | 2,633                                   | —                   | (2,063)                            | —                   | 49,169                 |
| 2012                    | 49,209                            |  | 3,724                                   | —                   | (960)                              | (3,374)             | 48,599                 |

(1) Includes allowance for doubtful accounts, straight-line rent reserves, and allowances for loan and direct financing lease losses.

### Schedule III: Real Estate and Accumulated Depreciation

| City                  | State               | Encumbrances at December 31, 2014 |        | Initial Cost to Company |                            | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                            |                      |                          |      | Year Acquired/ Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|-----------------------|---------------------|-----------------------------------|--------|-------------------------|----------------------------|---|---|----------------------------|----------------------|--------------------------|------|----------------------------|---|
|                       |                     |                                   |        | Land                    | Buildings and Improvements |   | Land  | Buildings and Improvements | Total <sup>(1)</sup> | Accumulated Depreciation |      |                            |   |
| <b>Senior housing</b> |                     |                                   |        |                         |                            |   |   |                            |                      |                          |      |                            |   |
| 1107                  | Huntsville          | AL                                | \$ —   | \$ 307                  | \$ 5,813                   | \$ —  | \$ 307  | \$ 5,453                   | \$ 5,760             | \$ (1,125)               | 2006 | 40                         |   |
| 2366                  | Little Rock         | AR                                | —      | 1,922                   | 14,140                     | 445   | 2,046   | 13,967                     | 16,013               | (3,030)                  | 2006 | 45                         |   |
| 0786                  | Douglas             | AZ                                | —      | 110                     | 703                        | —   | 110   | 703                        | 813                  | (305)                    | 2005 | 35                         |   |
| 2384                  | Prescott            | AZ                                | —      | 1,276                   | 8,660                      | —   | 1,276   | 8,660                      | 9,936                | (688)                    | 2012 | 45                         |   |
| 1974                  | Sun City            | AZ                                | 26,908 | 2,640                   | 33,223                     | 1,620                                       | 2,640   | 34,314                     | 36,954               | (4,647)                  | 2011 | 30                         |   |
| 0518                  | Tucson              | AZ                                | —      | 2,350                   | 24,037                     | —   | 2,350   | 24,037                     | 26,387               | (9,014)                  | 2002 | 30                         |   |
| 1238                  | Beverly Hills       | CA                                | —      | 9,872                   | 32,590                     | 2,208                                       | 9,872   | 34,073                     | 43,945               | (7,652)                  | 2006 | 40                         |   |
| 2362                  | Camarillo           | CA                                | —      | 5,798                   | 19,427                     | 575   | 5,822   | 19,202                     | 25,024               | (4,073)                  | 2006 | 45                         |   |
| 2352                  | Carlsbad            | CA                                | —      | 7,897                   | 14,255                     | 2,063                                       | 7,897   | 15,527                     | 23,424               | (2,913)                  | 2006 | 45                         |   |
| 0883                  | Carmichael          | CA                                | —      | 4,270                   | 13,846                     | —   | 4,270   | 13,236                     | 17,506               | (2,675)                  | 2006 | 40                         |   |
| 2204                  | Chino Hills         | CA                                | —      | 3,720                   | 41,183                     | —   | 3,720   | 41,183                     | 44,903               | (803)                    | 2014 | 35                         |   |
| 0851                  | Citrus Heights      | CA                                | —      | 1,180                   | 8,367                      | —   | 1,180   | 8,037                      | 9,217                | (2,298)                  | 2006 | 29                         |   |
| 2092                  | Clearlake           | CA                                | —      | 354                     | 4,799                      | —   | 354   | 4,799                      | 5,153                | (328)                    | 2012 | 45                         |   |
| 0790                  | Concord             | CA                                | 25,000 | 6,010                   | 39,601                     | —   | 6,010   | 38,301                     | 44,311               | (9,002)                  | 2005 | 40                         |   |
| 2399                  | Corona              | CA                                | —      | 2,637                   | 10,134                     | —   | 2,637   | 10,134                     | 12,771               | (687)                    | 2012 | 45                         |   |
| 0787                  | Dana Point          | CA                                | —      | 1,960                   | 15,946                     | —   | 1,960   | 15,466                     | 17,426               | (3,641)                  | 2005 | 39                         |   |
| 2364                  | Elk Grove           | CA                                | —      | 2,235                   | 6,339                      | 262   | 2,235   | 6,448                      | 8,683                | (1,367)                  | 2006 | 45                         |   |
| 0798                  | Escondido           | CA                                | 14,340 | 5,090                   | 24,253                     | —   | 5,090   | 23,353                     | 28,443               | (5,498)                  | 2005 | 40                         |   |
| 2054                  | Fortuna             | CA                                | —      | 818                     | 3,295                      | —   | 818   | 3,295                      | 4,113                | (996)                    | 2012 | 50                         |   |
| 2079                  | Fortuna             | CA                                | —      | 1,346                   | 11,856                     | —   | 1,346   | 11,856                     | 13,202               | (2,553)                  | 2012 | 45                         |   |
| 0791                  | Fremont             | CA                                | 8,641  | 2,360                   | 11,672                     | —   | 2,360   | 11,192                     | 13,552               | (2,635)                  | 2005 | 40                         |   |
| 1965                  | Fresno              | CA                                | 18,666 | 1,730                   | 31,918                     | 6,623                                       | 1,730   | 38,111                     | 39,841               | (4,342)                  | 2011 | 30                         |   |
| 0788                  | Granada Hills       | CA                                | —      | 2,200                   | 18,257                     | —   | 2,200   | 17,637                     | 19,837               | (4,152)                  | 2005 | 39                         |   |
| 1156                  | Hemet               | CA                                | —      | 1,270                   | 5,966                      | 214   | 1,271   | 5,933                      | 7,204                | (1,603)                  | 2006 | 40                         |   |
| 0856                  | Irvine              | CA                                | —      | 8,220                   | 14,104                     | —   | 8,220   | 13,564                     | 21,784               | (2,537)                  | 2006 | 45                         |   |
| 0227                  | Lodi                | CA                                | 8,664  | 732                     | 5,453                      | —   | 732   | 5,453                      | 6,185                | (2,540)                  | 1997 | 35                         |   |
| 0226                  | Murrieta            | CA                                | 5,822  | 435                     | 5,729                      | —   | 435   | 5,729                      | 6,164                | (2,601)                  | 1997 | 35                         |   |
| 1165                  | Northridge          | CA                                | —      | 6,718                   | 26,309                     | 549   | 6,752   | 26,015                     | 32,767               | (5,464)                  | 2006 | 40                         |   |
| 1561                  | Orangevale          | CA                                | —      | 2,160                   | 8,522                      | 1,000                                       | 2,160   | 9,002                      | 11,162               | (2,031)                  | 2008 | 40                         |   |
| 1168                  | Palm Springs        | CA                                | —      | 1,005                   | 5,183                      | 396   | 1,005   | 5,216                      | 6,221                | (1,124)                  | 2006 | 40                         |   |
| 0789                  | Pleasant Hill       | CA                                | 6,270  | 2,480                   | 21,333                     | —   | 2,480   | 20,633                     | 23,113               | (4,857)                  | 2005 | 40                         |   |
| 2369                  | Rancho Mirage       | CA                                | —      | 1,798                   | 24,053                     | 475   | 1,811   | 23,600                     | 25,411               | (4,925)                  | 2006 | 45                         |   |
| 2380                  | Roseville           | CA                                | —      | 692                     | 21,662                     | —   | 692   | 21,662                     | 22,354               | (1,220)                  | 2012 | 45                         |   |
| 2205                  | Roseville           | CA                                | —      | 3,844                   | 33,527                     | —   | 3,844   | 33,527                     | 37,371               | (641)                    | 2014 | 35                         |   |
| 2353                  | San Diego           | CA                                | —      | 6,384                   | 32,072                     | 222   | 6,384   | 31,191                     | 37,575               | (6,515)                  | 2006 | 45                         |   |
| 1007                  | San Dimas           | CA                                | —      | 5,628                   | 31,374                     | 1,324                                       | 5,630   | 31,902                     | 37,532               | (6,424)                  | 2006 | 40                         |   |
| 2354                  | San Juan Capistrano | CA                                | —      | 5,983                   | 9,614                      | 189   | 5,983   | 9,517                      | 15,500               | (2,024)                  | 2006 | 45                         |   |
| 1167                  | Santa Rosa          | CA                                | —      | 3,582                   | 21,113                     | 665   | 3,627   | 20,964                     | 24,591               | (4,451)                  | 2006 | 40                         |   |
| 0793                  | South San Francisco | CA                                | 9,967  | 3,000                   | 16,586                     | —   | 3,000   | 16,056                     | 19,056               | (3,774)                  | 2005 | 40                         |   |
| 1966                  | Sun City            | CA                                | 14,131 | 2,650                   | 22,709                     | 2,123                                       | 2,650   | 24,377                     | 27,027               | (3,523)                  | 2011 | 30                         |   |
| 0792                  | Ventura             | CA                                | 9,417  | 2,030                   | 17,379                     | —   | 2,030   | 16,749                     | 18,779               | (3,943)                  | 2005 | 40                         |   |
| 1155                  | Yorba Linda         | CA                                | —      | 4,968                   | 19,290                     | 308   | 5,030   | 18,740                     | 23,770               | (3,922)                  | 2006 | 40                         |   |
| 2055                  | Yreka               | CA                                | —      | 565                     | 9,184                      | —   | 565   | 9,184                      | 9,749                | (643)                    | 2012 | 45                         |   |
| 2373                  | Colorado Springs    | CO                                | —      | 1,910                   | 24,479                     | 400   | 1,910   | 23,916                     | 25,826               | (5,014)                  | 2006 | 45                         |   |
| 0512                  | Denver              | CO                                | —      | 2,810                   | 36,021                     | 1,885                                       | 2,810   | 37,906                     | 40,716               | (13,823)                 | 2002 | 30                         |   |
| 1233                  | Denver              | CO                                | —      | 2,511                   | 30,641                     | 342   | 2,528   | 30,164                     | 32,692               | (6,310)                  | 2006 | 40                         |   |
| 2146                  | Denver              | CO                                | —      | 875                     | 5,693                      | —   | 875   | 5,693                      | 6,568                | (433)                    | 2012 | 45                         |   |
| 1000                  | Greenwood Village   | CO                                | —      | 3,367                   | 43,610                     | 2,894                                       | 3,367   | 45,708                     | 49,075               | (8,217)                  | 2006 | 40                         |   |
| 1234                  | Lakewood            | CO                                | —      | 3,012                   | 31,913                     | 321   | 3,012   | 31,436                     | 34,448               | (6,550)                  | 2006 | 40                         |   |
| 2091                  | Montrose            | CO                                | —      | 1,078                   | 24,224                     | —   | 1,078   | 24,224                     | 25,302               | (1,383)                  | 2012 | 50                         |   |
| 2085                  | Glastonbury         | CT                                | —      | 3,743                   | 9,766                      | —   | 3,743   | 9,766                      | 13,509               | (709)                    | 2012 | 45                         |   |
| 2144                  | Glastonbury         | CT                                | —      | 1,658                   | 16,046                     | —   | 1,658   | 16,046                     | 17,704               | (1,046)                  | 2012 | 45                         |   |
| 0730                  | Torrington          | CT                                | —      | 166                     | 11,001                     | —   | 166   | 10,591                     | 10,757               | (2,559)                  | 2005 | 40                         |   |
| 2355                  | Woodbridge          | CT                                | —      | 2,352                   | 9,929                      | 224   | 2,363   | 9,680                      | 12,043               | (2,077)                  | 2006 | 45                         |   |
| 0538                  | Altamonte Springs   | FL                                | —      | 1,530                   | 7,956                      | —   | 1,530   | 7,136                      | 8,666                | (2,140)                  | 2002 | 40                         |   |
| 0861                  | Apopka              | FL                                | —      | 920                     | 4,816                      | —   | 920   | 4,716                      | 5,636                | (1,112)                  | 2006 | 35                         |   |
| 0852                  | Boca Raton          | FL                                | —      | 4,730                   | 17,532                     | 3,602                                       | 4,730   | 20,723                     | 25,453               | (5,396)                  | 2006 | 30                         |   |
| 1001                  | Boca Raton          | FL                                | 11,242 | 2,415                   | 17,923                     | —   | 2,415   | 17,561                     | 19,976               | (3,370)                  | 2006 | 40                         |   |
| 0544                  | Boynton Beach       | FL                                | 7,756  | 1,270                   | 4,773                      | —   | 1,270   | 4,773                      | 6,043                | (1,412)                  | 2003 | 40                         |   |
| 1963                  | Boynton Beach       | FL                                | 27,733 | 2,550                   | 31,521                     | 2,057                                       | 2,550   | 33,017                     | 35,567               | (4,499)                  | 2011 | 30                         |   |
| 1964                  | Boynton Beach       | FL                                | 3,882  | 570                     | 5,649                      | 1,484                                       | 570   | 6,940                      | 7,510                | (1,096)                  | 2011 | 30                         |   |
| 0539                  | Clearwater          | FL                                | —      | 2,250                   | 2,627                      | —   | 2,250   | 2,627                      | 4,877                | (787)                    | 2002 | 40                         |   |
| 0746                  | Clearwater          | FL                                | —      | 3,856                   | 12,176                     | —   | 3,856   | 11,321                     | 15,177               | (3,901)                  | 2005 | 40                         |   |
| 0862                  | Clermont            | FL                                | —      | 440                     | 6,518                      | —   | 440   | 6,418                      | 6,858                | (1,513)                  | 2006 | 35                         |   |
| 1002                  | Coconut Creek       | FL                                | 13,443 | 2,461                   | 16,006                     | —   | 2,461   | 15,620                     | 18,081               | (2,998)                  | 2006 | 40                         |   |
| 0492                  | Delray Beach        | FL                                | 11,040 | 850                     | 6,637                      | —   | 850   | 6,637                      | 7,487                | (1,762)                  | 2002 | 43                         |   |
| 0850                  | Gainesville         | FL                                | —      | 1,020                   | 13,490                     | —   | 1,020   | 13,090                     | 14,110               | (2,809)                  | 2006 | 40                         |   |
| 1095                  | Gainesville         | FL                                | —      | 1,221                   | 12,226                     | —   | 1,221   | 12,001                     | 13,222               | (2,475)                  | 2006 | 40                         |   |
| 0490                  | Jacksonville        | FL                                | 42,689 | 3,250                   | 25,936                     | 6,170                                       | 3,250   | 32,106                     | 35,356               | (9,743)                  | 2002 | 35                         |   |
| 1096                  | Jacksonville        | FL                                | —      | 1,587                   | 15,616                     | —   | 1,587   | 15,298                     | 16,885               | (3,155)                  | 2006 | 40                         |   |
| 0855                  | Lantana             | FL                                | —      | 3,520                   | 26,452                     | —   | 3,520   | 25,652                     | 29,172               | (7,197)                  | 2006 | 30                         |   |
| 1968                  | Largo               | FL                                | 48,642 | 2,920                   | 64,988                     | 5,741                                       | 2,920   | 69,601                     | 72,521               | (9,887)                  | 2011 | 30                         |   |
| 0731                  | Ocoee               | FL                                | —      | 2,096                   | 9,322                      | —   | 2,096   | 8,801                      | 10,897               | (2,127)                  | 2005 | 40                         |   |
| 0859                  | Oviedo              | FL                                | —      | 670                     | 8,071                      | —   | 670   | 7,971                      | 8,641                | (1,879)                  | 2006 | 35                         |   |
| 1970                  | Palm Beach Gardens  | FL                                | 26,785 | 4,820                   | 24,937                     | 14,799                                      | 4,820   | 38,941                     | 43,761               | (4,407)                  | 2011 | 30                         |   |
| 1017                  | Palm Harbor         | FL                                | —      | 1,462                   | 16,774                     | 500   | 1,462   | 16,888                     | 18,350               | (3,538)                  | 2006 | 40                         |   |
| 0732                  | Port Orange         | FL                                | —      | 2,340                   | 9,988                      | —   | 2,340   | 9,377                      | 11,717               | (2,266)                  | 2005 | 40                         |   |

| City | State            | Encumbrances at December 31, 2014 | Initial Cost to Company |                            |        | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                            |                      | Accumulated Depreciation | Year Acquired/Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|------|------------------|-----------------------------------|-------------------------|----------------------------|--------|---|---|----------------------------|----------------------|--------------------------|---------------------------|---|
|      |                  |                                   | Land                    | Buildings and Improvements | Total  |   | Land  | Buildings and Improvements | Total <sup>(1)</sup> |                          |                           |   |
| 1971 | Sarasota         | FL                                | 22,427                  | 3,050                      | 29,516 | 2,183                                       | 3,050   | 31,278                     | 34,328               | (4,353)                  | 2011                      | 30  |
| 0802 | St. Augustine    | FL                                | —                       | 830                        | 11,627 | —   | 830   | 11,227                     | 12,057               | (2,994)                  | 2005                      | 35  |
| 2194 | Springtree       | FL                                | —                       | 1,066                      | 15,874 | —   | 1,066   | 15,874                     | 16,940               | (936)                    | 2013                      | 45  |
| 1097 | Tallahassee      | FL                                | —                       | 1,331                      | 19,039 | —   | 1,331   | 18,695                     | 20,026               | (3,856)                  | 2006                      | 40  |
| 0224 | Tampa            | FL                                | —                       | 600                        | 5,566  | 686   | 696   | 6,134                      | 6,830                | (2,345)                  | 1997                      | 45  |
| 0849 | Tampa            | FL                                | —                       | 800                        | 11,340 | —   | 800   | 10,940                     | 11,740               | (2,347)                  | 2006                      | 40  |
| 1257 | Vero Beach       | FL                                | —                       | 2,035                      | 34,993 | 201   | 2,035   | 33,634                     | 35,669               | (6,934)                  | 2006                      | 40  |
| 1605 | Vero Beach       | FL                                | —                       | 700                        | 16,234 | —   | 700   | 16,234                     | 16,934               | (2,370)                  | 2010                      | 35  |
| 1976 | West Palm Beach  | FL                                | —                       | 390                        | 2,241  | 277   | 390   | 2,433                      | 2,823                | (351)                    | 2011                      | 30  |
| 1098 | Alpharetta       | GA                                | —                       | 793                        | 8,761  | 1,181                                       | 793   | 9,656                      | 10,449               | (1,921)                  | 2006                      | 40  |
| 1099 | Atlanta          | GA                                | —                       | 687                        | 5,507  | 1,281                                       | 687   | 6,388                      | 7,075                | (1,260)                  | 2006                      | 40  |
| 2370 | Atlanta          | GA                                | —                       | 2,665                      | 5,911  | 455   | 2,669   | 6,092                      | 8,761                | (1,332)                  | 2006                      | 45  |
| 2108 | Buford           | GA                                | —                       | 562                        | 3,604  | —   | 562   | 3,604                      | 4,166                | (266)                    | 2012                      | 45  |
| 2109 | Buford           | GA                                | —                       | 536                        | 3,142  | —   | 536   | 3,142                      | 3,678                | (230)                    | 2012                      | 45  |
| 2388 | Buford           | GA                                | —                       | 1,987                      | 6,561  | —   | 1,987   | 6,561                      | 8,548                | (498)                    | 2012                      | 45  |
| 2053 | Canton           | GA                                | —                       | 401                        | 17,888 | —   | 401   | 17,888                     | 18,289               | (942)                    | 2012                      | 50  |
| 2155 | Commerce         | GA                                | —                       | 737                        | 8,228  | —   | 737   | 8,228                      | 8,965                | (548)                    | 2012                      | 45  |
| 2165 | Hartwell         | GA                                | —                       | 368                        | 6,337  | —   | 368   | 6,337                      | 6,705                | (377)                    | 2012                      | 45  |
| 2066 | Lawrenceville    | GA                                | —                       | 581                        | 2,669  | —   | 581   | 2,669                      | 3,250                | (239)                    | 2012                      | 45  |
| 1241 | Lilburn          | GA                                | —                       | 907                        | 17,340 | 90  | 907   | 16,874                     | 17,781               | (3,480)                  | 2006                      | 40  |
| 2167 | Lithia Springs   | GA                                | —                       | 1,031                      | 6,954  | —   | 1,031   | 6,954                      | 7,985                | (520)                    | 2012                      | 40  |
| 2105 | Macon            | GA                                | —                       | 814                        | 10,890 | —   | 814   | 10,890                     | 11,704               | (601)                    | 2012                      | 45  |
| 1112 | Marietta         | GA                                | —                       | 894                        | 6,944  | 725   | 904   | 7,392                      | 8,296                | (1,561)                  | 2006                      | 40  |
| 2395 | Marietta         | GA                                | —                       | 987                        | 4,818  | —   | 987   | 4,818                      | 5,805                | (364)                    | 2012                      | 45  |
| 2086 | Newnan           | GA                                | —                       | 1,227                      | 4,202  | —   | 1,227   | 4,202                      | 5,429                | (349)                    | 2012                      | 45  |
| 2147 | Stone Mountain   | GA                                | —                       | 264                        | 3,182  | —   | 264   | 3,182                      | 3,446                | (475)                    | 2012                      | 45  |
| 2118 | Woodstock        | GA                                | —                       | 764                        | 7,334  | —   | 764   | 7,334                      | 8,098                | (464)                    | 2012                      | 45  |
| 2157 | Woodstock        | GA                                | —                       | 1,926                      | 12,757 | —   | 1,926   | 12,757                     | 14,683               | (806)                    | 2012                      | 45  |
| 1088 | Davenport        | IA                                | —                       | 511                        | 8,039  | —   | 511   | 7,868                      | 8,379                | (1,623)                  | 2006                      | 40  |
| 1093 | Marion           | IA                                | —                       | 502                        | 6,865  | —   | 502   | 6,713                      | 7,215                | (1,385)                  | 2006                      | 40  |
| 2397 | Sioux City       | IA                                | —                       | 197                        | 8,078  | —   | 197   | 8,078                      | 8,275                | (555)                    | 2012                      | 45  |
| 1091 | Bloomington      | IL                                | —                       | 798                        | 13,091 | —   | 798   | 12,832                     | 13,630               | (2,647)                  | 2006                      | 40  |
| 2375 | Burr Ridge       | IL                                | —                       | 2,640                      | 23,901 | 912   | 2,704   | 24,749                     | 27,453               | (5,330)                  | 2010                      | 45  |
| 1089 | Champaign        | IL                                | —                       | 101                        | 4,207  | 1,592                                       | 279   | 5,463                      | 5,742                | (1,023)                  | 2006                      | 40  |
| 2200 | Deer Park        | IL                                | —                       | 4,172                      | 2,417  | 10,660                                      | 4,172   | 13,077                     | 17,249               | —                        | 2014                      | *   |
| 2367 | Hoffman Estates  | IL                                | —                       | 1,701                      | 12,037 | 244   | 1,704   | 11,694                     | 13,398               | (2,458)                  | 2006                      | 45  |
| 1090 | Macomb           | IL                                | —                       | 81                         | 6,062  | —   | 81  | 5,905                      | 5,986                | (1,218)                  | 2006                      | 40  |
| 1143 | Mt. Vernon       | IL                                | —                       | 296                        | 15,935 | 3,562                                       | 512   | 18,849                     | 19,461               | (3,619)                  | 2006                      | 40  |
| 1969 | Niles            | IL                                | 25,672                  | 3,790                      | 32,912 | 3,853                                       | 3,790   | 36,040                     | 39,830               | (5,106)                  | 2011                      | 30  |
| 1005 | Oak Park         | IL                                | 25,358                  | 3,476                      | 35,259 | 1,862                                       | 3,476   | 36,575                     | 40,051               | (6,702)                  | 2006                      | 40  |
| 1961 | Olympia Fields   | IL                                | 29,011                  | 4,120                      | 29,400 | 1,670                                       | 4,120   | 30,546                     | 34,666               | (4,173)                  | 2011                      | 30  |
| 1162 | Orland Park      | IL                                | —                       | 2,623                      | 23,154 | 224   | 2,623   | 22,748                     | 25,371               | (4,729)                  | 2006                      | 40  |
| 1092 | Peoria           | IL                                | —                       | 404                        | 10,050 | —   | 404   | 9,840                      | 10,244               | (2,030)                  | 2006                      | 40  |
| 2376 | Prospect Heights | IL                                | —                       | 2,680                      | 20,299 | 953   | 2,725   | 21,207                     | 23,932               | (4,677)                  | 2010                      | 45  |
| 1952 | Vernon Hills     | IL                                | 42,575                  | 4,900                      | 45,854 | 2,367                                       | 4,900   | 47,535                     | 52,435               | (6,215)                  | 2011                      | 30  |
| 1237 | Wilmette         | IL                                | —                       | 1,100                      | 9,373  | —   | 1,100   | 9,149                      | 10,249               | (1,887)                  | 2006                      | 40  |
| 0379 | Evansville       | IN                                | —                       | 500                        | 9,302  | —   | 500   | 7,762                      | 8,262                | (2,633)                  | 1999                      | 45  |
| 1144 | Indianapolis     | IN                                | —                       | 1,197                      | 7,718  | —   | 1,197   | 7,486                      | 8,683                | (1,544)                  | 2006                      | 40  |
| 0457 | Jasper           | IN                                | —                       | 165                        | 5,952  | 359   | 165   | 6,311                      | 6,476                | (2,445)                  | 2001                      | 35  |
| 2047 | Kokomo           | IN                                | —                       | 296                        | 3,245  | —   | 296   | 3,245                      | 3,541                | (463)                    | 2012                      | 30  |
| 2242 | Kokomo           | IN                                | —                       | 230                        | —      | —   | 230   | —                          | 230                  | —                        | 2014                      | **  |
| 1146 | West Lafayette   | IN                                | —                       | 813                        | 10,876 | —   | 813   | 10,626                     | 11,439               | (2,192)                  | 2006                      | 40  |
| 2371 | Edgewood         | KY                                | —                       | 1,868                      | 4,934  | 339   | 1,915   | 4,796                      | 6,711                | (1,062)                  | 2006                      | 45  |
| 0697 | Lexington        | KY                                | 8,010                   | 2,093                      | 16,917 | —   | 2,093   | 16,299                     | 18,392               | (5,702)                  | 2004                      | 30  |
| 1105 | Louisville       | KY                                | —                       | 1,499                      | 26,252 | 240   | 1,513   | 25,868                     | 27,381               | (5,417)                  | 2006                      | 40  |
| 2115 | Murray           | KY                                | —                       | 288                        | 7,400  | —   | 288   | 7,400                      | 7,688                | (517)                    | 2012                      | 45  |
| 2135 | Paducah          | KY                                | —                       | 621                        | 16,768 | —   | 621   | 16,768                     | 17,389               | (884)                    | 2012                      | 50  |
| 2358 | Danvers          | MA                                | —                       | 4,616                      | 30,692 | 243   | 4,621   | 30,344                     | 34,965               | (6,348)                  | 2006                      | 45  |
| 2363 | Dartmouth        | MA                                | —                       | 3,145                      | 6,880  | 516   | 3,176   | 7,117                      | 10,293               | (1,537)                  | 2006                      | 45  |
| 2357 | Dedham           | MA                                | —                       | 3,930                      | 21,340 | 267   | 3,930   | 21,032                     | 24,962               | (4,401)                  | 2006                      | 45  |
| 1158 | Plymouth         | MA                                | —                       | 2,434                      | 9,027  | 441   | 2,438   | 8,987                      | 11,425               | (1,927)                  | 2006                      | 40  |
| 2365 | Baltimore        | MD                                | —                       | 1,684                      | 18,889 | 380   | 1,696   | 18,834                     | 20,530               | (3,943)                  | 2006                      | 45  |
| 1249 | Frederick        | MD                                | —                       | 609                        | 9,158  | 333   | 609   | 9,248                      | 9,857                | (1,969)                  | 2006                      | 40  |
| 2356 | Pikesville       | MD                                | —                       | 1,416                      | 8,854  | 288   | 1,416   | 8,681                      | 10,097               | (1,920)                  | 2006                      | 45  |
| 0281 | Westminster      | MD                                | —                       | 768                        | 5,251  | —   | 768   | 4,853                      | 5,621                | (1,348)                  | 1998                      | 45  |
| 0546 | Cape Elizabeth   | ME                                | —                       | 630                        | 3,524  | 93  | 630   | 3,617                      | 4,247                | (1,066)                  | 2003                      | 40  |
| 0545 | Saco             | ME                                | —                       | 80                         | 2,363  | 155   | 80  | 2,518                      | 2,598                | (738)                    | 2003                      | 40  |
| 1258 | Auburn Hills     | MI                                | —                       | 2,281                      | 10,692 | —   | 2,281   | 10,692                     | 12,973               | (2,205)                  | 2006                      | 40  |
| 1248 | Farmington Hills | MI                                | —                       | 1,013                      | 12,119 | 404   | 1,013   | 12,178                     | 13,191               | (2,636)                  | 2006                      | 40  |
| 1094 | Portage          | MI                                | —                       | 100                        | 5,700  | 4,617                                       | 100   | 9,950                      | 10,050               | (1,914)                  | 2006                      | 40  |
| 0472 | Sterling Heights | MI                                | —                       | 920                        | 7,326  | —   | 920   | 7,326                      | 8,246                | (2,791)                  | 2001                      | 35  |
| 1259 | Sterling Heights | MI                                | —                       | 1,593                      | 11,500 | —   | 1,593   | 11,181                     | 12,774               | (2,306)                  | 2006                      | 40  |
| 2143 | Champlin         | MN                                | —                       | 1,576                      | 26,725 | —   | 1,576   | 26,725                     | 28,301               | (5,459)                  | 2012                      | 50  |
| 1235 | Des Peres        | MO                                | —                       | 4,361                      | 20,664 | —   | 4,361   | 20,046                     | 24,407               | (4,134)                  | 2006                      | 40  |
| 1236 | Richmond Heights | MO                                | —                       | 1,744                      | 24,232 | —   | 1,744   | 23,548                     | 25,292               | (4,857)                  | 2006                      | 40  |
| 0853 | St. Louis        | MO                                | —                       | 2,500                      | 20,343 | —   | 2,500   | 19,853                     | 22,353               | (5,680)                  | 2006                      | 30  |
| 2081 | St. Peters       | MO                                | —                       | 1,377                      | 31,508 | —   | 1,377   | 31,508                     | 32,885               | (2,004)                  | 2012                      | 45  |
| 2074 | Oxford           | MS                                | —                       | 2,003                      | 14,140 | —   | 2,003   | 14,140                     | 16,143               | (850)                    | 2012                      | 45  |
| 0842 | Great Falls      | MT                                | —                       | 500                        | 5,683  | —   | 500   | 5,423                      | 5,923                | (1,197)                  | 2006                      | 40  |
| 2163 | Great Falls      | MT                                | —                       | 252                        | 9,908  | —   | 252   | 9,908                      | 10,160               | (576)                    | 2012                      | 45  |
| 0878 | Charlotte        | NC                                | —                       | 710                        | 9,559  | —   | 710   | 9,159                      | 9,869                | (1,851)                  | 2006                      | 40  |
| 2374 | Charlotte        | NC                                | —                       | 2,051                      | 6,529  | —   | 2,051   | 6,529                      | 8,580                | (1,073)                  | 2010                      | 45  |

| City | State             | Encumbrances at December 31, 2014 | Initial Cost to Company |                            |                      | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                            |                      | Accumulated Depreciation | Year Acquired/Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|------|-------------------|-----------------------------------|-------------------------|----------------------------|----------------------|---|---|----------------------------|----------------------|--------------------------|---------------------------|---|
|      |                   |                                   | Land                    | Buildings and Improvements | Total <sup>(1)</sup> |   | Land  | Buildings and Improvements | Total <sup>(1)</sup> |                          |                           |   |
| 1119 | Concord           | NC                                | —                       | 601                        | 7,615                | 166   | 612   | 7,546                      | 8,158                | (1,618)                  | 2006                      | 40  |
| 2126 | Mooresville       | NC                                | —                       | 2,538                      | 37,617               | —   | 2,538   | 37,617                     | 40,155               | (2,106)                  | 2012                      | 50  |
| 1254 | Raleigh           | NC                                | —                       | 1,191                      | 11,532               | 304   | 1,191   | 11,549                     | 12,740               | (2,420)                  | 2006                      | 40  |
| 2127 | Minot             | ND                                | —                       | 685                        | 16,047               | —   | 685   | 16,047                     | 16,732               | (960)                    | 2012                      | 45  |
| 2080 | Kearney           | NE                                | —                       | 856                        | 22,584               | —   | 856   | 22,584                     | 23,440               | (1,326)                  | 2012                      | 45  |
| 2169 | Lexington         | NE                                | —                       | 474                        | 8,405                | —   | 474   | 8,405                      | 8,879                | (678)                    | 2012                      | 40  |
| 2168 | Mc Cook           | NE                                | —                       | 1,024                      | 13,789               | —   | 1,024   | 13,789                     | 14,813               | (1,111)                  | 2012                      | 40  |
| 2129 | Seward            | NE                                | —                       | 792                        | 18,276               | —   | 792   | 18,276                     | 19,068               | (1,259)                  | 2012                      | 40  |
| 2119 | Wayne             | NE                                | —                       | 1,005                      | 13,953               | —   | 1,005   | 13,953                     | 14,958               | (880)                    | 2012                      | 45  |
| 1599 | Cherry Hill       | NJ                                | —                       | 2,420                      | 11,042               | 1,000                                       | 2,420   | 11,492                     | 13,912               | (1,910)                  | 2010                      | 25  |
| 1239 | Cresskill         | NJ                                | —                       | 4,684                      | 53,927               | 111   | 4,684   | 53,052                     | 57,736               | (10,954)                 | 2006                      | 40  |
| 0734 | Hillsborough      | NJ                                | —                       | 1,042                      | 10,042               | —   | 1,042   | 9,576                      | 10,618               | (2,314)                  | 2005                      | 40  |
| 1242 | Madison           | NJ                                | —                       | 3,157                      | 19,909               | 61  | 3,157   | 19,385                     | 22,542               | (4,013)                  | 2006                      | 40  |
| 0733 | Manahawkin        | NJ                                | —                       | 921                        | 9,927                | —   | 921   | 9,461                      | 10,382               | (2,286)                  | 2005                      | 40  |
| 2359 | Paramus           | NJ                                | —                       | 4,280                      | 31,684               | 207   | 4,280   | 31,190                     | 35,470               | (6,508)                  | 2006                      | 45  |
| 1231 | Saddle River      | NJ                                | —                       | 1,784                      | 15,625               | 308   | 1,784   | 15,489                     | 17,273               | (3,251)                  | 2006                      | 40  |
| 0245 | Voorhees Township | NJ                                | —                       | 900                        | 7,629                | —   | 900   | 7,629                      | 8,529                | (2,637)                  | 1998                      | 45  |
| 0213 | Albuquerque       | NM                                | —                       | 767                        | 9,324                | —   | 767   | 8,825                      | 9,592                | (3,448)                  | 1996                      | 45  |
| 2387 | Albuquerque       | NM                                | —                       | 2,223                      | 8,049                | —   | 2,223   | 8,049                      | 10,272               | (551)                    | 2012                      | 45  |
| 2161 | Rio Rancho        | NM                                | —                       | 1,154                      | 13,726               | —   | 1,154   | 13,726                     | 14,880               | (891)                    | 2012                      | 40  |
| 2121 | Roswell           | NM                                | —                       | 618                        | 7,038                | —   | 618   | 7,038                      | 7,656                | (545)                    | 2012                      | 45  |
| 2150 | Roswell           | NM                                | —                       | 837                        | 8,614                | —   | 837   | 8,614                      | 9,451                | (693)                    | 2012                      | 45  |
| 0796 | Las Vegas         | NV                                | —                       | 1,960                      | 5,816                | —   | 1,960   | 5,426                      | 7,386                | (1,278)                  | 2005                      | 40  |
| 2110 | Las Vegas         | NV                                | —                       | 667                        | 14,469               | —   | 667   | 14,469                     | 15,136               | (1,032)                  | 2012                      | 45  |
| 1252 | Brooklyn          | NY                                | —                       | 8,117                      | 23,627               | 692   | 8,117   | 23,743                     | 31,860               | (5,186)                  | 2006                      | 40  |
| 1256 | Brooklyn          | NY                                | —                       | 5,215                      | 39,052               | 257   | 5,215   | 38,458                     | 43,673               | (7,971)                  | 2006                      | 40  |
| 2177 | Clifton Park      | NY                                | —                       | 2,257                      | 11,470               | —   | 2,257   | 11,470                     | 13,727               | (768)                    | 2012                      | 50  |
| 2176 | Greece            | NY                                | —                       | 666                        | 9,569                | —   | 666   | 9,569                      | 10,235               | (634)                    | 2012                      | 45  |
| 2178 | Greece            | NY                                | —                       | 601                        | 7,362                | —   | 601   | 7,362                      | 7,963                | (497)                    | 2012                      | 45  |
| 2174 | Orchard Park      | NY                                | —                       | 726                        | 17,735               | —   | 726   | 17,735                     | 18,461               | (1,240)                  | 2012                      | 45  |
| 2175 | Orchard Park      | NY                                | —                       | 478                        | 11,961               | —   | 478   | 11,961                     | 12,439               | (826)                    | 2012                      | 45  |
| 0473 | Cincinnati        | OH                                | —                       | 600                        | 4,428                | —   | 600   | 4,428                      | 5,028                | (1,687)                  | 2001                      | 35  |
| 0841 | Columbus          | OH                                | —                       | 970                        | 7,806                | 1,023                                       | 970   | 8,438                      | 9,408                | (1,821)                  | 2006                      | 40  |
| 0857 | Fairborn          | OH                                | —                       | 810                        | 8,311                | —   | 810   | 8,011                      | 8,821                | (1,926)                  | 2006                      | 36  |
| 1147 | Fairborn          | OH                                | —                       | 298                        | 10,704               | 3,068                                       | 298   | 13,541                     | 13,839               | (2,665)                  | 2006                      | 40  |
| 1386 | Marietta          | OH                                | —                       | 1,069                      | 11,435               | —   | 1,069   | 11,230                     | 12,299               | (3,489)                  | 2007                      | 40  |
| 1253 | Poland            | OH                                | —                       | 695                        | 10,444               | 273   | 695   | 10,379                     | 11,074               | (2,114)                  | 2006                      | 40  |
| 1159 | Willoughby        | OH                                | —                       | 1,177                      | 9,982                | 295   | 1,194   | 9,855                      | 11,049               | (2,090)                  | 2006                      | 40  |
| 2158 | Broken Arrow      | OK                                | —                       | 1,115                      | 18,852               | —   | 1,115   | 18,852                     | 19,967               | (1,071)                  | 2012                      | 45  |
| 2122 | Muskogee          | OK                                | —                       | 412                        | 2,815                | —   | 412   | 2,815                      | 3,227                | (251)                    | 2012                      | 45  |
| 2083 | Oklahoma City     | OK                                | —                       | 2,116                      | 28,007               | —   | 2,116   | 28,007                     | 30,123               | (1,621)                  | 2012                      | 45  |
| 2372 | Oklahoma City     | OK                                | —                       | 801                        | 4,904                | 265   | 811   | 4,776                      | 5,587                | (1,048)                  | 2006                      | 45  |
| 2383 | Oklahoma City     | OK                                | —                       | 1,345                      | 3,943                | —   | 1,345   | 3,943                      | 5,288                | (318)                    | 2012                      | 45  |
| 2070 | Tahlequah         | OK                                | —                       | 256                        | 5,648                | —   | 256   | 5,648                      | 5,904                | (381)                    | 2012                      | 45  |
| 1160 | Tulsa             | OK                                | —                       | 1,115                      | 11,028               | 282   | 1,129   | 10,607                     | 11,736               | (2,251)                  | 2006                      | 40  |
| 2130 | Ashland           | OR                                | —                       | —                          | 19,303               | —   | —   | 19,303                     | 19,303               | (1,174)                  | 2012                      | 45  |
| 2103 | Eagle Point       | OR                                | —                       | 609                        | 12,117               | —   | 609   | 12,117                     | 12,726               | (712)                    | 2012                      | 45  |
| 2179 | Eldorado Heights  | OR                                | —                       | 311                        | 7,868                | —   | 311   | 7,868                      | 8,179                | (437)                    | 2013                      | 45  |
| 2098 | Eugene            | OR                                | —                       | 1,082                      | 18,858               | —   | 1,082   | 18,858                     | 19,940               | (1,080)                  | 2012                      | 50  |
| 2104 | Eugene            | OR                                | —                       | 653                        | 13,568               | —   | 653   | 13,568                     | 14,221               | (791)                    | 2012                      | 45  |
| 2390 | Grants Pass       | OR                                | —                       | 430                        | 3,267                | —   | 430   | 3,267                      | 3,697                | (249)                    | 2012                      | 45  |
| 2393 | Grants Pass       | OR                                | —                       | 774                        | 13,230               | —   | 774   | 13,230                     | 14,004               | (759)                    | 2012                      | 45  |
| 2391 | Grants Pass       | OR                                | —                       | 1,064                      | 16,124               | —   | 1,064   | 16,124                     | 17,188               | (865)                    | 2012                      | 45  |
| 2392 | Grants Pass       | OR                                | —                       | 618                        | 2,932                | —   | 618   | 2,932                      | 3,550                | (338)                    | 2012                      | 45  |
| 2139 | Gresham           | OR                                | —                       | 465                        | 6,403                | —   | 465   | 6,403                      | 6,868                | (382)                    | 2012                      | 50  |
| 2182 | Hermiston Terrace | OR                                | 2,853                   | 582                        | 8,087                | —   | 582   | 8,087                      | 8,669                | (400)                    | 2013                      | 45  |
| 2140 | Lebanon           | OR                                | —                       | 505                        | 12,571               | —   | 505   | 12,571                     | 13,076               | (755)                    | 2012                      | 50  |
| 2152 | McMinnville       | OR                                | —                       | 3,203                      | 24,909               | —   | 3,203   | 24,909                     | 28,112               | (2,247)                  | 2012                      | 45  |
| 2159 | McMinnville       | OR                                | —                       | 1,374                      | 6,118                | —   | 1,374   | 6,118                      | 7,492                | (2,277)                  | 2012                      | 45  |
| 2090 | Monmouth          | OR                                | —                       | 490                        | 1,278                | —   | 490   | 1,278                      | 1,768                | (133)                    | 2012                      | 50  |
| 2106 | Monmouth          | OR                                | —                       | 603                        | 8,538                | —   | 603   | 8,538                      | 9,141                | (557)                    | 2012                      | 45  |
| 2089 | Newberg           | OR                                | —                       | 1,889                      | 16,855               | —   | 1,889   | 16,855                     | 18,744               | (966)                    | 2012                      | 50  |
| 2133 | Portland          | OR                                | —                       | 1,615                      | 12,030               | —   | 1,615   | 12,030                     | 13,645               | (655)                    | 2012                      | 50  |
| 2151 | Portland          | OR                                | —                       | 1,677                      | 9,469                | —   | 1,677   | 9,469                      | 11,146               | (667)                    | 2012                      | 45  |
| 2171 | Portland          | OR                                | —                       | —                          | 16,087               | —   | —   | 16,087                     | 16,087               | (836)                    | 2012                      | 50  |
| 2050 | Redmond           | OR                                | —                       | 1,229                      | 21,921               | —   | 1,229   | 21,921                     | 23,150               | (1,126)                  | 2012                      | 50  |
| 2131 | River Road        | OR                                | 2,915                   | 551                        | 6,454                | —   | 551   | 6,454                      | 7,005                | (346)                    | 2013                      | 45  |
| 2084 | Roseburg          | OR                                | —                       | 1,042                      | 12,090               | —   | 1,042   | 12,090                     | 13,132               | (787)                    | 2012                      | 45  |
| 2134 | Scappoose         | OR                                | —                       | 353                        | 1,258                | —   | 353   | 1,258                      | 1,611                | (109)                    | 2012                      | 50  |
| 2153 | Scappoose         | OR                                | —                       | 971                        | 7,116                | —   | 971   | 7,116                      | 8,087                | (533)                    | 2012                      | 45  |
| 2051 | Springfield       | OR                                | —                       | 1,124                      | 22,515               | —   | 1,124   | 22,515                     | 23,639               | (1,231)                  | 2012                      | 50  |
| 2057 | Springfield       | OR                                | —                       | 527                        | 6,035                | —   | 527   | 6,035                      | 6,562                | (410)                    | 2012                      | 45  |
| 2056 | Stayton           | OR                                | —                       | 48                         | 569                  | —   | 48  | 569                        | 617                  | (64)                     | 2012                      | 45  |
| 2058 | Stayton           | OR                                | —                       | 253                        | 8,621                | —   | 253   | 8,621                      | 8,874                | (561)                    | 2012                      | 45  |
| 2088 | Tualatin          | OR                                | —                       | —                          | 6,326                | —   | —   | 6,326                      | 6,326                | (531)                    | 2012                      | 45  |
| 2180 | Windfield Village | OR                                | 3,507                   | 580                        | 9,817                | —   | 580   | 9,817                      | 10,397               | (525)                    | 2013                      | 45  |
| 1163 | Haverford         | PA                                | —                       | 16,461                     | 108,816              | 4,348                                       | 16,461  | 111,552                    | 128,013              | (23,835)                 | 2006                      | 40  |
| 2063 | Selinsgrove       | PA                                | —                       | 529                        | 9,111                | —   | 529   | 9,111                      | 9,640                | (660)                    | 2012                      | 45  |
| 1967 | Cumberland        | RI                                | —                       | 2,630                      | 19,050               | 770   | 2,630   | 19,473                     | 22,103               | (2,704)                  | 2011                      | 30  |
| 1959 | East Providence   | RI                                | 14,715                  | 1,890                      | 13,989               | 1,158                                       | 1,890   | 14,894                     | 16,784               | (2,125)                  | 2011                      | 30  |
| 1960 | Greenwich         | RI                                | 8,059                   | 450                        | 11,845               | 1,313                                       | 450   | 12,893                     | 13,343               | (1,900)                  | 2011                      | 30  |
| 1972 | Smithfield        | RI                                | —                       | 1,250                      | 17,816               | 653   | 1,250   | 18,134                     | 19,384               | (2,610)                  | 2011                      | 30  |

| City | State                | Encumbrances at December 31, 2014 | Initial Cost to Company |                            |        | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                      |         | Accumulated Depreciation | Year Acquired/ Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|------|----------------------|-----------------------------------|-------------------------|----------------------------|--------|---|---|----------------------|---------|--------------------------|----------------------------|---|
|      |                      |                                   | Land                    | Buildings and Improvements | Land   |   | Buildings and Improvements                            | Total <sup>(1)</sup> |         |                          |                            |   |
| 1973 | South Kingstown      | RI                                | —                       | 1,390                      | 12,551 | 630   | 1,390   | 12,918               | 14,308  | (1,766)                  | 2011                       | 30  |
| 1975 | Tiverton             | RI                                | —                       | 3,240                      | 25,735 | 651   | 3,240   | 25,955               | 29,195  | (3,520)                  | 2011                       | 30  |
| 1962 | Warwick              | RI                                | 14,399                  | 1,050                      | 17,389 | 1,668                                       | 1,050   | 18,701               | 19,751  | (2,792)                  | 2011                       | 30  |
| 1104 | Aiken                | SC                                | —                       | 357                        | 14,832 | 151   | 363   | 14,471               | 14,834  | (3,044)                  | 2006                       | 40  |
| 1100 | Charleston           | SC                                | —                       | 885                        | 14,124 | 292   | 896   | 14,075               | 14,971  | (2,988)                  | 2006                       | 40  |
| 1109 | Columbia             | SC                                | —                       | 408                        | 7,527  | 131   | 412   | 7,458                | 7,870   | (1,581)                  | 2006                       | 40  |
| 2154 | Florence             | SC                                | —                       | 255                        | 4,052  | —   | 255   | 4,052                | 4,307   | (326)                    | 2012                       | 45  |
| 0306 | Georgetown           | SC                                | —                       | 239                        | 3,008  | —   | 239   | 3,008                | 3,247   | (1,036)                  | 1998                       | 45  |
| 0879 | Greenville           | SC                                | —                       | 1,090                      | 12,558 | —   | 1,090   | 12,058               | 13,148  | (2,437)                  | 2006                       | 40  |
| 1172 | Greenville           | SC                                | —                       | 993                        | 16,314 | 437   | 1,006   | 15,838               | 16,844  | (3,300)                  | 2006                       | 40  |
| 2059 | Greenville           | SC                                | —                       | 149                        | 3,827  | —   | 149   | 3,827                | 3,976   | (306)                    | 2012                       | 45  |
| 2099 | Hilton Head Island   | SC                                | —                       | 828                        | 6,285  | —   | 828   | 6,285                | 7,113   | (482)                    | 2012                       | 45  |
| 2111 | Hilton Head Island   | SC                                | —                       | 1,107                      | 1,873  | —   | 1,107   | 1,873                | 2,980   | (183)                    | 2012                       | 45  |
| 2112 | Hilton Head Island   | SC                                | —                       | 621                        | 2,234  | —   | 621   | 2,234                | 2,855   | (204)                    | 2012                       | 45  |
| 0305 | Lancaster            | SC                                | —                       | 84                         | 2,982  | —   | 84  | 2,982                | 3,066   | (943)                    | 1998                       | 45  |
| 0880 | Myrtle Beach         | SC                                | —                       | 900                        | 10,913 | —   | 900   | 10,513               | 11,413  | (2,124)                  | 2006                       | 40  |
| 0312 | Rock Hill            | SC                                | —                       | 203                        | 2,671  | —   | 203   | 2,671                | 2,874   | (900)                    | 1998                       | 45  |
| 1113 | Rock Hill            | SC                                | —                       | 695                        | 4,119  | 322   | 795   | 4,126                | 4,921   | (972)                    | 2006                       | 40  |
| 2076 | Rock Hill            | SC                                | —                       | 919                        | 14,741 | —   | 919   | 14,741               | 15,660  | (939)                    | 2012                       | 45  |
| 2093 | Rock Hill            | SC                                | —                       | 503                        | 4,281  | —   | 503   | 4,281                | 4,784   | (304)                    | 2012                       | 45  |
| 0313 | Sumter               | SC                                | —                       | 196                        | 2,623  | —   | 196   | 2,623                | 2,819   | (904)                    | 1998                       | 45  |
| 2067 | West Columbia        | SC                                | —                       | 220                        | 2,662  | —   | 220   | 2,662                | 2,882   | (242)                    | 2012                       | 45  |
| 2132 | Cordova              | TN                                | —                       | 2,167                      | 5,829  | —   | 2,167   | 5,829                | 7,996   | (431)                    | 2012                       | 45  |
| 2060 | Franklin             | TN                                | —                       | 2,475                      | 27,337 | —   | 2,475   | 27,337               | 29,812  | (1,591)                  | 2012                       | 45  |
| 2385 | Hendersonville       | TN                                | —                       | 1,298                      | 2,464  | —   | 1,298   | 2,464                | 3,762   | (249)                    | 2012                       | 45  |
| 2073 | Kingsport            | TN                                | —                       | 1,113                      | 8,625  | —   | 1,113   | 8,625                | 9,738   | (560)                    | 2012                       | 45  |
| 2381 | Memphis              | TN                                | —                       | 1,315                      | 9,787  | —   | 1,315   | 9,787                | 11,102  | (553)                    | 2012                       | 45  |
| 1003 | Nashville            | TN                                | 10,860                  | 812                        | 16,983 | 2,524                                       | 812   | 18,759               | 19,571  | (3,223)                  | 2006                       | 40  |
| 2094 | Nashville            | TN                                | —                       | 1,444                      | 14,436 | —   | 1,444   | 14,436               | 15,880  | (833)                    | 2012                       | 45  |
| 0860 | Oak Ridge            | TN                                | —                       | 500                        | 4,741  | —   | 500   | 4,641                | 5,141   | (1,094)                  | 2006                       | 35  |
| 0843 | Abilene              | TX                                | —                       | 300                        | 2,830  | —   | 300   | 2,710                | 3,010   | (582)                    | 2006                       | 39  |
| 2107 | Amarillo             | TX                                | —                       | 1,315                      | 26,838 | —   | 1,315   | 26,838               | 28,153  | (1,530)                  | 2012                       | 45  |
| 1004 | Arlington            | TX                                | 13,896                  | 2,002                      | 19,110 | —   | 2,002   | 18,729               | 20,731  | (3,594)                  | 2006                       | 40  |
| 1116 | Arlington            | TX                                | —                       | 2,494                      | 12,192 | 249   | 2,540   | 11,873               | 14,413  | (2,528)                  | 2006                       | 40  |
| 0511 | Austin               | TX                                | —                       | 2,960                      | 41,645 | —   | 2,960   | 41,645               | 44,605  | (15,617)                 | 2002                       | 30  |
| 2377 | Austin               | TX                                | —                       | 2,860                      | 17,359 | 497   | 2,973   | 17,743               | 20,716  | (4,139)                  | 2010                       | 45  |
| 0202 | Beaumont             | TX                                | —                       | 145                        | 10,404 | —   | 145   | 10,020               | 10,165  | (3,989)                  | 1996                       | 45  |
| 2075 | Bedford              | TX                                | —                       | 1,204                      | 26,845 | —   | 1,204   | 26,845               | 28,049  | (1,532)                  | 2012                       | 45  |
| 0844 | Burleson             | TX                                | —                       | 1,050                      | 5,242  | —   | 1,050   | 4,902                | 5,952   | (1,052)                  | 2006                       | 40  |
| 0848 | Cedar Hill           | TX                                | —                       | 1,070                      | 11,554 | —   | 1,070   | 11,104               | 12,174  | (2,383)                  | 2006                       | 40  |
| 1325 | Cedar Hill           | TX                                | —                       | 440                        | 7,494  | —   | 440   | 6,974                | 7,414   | (1,351)                  | 2007                       | 40  |
| 2396 | Dallas               | TX                                | —                       | 2,120                      | 8,986  | —   | 2,120   | 8,986                | 11,106  | (602)                    | 2012                       | 45  |
| 0513 | Fort Worth           | TX                                | —                       | 2,830                      | 50,832 | —   | 2,830   | 50,832               | 53,662  | (19,062)                 | 2002                       | 30  |
| 0506 | Friendswood          | TX                                | —                       | 400                        | 7,354  | —   | 400   | 7,354                | 7,754   | (2,043)                  | 2002                       | 45  |
| 0217 | Houston              | TX                                | —                       | 835                        | 7,195  | —   | 835   | 7,195                | 8,030   | (2,721)                  | 1997                       | 45  |
| 0491 | Houston              | TX                                | —                       | 2,470                      | 21,710 | 750   | 2,470   | 22,460               | 24,930  | (8,327)                  | 2002                       | 35  |
| 1106 | Houston              | TX                                | —                       | 1,008                      | 15,333 | 183   | 1,020   | 15,098               | 16,118  | (3,173)                  | 2006                       | 40  |
| 1111 | Houston              | TX                                | —                       | 1,877                      | 25,372 | 247   | 1,961   | 24,491               | 26,452  | (5,138)                  | 2006                       | 40  |
| 1955 | Houston              | TX                                | 48,357                  | 9,820                      | 50,079 | 5,470                                       | 9,820   | 54,263               | 64,083  | (7,715)                  | 2011                       | 30  |
| 1957 | Houston              | TX                                | 31,758                  | 8,170                      | 37,285 | 3,233                                       | 8,170   | 39,697               | 47,867  | (5,526)                  | 2011                       | 30  |
| 1958 | Houston              | TX                                | 29,241                  | 2,910                      | 37,443 | 3,672                                       | 2,910   | 40,224               | 43,134  | (5,659)                  | 2011                       | 30  |
| 2068 | Houston              | TX                                | —                       | 985                        | 18,824 | —   | 985   | 18,824               | 19,809  | (1,086)                  | 2012                       | 45  |
| 0820 | Irving               | TX                                | —                       | 710                        | 9,949  | —   | 710   | 9,359                | 10,069  | (2,407)                  | 2005                       | 35  |
| 2394 | Kerrville            | TX                                | —                       | 1,459                      | 33,407 | —   | 1,459   | 33,407               | 34,866  | (2,011)                  | 2012                       | 45  |
| 2389 | Lubbock              | TX                                | —                       | 1,143                      | 4,656  | —   | 1,143   | 4,656                | 5,799   | (361)                    | 2012                       | 45  |
| 0845 | North Richland Hills | TX                                | —                       | 520                        | 5,117  | —   | 520   | 4,807                | 5,327   | (1,032)                  | 2006                       | 40  |
| 0846 | North Richland Hills | TX                                | —                       | 870                        | 9,259  | —   | 870   | 8,819                | 9,689   | (2,163)                  | 2006                       | 35  |
| 2113 | North Richland Hills | TX                                | —                       | 909                        | 11,337 | —   | 909   | 11,337               | 12,246  | (656)                    | 2012                       | 45  |
| 1102 | Plano                | TX                                | —                       | 494                        | 12,518 | 145   | 505   | 12,247               | 12,752  | (2,574)                  | 2006                       | 40  |
| 2379 | Plano                | TX                                | —                       | 590                        | 6,930  | —   | 590   | 6,930                | 7,520   | (470)                    | 2012                       | 45  |
| 2162 | Portland             | TX                                | —                       | 1,233                      | 14,001 | —   | 1,233   | 14,001               | 15,234  | (940)                    | 2012                       | 45  |
| 0494 | San Antonio          | TX                                | 7,623                   | 730                        | 3,961  | —   | 730   | 3,961                | 4,691   | (1,122)                  | 2002                       | 45  |
| 2378 | San Antonio          | TX                                | —                       | 2,860                      | 17,030 | 282   | 2,880   | 17,292               | 20,172  | (4,014)                  | 2010                       | 45  |
| 2116 | Sherman              | TX                                | —                       | 209                        | 3,492  | —   | 209   | 3,492                | 3,701   | (251)                    | 2012                       | 45  |
| 1954 | Sugar Land           | TX                                | 31,275                  | 3,420                      | 36,846 | 3,071                                       | 3,420   | 39,246               | 42,666  | (5,576)                  | 2011                       | 30  |
| 1103 | The Woodlands        | TX                                | —                       | 802                        | 17,358 | 228   | 869   | 17,071               | 17,940  | (3,597)                  | 2006                       | 40  |
| 0195 | Victoria             | TX                                | 12,337                  | 175                        | 4,290  | 3,101                                       | 175   | 7,018                | 7,193   | (2,184)                  | 1995                       | 43  |
| 0847 | Waxahachie           | TX                                | —                       | 390                        | 3,879  | —   | 390   | 3,659                | 4,049   | (785)                    | 2006                       | 40  |
| 1953 | Webster              | TX                                | 29,882                  | 4,780                      | 30,854 | 2,798                                       | 4,780   | 32,994               | 37,774  | (4,764)                  | 2011                       | 30  |
| 2069 | Cedar City           | UT                                | —                       | 437                        | 8,706  | —   | 437   | 8,706                | 9,143   | (520)                    | 2012                       | 45  |
| 2368 | Salt Lake City       | UT                                | —                       | 2,621                      | 22,072 | 287   | 2,654   | 21,371               | 24,025  | (4,456)                  | 2006                       | 45  |
| 2386 | St. George           | UT                                | —                       | 683                        | 9,436  | —   | 683   | 9,436                | 10,119  | (586)                    | 2012                       | 45  |
| 1244 | Arlington            | VA                                | —                       | 3,833                      | 7,076  | 239   | 3,833   | 7,078                | 10,911  | (1,495)                  | 2006                       | 40  |
| 1245 | Arlington            | VA                                | —                       | 7,278                      | 37,407 | 445   | 7,278   | 36,967               | 44,245  | (7,727)                  | 2006                       | 40  |
| 2360 | Arlington            | VA                                | —                       | 4,320                      | 19,567 | 455   | 4,320   | 19,444               | 23,764  | (4,194)                  | 2006                       | 45  |
| 0881 | Chesapeake           | VA                                | —                       | 1,090                      | 12,444 | —   | 1,090   | 11,944               | 13,034  | (2,414)                  | 2006                       | 40  |
| 1247 | Falls Church         | VA                                | —                       | 2,228                      | 8,887  | 203   | 2,228   | 8,875                | 11,103  | (1,879)                  | 2006                       | 40  |
| 1164 | Fort Belvoir         | VA                                | —                       | 11,594                     | 99,528 | 7,496                                       | 11,594  | 105,026              | 116,620 | (22,506)                 | 2006                       | 40  |
| 1250 | Leesburg             | VA                                | —                       | 607                        | 3,236  | 120   | 607   | 3,210                | 3,817   | (2,421)                  | 2006                       | 35  |
| 2361 | Richmond             | VA                                | —                       | 2,110                      | 11,469 | 281   | 2,110   | 11,324               | 13,434  | (2,413)                  | 2006                       | 45  |
| 1246 | Sterling             | VA                                | —                       | 2,360                      | 22,932 | 555   | 2,360   | 22,973               | 25,333  | (4,851)                  | 2006                       | 40  |
| 2077 | Sterling             | VA                                | —                       | 1,046                      | 15,788 | —   | 1,046   | 15,788               | 16,834  | (883)                    | 2012                       | 45  |

| City                              | State              | Encumbrances at December 31, 2014 | Initial Cost to Company |                            |                     | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                      |                     | Accumulated Depreciation | Year Acquired/Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|-----------------------------------|--------------------|-----------------------------------|-------------------------|----------------------------|---------------------|---|---|----------------------|---------------------|--------------------------|---------------------------|---|
|                                   |                    |                                   | Land                    | Buildings and Improvements | Land                |   | Buildings and Improvements                            | Total <sup>(1)</sup> |                     |                          |                           |   |
| 0225                              | Woodbridge         | VA                                | —                       | 950                        | 6,983               | —   | 950   | 6,983                | 7,933               | (2,520)                  | 1997                      | 45  |
| 1173                              | Bellevue           | WA                                | —                       | 3,734                      | 16,171              | 210   | 3,737   | 15,813               | 19,550              | (3,300)                  | 2006                      | 40  |
| 2095                              | College Place      | WA                                | —                       | 758                        | 8,051               | —   | 758   | 8,051                | 8,809               | (555)                    | 2012                      | 45  |
| 1240                              | Edmonds            | WA                                | —                       | 1,418                      | 16,502              | 71  | 1,418   | 16,102               | 17,520              | (3,338)                  | 2006                      | 40  |
| 2172                              | Ellensburg         | WA                                | —                       | 759                        | 5,699               | —   | 759   | 5,699                | 6,458               | (488)                    | 2012                      | 40  |
| 2160                              | Kenmore            | WA                                | —                       | 3,284                      | 16,641              | —   | 3,284   | 16,641               | 19,925              | (955)                    | 2012                      | 45  |
| 0797                              | Kirkland           | WA                                | —                       | 1,000                      | 13,403              | —   | 1,000   | 13,043               | 14,043              | (3,071)                  | 2005                      | 40  |
| 1174                              | Lynnwood           | WA                                | —                       | 1,203                      | 7,415               | 326   | 1,203   | 7,741                | 8,944               | (3,524)                  | 2006                      | 40  |
| 1251                              | Mercer Island      | WA                                | —                       | 4,209                      | 8,123               | 318   | 4,209   | 8,236                | 12,445              | (1,854)                  | 2006                      | 40  |
| 2141                              | Moses Lake         | WA                                | —                       | 429                        | 4,417               | —   | 429   | 4,417                | 4,846               | (414)                    | 2012                      | 50  |
| 2096                              | Poulsbo            | WA                                | —                       | 1,801                      | 18,068              | —   | 1,801   | 18,068               | 19,869              | (1,120)                  | 2012                      | 45  |
| 2102                              | Richland           | WA                                | —                       | 249                        | 5,067               | —   | 249   | 5,067                | 5,316               | (301)                    | 2012                      | 45  |
| 0794                              | Shoreline          | WA                                | 8,755                   | 1,590                      | 10,671              | —   | 1,590   | 10,261               | 11,851              | (2,416)                  | 2005                      | 40  |
| 0795                              | Shoreline          | WA                                | —                       | 4,030                      | 26,421              | —   | 4,030   | 25,651               | 29,681              | (5,966)                  | 2005                      | 39  |
| 1175                              | Snohomish          | WA                                | —                       | 1,541                      | 10,228              | 195   | 1,541   | 10,164               | 11,705              | (4,023)                  | 2006                      | 40  |
| 2097                              | Spokane            | WA                                | —                       | 903                        | 5,363               | —   | 903   | 5,363                | 6,266               | (433)                    | 2012                      | 45  |
| 2061                              | Vancouver          | WA                                | —                       | 513                        | 4,556               | —   | 513   | 4,556                | 5,069               | (347)                    | 2012                      | 45  |
| 2062                              | Vancouver          | WA                                | —                       | 1,498                      | 9,997               | —   | 1,498   | 9,997                | 11,495              | (597)                    | 2012                      | 45  |
| 2052                              | Yakima             | WA                                | —                       | 557                        | 5,897               | —   | 557   | 5,897                | 6,454               | (375)                    | 2012                      | 50  |
| 2078                              | Yakima             | WA                                | —                       | 353                        | 5,668               | —   | 353   | 5,668                | 6,021               | (325)                    | 2012                      | 45  |
| 2114                              | Yakima             | WA                                | —                       | 721                        | 8,872               | —   | 721   | 8,872                | 9,593               | (605)                    | 2012                      | 45  |
| 2382                              | Appleton           | WI                                | —                       | 182                        | 12,581              | —   | 182   | 12,581               | 12,763              | (733)                    | 2012                      | 45  |
| 2170                              | Madison            | WI                                | —                       | 834                        | 10,050              | —   | 834   | 10,050               | 10,884              | (672)                    | 2012                      | 40  |
| 2398                              | Stevens Point      | WI                                | —                       | 801                        | 16,687              | —   | 801   | 16,687               | 17,488              | (763)                    | 2012                      | 45  |
| 2117                              | Bridgeport         | WV                                | —                       | 3,174                      | 15,437              | —   | 3,174   | 15,437               | 18,611              | (1,211)                  | 2012                      | 45  |
| 2125                              | Bridgeport         | WV                                | —                       | 3,280                      | 4,181               | —   | 3,280   | 4,181                | 7,461               | (406)                    | 2012                      | 45  |
| 2142                              | Cody               | WY                                | —                       | 708                        | 9,926               | —   | 708   | 9,926                | 10,634              | (521)                    | 2012                      | 50  |
| 2148                              | Sheridan           | WY                                | —                       | 915                        | 12,047              | —   | 915   | 12,047               | 12,962              | (750)                    | 2012                      | 45  |
| <b>United Kingdom</b>             |                    |                                   |                         |                            |                     |   |   |                      |                     |                          |                           |   |
| 2216                              | Alderley Edge      | UK                                | —                       | 1,442                      | 10,047              | —   | 1,442   | 10,047               | 11,489              | (123)                    | 2014                      | 60  |
| 2217                              | Alderley Edge      | UK                                | —                       | 1,403                      | 7,867               | —   | 1,403   | 7,867                | 9,270               | (101)                    | 2014                      | 60  |
| 2206                              | Bangor             | UK                                | —                       | 444                        | 2,378               | —   | 444   | 2,378                | 2,822               | (40)                     | 2014                      | 50  |
| 2214                              | Barnsley           | UK                                | —                       | 1,150                      | 1,948               | —   | 1,150   | 1,948                | 3,098               | (60)                     | 2014                      | 50  |
| 2207                              | Batley             | UK                                | —                       | 748                        | 3,691               | —   | 748   | 3,691                | 4,439               | (85)                     | 2014                      | 45  |
| 2223                              | Catterick Garrison | UK                                | —                       | 920                        | 1,690               | —   | 920   | 1,690                | 2,610               | (55)                     | 2014                      | 50  |
| 2226                              | Chester            | UK                                | —                       | 608                        | 5,880               | —   | 608   | 5,880                | 6,488               | (24)                     | 2014                      | 50  |
| 2208                              | Elstead            | UK                                | —                       | 1,029                      | 3,527               | —   | 1,029   | 3,527                | 4,556               | (65)                     | 2014                      | 45  |
| 2213                              | Ilkley             | UK                                | —                       | 1,099                      | 2,902               | —   | 1,099   | 2,902                | 4,001               | (76)                     | 2014                      | 45  |
| 2222                              | Knebworth          | UK                                | —                       | 959                        | 6,985               | —   | 959   | 6,985                | 7,944               | (108)                    | 2014                      | 50  |
| 2215                              | Leeds              | UK                                | —                       | 580                        | 917                 | —   | 580   | 917                  | 1,497               | (37)                     | 2014                      | 45  |
| 2228                              | Leeds              | UK                                | —                       | 524                        | 3,879               | —   | 524   | 3,879                | 4,403               | (20)                     | 2014                      | 50  |
| 2210                              | Macclesfield       | UK                                | —                       | 631                        | 8,191               | —   | 631   | 8,191                | 8,822               | (127)                    | 2014                      | 45  |
| 2211                              | Macclesfield       | UK                                | —                       | 655                        | 4,976               | —   | 655   | 4,976                | 5,631               | (67)                     | 2014                      | 60  |
| 2218                              | Nantwich           | UK                                | —                       | 1,146                      | 7,479               | —   | 1,146   | 7,479                | 8,625               | (106)                    | 2014                      | 60  |
| 2219                              | Ripon              | UK                                | —                       | 218                        | 1,044               | —   | 218   | 1,044                | 1,262               | (24)                     | 2014                      | 45  |
| 2221                              | Stockport          | UK                                | —                       | 398                        | 1,867               | —   | 398   | 1,867                | 2,265               | (33)                     | 2014                      | 50  |
| 2227                              | Stockport          | UK                                | —                       | 795                        | 4,567               | —   | 795   | 4,567                | 5,362               | (19)                     | 2014                      | 60  |
| 2224                              | Stockton-On-Tees   | UK                                | —                       | 337                        | 2,403               | —   | 337   | 2,403                | 2,740               | (45)                     | 2014                      | 50  |
| 2209                              | Tadworth           | UK                                | —                       | 1,201                      | 4,475               | —   | 1,201   | 4,475                | 5,676               | (76)                     | 2014                      | 45  |
| 2220                              | Thornton-Cleveley  | UK                                | —                       | 1,052                      | 5,262               | —   | 1,052   | 5,262                | 6,314               | (90)                     | 2014                      | 50  |
| 2225                              | Wadebridge         | UK                                | —                       | 343                        | 7,097               | —   | 343   | 7,097                | 7,440               | (97)                     | 2014                      | 50  |
| 2212                              | York               | UK                                | —                       | 505                        | 646                 | —   | 505   | 646                  | 1,151               | (25)                     | 2014                      | 50  |
|                                   |                    |                                   | <b>\$ 764,523</b>       | <b>\$ 632,398</b>          | <b>\$ 5,175,389</b> | <b>\$ 163,820</b>                           | <b>\$ 634,035</b>                                     | <b>\$ 5,246,484</b>  | <b>\$ 5,880,519</b> | <b>\$ (876,836)</b>      |                           |   |
| <b>Post-acute/skilled nursing</b> |                    |                                   |                         |                            |                     |   |   |                      |                     |                          |                           |   |
| 0002                              | Fort Collins       | CO                                | —                       | 499                        | 1,913               | 1,454                                       | 499   | 3,114                | 3,613               | (3,114)                  | 1985                      | 25  |
| 0018                              | Morrison           | CO                                | —                       | 1,429                      | 5,464               | 4,019                                       | 1,429   | 8,758                | 10,187              | (8,613)                  | 1985                      | 24  |
| 0280                              | Statesboro         | GA                                | —                       | 168                        | 1,508               | —   | 168   | 1,509                | 1,677               | (907)                    | 1992                      | 25  |
| 0297                              | Rexburg            | ID                                | —                       | 200                        | 5,310               | —   | 200   | 5,057                | 5,257               | (2,383)                  | 1998                      | 35  |
| 0378                              | Anderson           | IN                                | —                       | 500                        | 4,724               | 10,341                                      | 1,166   | 13,998               | 15,164              | (2,628)                  | 1999                      | 35  |
| 0384                              | Angola             | IN                                | —                       | 130                        | 2,900               | 2,791                                       | 130   | 5,691                | 5,821               | (1,520)                  | 1999                      | 35  |
| 0385                              | Fort Wayne         | IN                                | —                       | 200                        | 4,150               | 2,667                                       | 200   | 6,817                | 7,017               | (2,298)                  | 1999                      | 38  |
| 0386                              | Fort Wayne         | IN                                | —                       | 140                        | 3,760               | —   | 140   | 3,760                | 3,900               | (1,629)                  | 1999                      | 35  |
| 0387                              | Huntington         | IN                                | —                       | 30                         | 2,970               | 338   | 30  | 3,308                | 3,338               | (1,346)                  | 1999                      | 35  |
| 0373                              | Kokomo             | IN                                | —                       | 250                        | 4,622               | 1,294                                       | 250   | 5,653                | 5,903               | (1,716)                  | 1999                      | 45  |
| 0454                              | New Albany         | IN                                | —                       | 230                        | 6,595               | —   | 230   | 6,595                | 6,825               | (2,591)                  | 2001                      | 35  |
| 0484                              | Tell City          | IN                                | —                       | 95                         | 6,208               | 1,299                                       | 95  | 7,509                | 7,604               | (2,140)                  | 2001                      | 45  |
| 0688                              | Cynthiana          | KY                                | —                       | 192                        | 4,875               | —   | 192   | 4,875                | 5,067               | (1,205)                  | 2004                      | 40  |
| 0298                              | Franklin           | LA                                | —                       | 405                        | 3,424               | —   | 405   | 3,424                | 3,829               | (2,029)                  | 1998                      | 25  |
| 0299                              | Morgan City        | LA                                | —                       | 203                        | 2,050               | —   | 203   | 2,050                | 2,253               | (1,214)                  | 1998                      | 25  |
| 0388                              | Las Vegas          | NV                                | —                       | 1,300                      | 3,950               | 5,124                                       | 1,300   | 9,074                | 10,374              | (2,091)                  | 1999                      | 35  |
| 0389                              | Las Vegas          | NV                                | —                       | 1,300                      | 5,800               | —   | 1,300   | 5,800                | 7,100               | (2,513)                  | 1999                      | 35  |
| 0390                              | Fairborn           | OH                                | —                       | 250                        | 4,850               | —   | 250   | 4,850                | 5,100               | (2,102)                  | 1999                      | 35  |
| 0391                              | Georgetown         | OH                                | —                       | 130                        | 4,970               | —   | 130   | 4,970                | 5,100               | (2,154)                  | 1999                      | 35  |
| 0392                              | Port Clinton       | OH                                | —                       | 370                        | 3,630               | —   | 370   | 3,630                | 4,000               | (1,573)                  | 1999                      | 35  |
| 0393                              | Springfield        | OH                                | —                       | 250                        | 3,950               | 2,113                                       | 250   | 6,063                | 6,313               | (2,029)                  | 1999                      | 35  |
| 0394                              | Toledo             | OH                                | —                       | 120                        | 5,130               | —   | 120   | 5,130                | 5,250               | (2,223)                  | 1999                      | 35  |
| 0395                              | Versailles         | OH                                | —                       | 120                        | 4,980               | —   | 120   | 4,980                | 5,100               | (2,158)                  | 1999                      | 35  |
| 0285                              | Fort Worth         | TX                                | —                       | 243                        | 2,036               | 269   | 243   | 2,305                | 2,548               | (1,380)                  | 1998                      | 25  |
| 0296                              | Ogden              | UT                                | —                       | 250                        | 4,685               | —   | 250   | 4,432                | 4,682               | (2,067)                  | 1998                      | 35  |

| City                | State         | Encumbrances at December 31, 2014 | Initial Cost to Company |                            |            | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                      |            | Accumulated Depreciation | Year Acquired/ Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|---------------------|---------------|-----------------------------------|-------------------------|----------------------------|------------|---|---|----------------------|------------|--------------------------|----------------------------|---|
|                     |               |                                   | Land                    | Buildings and Improvements | Land       |   | Buildings and Improvements                            | Total <sup>(1)</sup> |            |                          |                            |   |
| 0681                | Fishersville  | VA                                | —                       | 751                        | 7,734      | —   | 751   | 7,220                | 7,971      | (1,931)                  | 2004                       | 40  |
| 0682                | Floyd         | VA                                | —                       | 309                        | 2,263      | —   | 309   | 1,893                | 2,202      | (805)                    | 2004                       | 25  |
| 0689                | Independence  | VA                                | —                       | 206                        | 8,366      | —   | 206   | 7,810                | 8,016      | (2,066)                  | 2004                       | 40  |
| 0683                | Newport News  | VA                                | —                       | 535                        | 6,192      | —   | 535   | 5,719                | 6,254      | (1,529)                  | 2004                       | 40  |
| 0684                | Roanoke       | VA                                | —                       | 586                        | 7,159      | —   | 586   | 6,696                | 7,282      | (1,789)                  | 2004                       | 40  |
| 0685                | Staunton      | VA                                | —                       | 422                        | 8,681      | —   | 422   | 8,136                | 8,558      | (2,173)                  | 2004                       | 40  |
| 0686                | Williamsburg  | VA                                | —                       | 699                        | 4,886      | —   | 699   | 4,464                | 5,163      | (1,195)                  | 2004                       | 40  |
| 0690                | Windsor       | VA                                | —                       | 319                        | 7,543      | —   | 319   | 7,018                | 7,337      | (1,857)                  | 2004                       | 40  |
| 0687                | Woodstock     | VA                                | —                       | 603                        | 5,395      | 9   | 605   | 4,989                | 5,594      | (1,335)                  | 2004                       | 40  |
|                     |               |                                   | \$ —                    | \$ 13,434                  | \$ 162,673 | \$ 31,718                                   | \$ 14,102   | \$ 187,297           | \$ 201,399 | \$ (70,303)              |                            |   |
| <b>Life science</b> |               |                                   |                         |                            |            |   |   |                      |            |                          |                            |   |
| 1482                | Brisbane      | CA                                | —                       | 50,989                     | 1,789      | 39,927                                      | 50,989  | 41,716               | 92,705     | —                        | 2007                       | **  |
| 1481                | Carlsbad      | CA                                | —                       | 30,300                     | —          | 7,731                                       | 30,300  | 7,731                | 38,031     | —                        | 2007                       | **  |
| 1522                | Carlsbad      | CA                                | —                       | 23,475                     | —          | 2,821                                       | 23,475  | 2,821                | 26,296     | —                        | 2007                       | **  |
| 1401                | Hayward       | CA                                | —                       | 900                        | 7,100      | 915   | 900   | 8,015                | 8,915      | (1,667)                  | 2007                       | 40  |
| 1402                | Hayward       | CA                                | —                       | 1,500                      | 6,400      | 3,682                                       | 1,719   | 9,863                | 11,582     | (2,475)                  | 2007                       | 40  |
| 1403                | Hayward       | CA                                | —                       | 1,900                      | 7,100      | 1,362                                       | 1,900   | 8,208                | 10,108     | (1,323)                  | 2007                       | 40  |
| 1404                | Hayward       | CA                                | —                       | 2,200                      | 17,200     | 12  | 2,200   | 17,212               | 19,412     | (3,192)                  | 2007                       | 40  |
| 1405                | Hayward       | CA                                | —                       | 1,000                      | 3,200      | 7,478                                       | 1,000   | 10,678               | 11,678     | (3,849)                  | 2007                       | 40  |
| 1549                | Hayward       | CA                                | —                       | 1,006                      | 4,259      | 1,602                                       | 1,055   | 5,694                | 6,749      | (2,043)                  | 2007                       | 29  |
| 1550                | Hayward       | CA                                | —                       | 677                        | 2,761      | 5,302                                       | 710   | 7,976                | 8,686      | (2,082)                  | 2007                       | 29  |
| 1551                | Hayward       | CA                                | —                       | 661                        | 1,995      | 4,253                                       | 693   | 6,216                | 6,909      | (1,402)                  | 2007                       | 29  |
| 1552                | Hayward       | CA                                | —                       | 1,187                      | 7,139      | 1,310                                       | 1,223   | 8,113                | 9,336      | (2,019)                  | 2007                       | 29  |
| 1553                | Hayward       | CA                                | —                       | 1,189                      | 9,465      | 1,478                                       | 1,225   | 10,908               | 12,133     | (2,603)                  | 2007                       | 29  |
| 1554                | Hayward       | CA                                | —                       | 1,246                      | 5,179      | 1,867                                       | 1,283   | 7,008                | 8,291      | (2,491)                  | 2007                       | 29  |
| 1555                | Hayward       | CA                                | —                       | 1,521                      | 13,546     | 5,890                                       | 1,566   | 19,391               | 20,957     | (3,840)                  | 2007                       | 29  |
| 1556                | Hayward       | CA                                | —                       | 1,212                      | 5,120      | 3,049                                       | 1,248   | 7,795                | 9,043      | (2,542)                  | 2007                       | 29  |
| 1424                | La Jolla      | CA                                | —                       | 9,600                      | 25,283     | 6,603                                       | 9,648   | 30,900               | 40,548     | (6,190)                  | 2007                       | 40  |
| 1425                | La Jolla      | CA                                | —                       | 6,200                      | 19,883     | 125   | 6,276   | 19,931               | 26,207     | (3,739)                  | 2007                       | 40  |
| 1426                | La Jolla      | CA                                | —                       | 7,200                      | 12,412     | 4,377                                       | 7,291   | 16,697               | 23,988     | (5,466)                  | 2007                       | 27  |
| 1427                | La Jolla      | CA                                | —                       | 8,700                      | 16,983     | 3,787                                       | 8,746   | 20,723               | 29,469     | (4,775)                  | 2007                       | 30  |
| 1947                | La Jolla      | CA                                | 11,777                  | 2,581                      | 10,534     | 139   | 2,581   | 10,673               | 13,254     | (1,407)                  | 2011                       | 30  |
| 1949                | La Jolla      | CA                                | 7,765                   | 2,686                      | 11,045     | 575   | 2,686   | 11,620               | 14,306     | (1,823)                  | 2011                       | 30  |
| 2229                | La Jolla      | CA                                | —                       | 8,753                      | 32,528     | 794   | 8,753   | 33,323               | 42,076     | (465)                    | 2014                       | 35  |
| 1488                | Mountain View | CA                                | —                       | 7,300                      | 25,410     | 1,901                                       | 7,567   | 27,044               | 34,611     | (5,164)                  | 2007                       | 40  |
| 1489                | Mountain View | CA                                | —                       | 6,500                      | 22,800     | 1,866                                       | 6,500   | 24,666               | 31,166     | (4,736)                  | 2007                       | 40  |
| 1490                | Mountain View | CA                                | —                       | 4,800                      | 9,500      | 442   | 4,800   | 9,942                | 14,742     | (1,938)                  | 2007                       | 40  |
| 1491                | Mountain View | CA                                | —                       | 4,200                      | 8,400      | 1,249                                       | 4,209   | 8,998                | 13,207     | (1,698)                  | 2007                       | 40  |
| 1492                | Mountain View | CA                                | —                       | 3,600                      | 9,700      | 730   | 3,600   | 9,703                | 13,303     | (1,799)                  | 2007                       | 40  |
| 1493                | Mountain View | CA                                | —                       | 7,500                      | 16,300     | 1,904                                       | 7,500   | 17,603               | 25,103     | (3,366)                  | 2007                       | 40  |
| 1494                | Mountain View | CA                                | —                       | 9,800                      | 24,000     | 203   | 9,800   | 24,203               | 34,003     | (4,523)                  | 2007                       | 40  |
| 1495                | Mountain View | CA                                | —                       | 6,900                      | 17,800     | 3,245                                       | 6,900   | 21,045               | 27,945     | (4,034)                  | 2007                       | 40  |
| 1496                | Mountain View | CA                                | —                       | 7,000                      | 17,000     | 6,364                                       | 7,000   | 23,364               | 30,364     | (7,780)                  | 2007                       | 40  |
| 1497                | Mountain View | CA                                | —                       | 14,100                     | 31,002     | 10,111                                      | 14,100  | 41,113               | 55,213     | (12,957)                 | 2007                       | 40  |
| 1498                | Mountain View | CA                                | —                       | 7,100                      | 25,800     | 8,101                                       | 7,100   | 33,901               | 41,001     | (10,226)                 | 2013                       | 40  |
| 2017                | Mountain View | CA                                | —                       | —                          | 20,350     | 1,007                                       | —   | 21,357               | 21,357     | (1,494)                  | 2004                       | 40  |
| 1470                | Poway         | CA                                | —                       | 5,826                      | 12,200     | 5,826                                       | 5,826   | 18,026               | 23,852     | (6,559)                  | 2007                       | 40  |
| 1471                | Poway         | CA                                | —                       | 5,978                      | 14,200     | 4,253                                       | 5,978   | 18,453               | 24,431     | (5,481)                  | 2007                       | 40  |
| 1472                | Poway         | CA                                | —                       | 8,654                      | —          | 12,005                                      | 8,654   | 12,005               | 20,659     | (68)                     | 2007                       | 40  |
| 1473                | Poway         | CA                                | —                       | 17,146                     | 2,405      | 2,229                                       | 17,146  | 4,634                | 21,780     | —                        | 2007                       | **  |
| 1477                | Poway         | CA                                | —                       | 29,943                     | 2,475      | 17,799                                      | 29,943  | 20,273               | 50,216     | —                        | 2007                       | **  |
| 1478                | Poway         | CA                                | —                       | 6,700                      | 14,400     | 6,145                                       | 6,700   | 20,545               | 27,245     | (8,106)                  | 2007                       | 40  |
| 1499                | Redwood City  | CA                                | —                       | 3,400                      | 5,500      | 1,435                                       | 3,407   | 6,395                | 9,802      | (1,497)                  | 2007                       | 40  |
| 1500                | Redwood City  | CA                                | —                       | 2,500                      | 4,100      | 1,220                                       | 2,506   | 5,314                | 7,820      | (1,671)                  | 2007                       | 40  |
| 1501                | Redwood City  | CA                                | —                       | 3,600                      | 4,600      | 860   | 3,607   | 5,453                | 9,060      | (1,436)                  | 2007                       | 30  |
| 1502                | Redwood City  | CA                                | —                       | 3,100                      | 5,100      | 843   | 3,107   | 5,690                | 8,797      | (1,341)                  | 2007                       | 31  |
| 1503                | Redwood City  | CA                                | —                       | 4,800                      | 17,300     | 3,280                                       | 4,818   | 20,562               | 25,380     | (4,065)                  | 2007                       | 31  |
| 1504                | Redwood City  | CA                                | —                       | 5,400                      | 15,500     | 930   | 5,418   | 16,412               | 21,830     | (2,999)                  | 2007                       | 31  |
| 1505                | Redwood City  | CA                                | —                       | 3,000                      | 3,500      | 635   | 3,006   | 4,129                | 7,135      | (1,254)                  | 2007                       | 40  |
| 1506                | Redwood City  | CA                                | —                       | 6,000                      | 14,300     | 3,947                                       | 6,018   | 17,622               | 23,640     | (3,142)                  | 2007                       | 40  |
| 1507                | Redwood City  | CA                                | —                       | 1,900                      | 12,800     | 13,463                                      | 1,912   | 26,251               | 28,163     | (2,386)                  | 2007                       | 39  |
| 1508                | Redwood City  | CA                                | —                       | 2,700                      | 11,300     | 12,170                                      | 2,712   | 23,458               | 26,170     | (2,318)                  | 2007                       | 39  |
| 1509                | Redwood City  | CA                                | —                       | 2,700                      | 10,900     | 6,937                                       | 2,712   | 17,825               | 20,537     | (3,474)                  | 2007                       | 40  |
| 1510                | Redwood City  | CA                                | —                       | 2,200                      | 12,000     | 5,203                                       | 2,212   | 17,192               | 19,404     | (4,377)                  | 2007                       | 38  |
| 1511                | Redwood City  | CA                                | —                       | 2,600                      | 9,300      | 1,764                                       | 2,612   | 10,645               | 13,257     | (1,995)                  | 2007                       | 26  |
| 1512                | Redwood City  | CA                                | —                       | 3,300                      | 18,000     | 10,750                                      | 3,300   | 28,750               | 32,050     | (3,354)                  | 2007                       | 40  |
| 1513                | Redwood City  | CA                                | —                       | 3,300                      | 17,900     | 11,904                                      | 3,300   | 29,804               | 33,104     | (3,338)                  | 2007                       | 40  |
| 0679                | San Diego     | CA                                | —                       | 7,872                      | 34,617     | 17,748                                      | 8,272   | 51,218               | 59,490     | (14,487)                 | 2002                       | 39  |
| 0837                | San Diego     | CA                                | —                       | 4,630                      | 2,029      | 8,967                                       | 4,630   | 10,996               | 15,626     | (3,317)                  | 2006                       | 31  |
| 0838                | San Diego     | CA                                | —                       | 2,040                      | 902        | 4,975                                       | 2,040   | 5,878                | 7,918      | (1,070)                  | 2006                       | 40  |
| 0839                | San Diego     | CA                                | —                       | 3,940                      | 3,184      | 4,942                                       | 3,951   | 4,897                | 8,848      | (904)                    | 2006                       | 40  |
| 0840                | San Diego     | CA                                | —                       | 5,690                      | 4,579      | 686   | 5,703   | 4,826                | 10,529     | (1,033)                  | 2006                       | *   |
| 1418                | San Diego     | CA                                | —                       | 11,700                     | 31,243     | 6,370                                       | 11,700  | 37,613               | 49,313     | (8,470)                  | 2007                       | 40  |
| 1420                | San Diego     | CA                                | —                       | 6,524                      | —          | 3,599                                       | 6,524   | 3,601                | 10,125     | —                        | 2007                       | **  |
| 1421                | San Diego     | CA                                | —                       | 7,000                      | 33,779     | 5   | 7,000   | 33,784               | 40,784     | (6,263)                  | 2007                       | 40  |
| 1422                | San Diego     | CA                                | —                       | 7,179                      | 3,687      | 855   | 7,184   | 4,537                | 11,721     | (1,094)                  | 2007                       | 30  |
| 1423                | San Diego     | CA                                | —                       | 8,400                      | 33,144     | 18  | 8,400   | 33,162               | 41,562     | (6,146)                  | 2007                       | 40  |
| 1514                | San Diego     | CA                                | —                       | 5,200                      | —          | —   | 5,200   | —                    | 5,200      | —                        | 2007                       | **  |
| 1558                | San Diego     | CA                                | —                       | 7,740                      | 22,654     | 2,134                                       | 7,888   | 24,639               | 32,527     | (4,779)                  | 2007                       | 38  |
| 1948                | San Diego     | CA                                | 24,313                  | 5,879                      | 25,305     | 1,884                                       | 5,879   | 27,189               | 33,068     | (3,669)                  | 2011                       | 30  |

| City                  | State               | Encumbrances at December 31, 2014 | Initial Cost to Company |                            |              | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                      |              | Accumulated Depreciation | Year Acquired/ Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|-----------------------|---------------------|-----------------------------------|-------------------------|----------------------------|--------------|---|---|----------------------|--------------|--------------------------|----------------------------|---|
|                       |                     |                                   | Land                    | Buildings and Improvements | Land         |   | Buildings and Improvements                            | Total <sup>(1)</sup> |              |                          |                            |   |
| 1950                  | San Diego           | CA                                | 912                     | 884                        | 2,796        | —   | 884   | 2,796                | 3,680        | (373)                    | 2011                       | 30  |
| 2197                  | San Diego           | CA                                | —                       | 7,621                      | 3,913        | 3,750                                       | 7,626   | 7,658                | 15,284       | (1,934)                  | 2010                       | 33  |
| 1407                  | South San Francisco | CA                                | —                       | 28,600                     | 48,700       | 11,974                                      | 28,600  | 60,292               | 88,892       | (13,794)                 | 2007                       | 35  |
| 1408                  | South San Francisco | CA                                | —                       | 9,000                      | 17,800       | 1,023                                       | 9,000   | 18,823               | 27,823       | (3,630)                  | 2007                       | 40  |
| 1409                  | South San Francisco | CA                                | —                       | 18,000                     | 38,043       | 685   | 18,000  | 38,729               | 56,729       | (7,102)                  | 2007                       | 40  |
| 1410                  | South San Francisco | CA                                | —                       | 4,900                      | 18,100       | 157   | 4,900   | 18,257               | 23,157       | (3,389)                  | 2007                       | 40  |
| 1411                  | South San Francisco | CA                                | —                       | 8,000                      | 27,700       | 313   | 8,000   | 28,014               | 36,014       | (5,164)                  | 2007                       | 40  |
| 1412                  | South San Francisco | CA                                | —                       | 10,100                     | 22,521       | 239   | 10,100  | 22,760               | 32,860       | (4,288)                  | 2007                       | 40  |
| 1413                  | South San Francisco | CA                                | —                       | 8,000                      | 28,299       | 252   | 8,000   | 28,550               | 36,550       | (5,272)                  | 2007                       | 40  |
| 1414                  | South San Francisco | CA                                | —                       | 3,700                      | 20,800       | 203   | 3,700   | 21,003               | 24,703       | (3,952)                  | 2007                       | 40  |
| 1430                  | South San Francisco | CA                                | —                       | 10,700                     | 23,621       | 325   | 10,700  | 23,945               | 34,645       | (4,442)                  | 2007                       | 40  |
| 1431                  | South San Francisco | CA                                | —                       | 7,000                      | 15,500       | 157   | 7,000   | 15,657               | 22,657       | (2,889)                  | 2007                       | 40  |
| 1435                  | South San Francisco | CA                                | —                       | 13,800                     | 42,500       | 32,936                                      | 13,800  | 75,436               | 89,236       | (11,538)                 | 2008                       | 40  |
| 1436                  | South San Francisco | CA                                | —                       | 14,500                     | 45,300       | 34,087                                      | 14,500  | 79,387               | 93,887       | (12,074)                 | 2008                       | 40  |
| 1437                  | South San Francisco | CA                                | —                       | 9,400                      | 24,800       | 44,080                                      | 9,400   | 68,879               | 78,279       | (5,308)                  | 2008                       | 40  |
| 1439                  | South San Francisco | CA                                | —                       | 11,900                     | 68,848       | 70  | 11,900  | 68,918               | 80,818       | (12,773)                 | 2007                       | 40  |
| 1440                  | South San Francisco | CA                                | —                       | 10,000                     | 57,954       | —   | 10,000  | 57,954               | 67,954       | (10,746)                 | 2007                       | 40  |
| 1441                  | South San Francisco | CA                                | —                       | 9,300                      | 43,549       | —   | 9,300   | 43,549               | 52,849       | (8,075)                  | 2007                       | 40  |
| 1442                  | South San Francisco | CA                                | —                       | 11,000                     | 47,289       | 81  | 11,000  | 47,370               | 58,370       | (8,804)                  | 2007                       | 40  |
| 1443                  | South San Francisco | CA                                | —                       | 13,200                     | 60,932       | 1,158                                       | 13,200  | 62,090               | 75,290       | (10,833)                 | 2007                       | 40  |
| 1444                  | South San Francisco | CA                                | —                       | 10,500                     | 33,776       | 352   | 10,500  | 34,127               | 44,627       | (6,358)                  | 2007                       | 40  |
| 1445                  | South San Francisco | CA                                | —                       | 10,600                     | 34,083       | —   | 10,600  | 34,083               | 44,683       | (6,320)                  | 2007                       | 40  |
| 1448                  | South San Francisco | CA                                | —                       | 14,100                     | 71,344       | 52  | 14,100  | 71,396               | 85,496       | (13,237)                 | 2007                       | 40  |
| 1449                  | South San Francisco | CA                                | —                       | 12,800                     | 63,600       | 472   | 12,800  | 64,072               | 76,872       | (11,956)                 | 2007                       | 40  |
| 1450                  | South San Francisco | CA                                | —                       | 11,200                     | 79,222       | 20  | 11,200  | 79,242               | 90,442       | (14,692)                 | 2007                       | 40  |
| 1451                  | South San Francisco | CA                                | —                       | 7,200                      | 50,856       | 66  | 7,200   | 50,922               | 58,122       | (9,440)                  | 2007                       | 40  |
| 1452                  | South San Francisco | CA                                | —                       | 14,400                     | 101,362      | (115)                                       | 14,400  | 101,247              | 115,647      | (18,762)                 | 2007                       | 40  |
| 1454                  | South San Francisco | CA                                | —                       | 11,100                     | 47,738       | 9,369                                       | 11,100  | 57,108               | 68,208       | (12,697)                 | 2008                       | 40  |
| 1455                  | South San Francisco | CA                                | —                       | 9,700                      | 41,937       | 5,853                                       | 10,261  | 47,211               | 57,472       | (9,986)                  | 2008                       | 40  |
| 1456                  | South San Francisco | CA                                | —                       | 6,300                      | 22,900       | 8,196                                       | 6,300   | 31,096               | 37,396       | (7,053)                  | 2008                       | 40  |
| 1458                  | South San Francisco | CA                                | —                       | 10,900                     | 20,900       | 6,505                                       | 10,909  | 27,197               | 38,106       | (8,108)                  | 2007                       | 40  |
| 1459                  | South San Francisco | CA                                | —                       | 3,600                      | 100          | 195   | 3,600   | 296                  | 3,896        | (94)                     | 2007                       | **  |
| 1460                  | South San Francisco | CA                                | —                       | 2,300                      | 100          | 105   | 2,300   | 205                  | 2,505        | (100)                    | 2007                       | **  |
| 1461                  | South San Francisco | CA                                | —                       | 3,900                      | 200          | 196   | 3,900   | 397                  | 4,297        | (200)                    | 2007                       | **  |
| 1462                  | South San Francisco | CA                                | —                       | 7,117                      | 600          | 4,911                                       | 7,117   | 5,163                | 12,280       | (1,246)                  | 2007                       | 40  |
| 1463                  | South San Francisco | CA                                | —                       | 10,381                     | 2,300        | 17,839                                      | 10,381  | 20,139               | 30,520       | (2,578)                  | 2007                       | 40  |
| 1464                  | South San Francisco | CA                                | —                       | 7,403                      | 700          | 11,664                                      | 7,403   | 12,363               | 19,766       | (1,420)                  | 2007                       | 40  |
| 1468                  | South San Francisco | CA                                | —                       | 10,100                     | 24,013       | 4,774                                       | 10,100  | 26,642               | 36,742       | (4,680)                  | 2007                       | 40  |
| 1480                  | South San Francisco | CA                                | —                       | 32,210                     | 3,110        | 11,177                                      | 32,210  | 14,287               | 46,497       | —                        | 2007                       | **  |
| 1559                  | South San Francisco | CA                                | —                       | 5,666                      | 5,773        | 1,136                                       | 5,695   | 6,811                | 12,506       | (5,892)                  | 2007                       | 5   |
| 1560                  | South San Francisco | CA                                | —                       | 1,204                      | 1,293        | 219   | 1,210   | 1,491                | 2,701        | (1,305)                  | 2007                       | 5   |
| 1982                  | South San Francisco | CA                                | —                       | 64,900                     | —            | 22,638                                      | 64,900  | 22,639               | 87,539       | —                        | 2011                       | **  |
| 1604                  | Cambridge           | MA                                | —                       | 8,389                      | 10,630       | 27,596                                      | 8,389   | 38,226               | 46,615       | (2,013)                  | 2010                       | 30  |
| 2011                  | Durham              | NC                                | 8,040                   | 448                        | 6,152        | 21,349                                      | 448   | 27,502               | 27,950       | (1,166)                  | 2011                       | 30  |
| 2030                  | Durham              | NC                                | —                       | 1,920                      | 5,661        | 32,603                                      | 1,920   | 38,265               | 40,185       | (1,416)                  | 2012                       | 30  |
| 0461                  | Salt Lake City      | UT                                | —                       | 500                        | 8,548        | —   | 500   | 8,548                | 9,048        | (3,422)                  | 2001                       | 33  |
| 0462                  | Salt Lake City      | UT                                | —                       | 890                        | 15,623       | —   | 890   | 15,624               | 16,514       | (5,504)                  | 2001                       | 38  |
| 0463                  | Salt Lake City      | UT                                | —                       | 190                        | 9,875        | —   | 190   | 9,875                | 10,065       | (2,989)                  | 2001                       | 43  |
| 0464                  | Salt Lake City      | UT                                | —                       | 630                        | 6,921        | 62  | 630   | 6,984                | 7,614        | (2,526)                  | 2001                       | 38  |
| 0465                  | Salt Lake City      | UT                                | —                       | 125                        | 6,368        | 68  | 125   | 6,436                | 6,561        | (1,935)                  | 2001                       | 43  |
| 0466                  | Salt Lake City      | UT                                | —                       | —                          | 14,614       | 7   | —   | 14,621               | 14,621       | (3,890)                  | 2001                       | 43  |
| 0507                  | Salt Lake City      | UT                                | —                       | 280                        | 4,345        | 226   | 280   | 4,572                | 4,852        | (1,291)                  | 2002                       | 43  |
| 0537                  | Salt Lake City      | UT                                | —                       | —                          | 6,517        | —   | —   | 6,517                | 6,517        | (1,905)                  | 2002                       | 35  |
| 0799                  | Salt Lake City      | UT                                | —                       | —                          | 14,600       | 90  | —   | 14,690               | 14,690       | (2,874)                  | 2005                       | 40  |
| 1593                  | Salt Lake City      | UT                                | —                       | —                          | 23,998       | —   | —   | 23,998               | 23,998       | (3,212)                  | 2010                       | 33  |
|                       |                     |                                   | \$ 52,807               | \$ 944,582                 | \$ 2,250,610 | \$ 637,080                                  | \$ 946,976  | \$ 2,871,988         | \$ 3,818,964 | \$ (531,848)             |                            |   |
| <b>Medical office</b> |                     |                                   |                         |                            |              |   |   |                      |              |                          |                            |   |
| 0638                  | Anchorage           | AK                                | —                       | 1,456                      | 10,650       | 8,287                                       | 1,456   | 18,884               | 20,340       | (2,884)                  | 2006                       | 30  |
| 0520                  | Chandler            | AZ                                | —                       | 3,669                      | 13,503       | 2,266                                       | 3,669   | 15,519               | 19,188       | (4,286)                  | 2002                       | 40  |
| 2040                  | Mesa                | AZ                                | —                       | —                          | 17,314       | 440   | —   | 17,755               | 17,755       | (1,045)                  | 2012                       | 45  |
| 0468                  | Oro Valley          | AZ                                | —                       | 1,050                      | 6,774        | 918   | 1,050   | 7,116                | 8,166        | (2,155)                  | 2001                       | 43  |
| 0356                  | Phoenix             | AZ                                | —                       | 780                        | 3,199        | 1,126                                       | 780   | 3,599                | 4,379        | (1,609)                  | 1999                       | 32  |
| 0470                  | Phoenix             | AZ                                | —                       | 280                        | 877          | 48  | 280   | 925                  | 1,205        | (291)                    | 2001                       | 43  |
| 1066                  | Scottsdale          | AZ                                | —                       | 5,115                      | 14,064       | 2,970                                       | 4,791   | 16,844               | 21,635       | (3,841)                  | 2006                       | 40  |
| 2021                  | Scottsdale          | AZ                                | —                       | —                          | 12,312       | 766   | —   | 13,078               | 13,078       | (1,500)                  | 2012                       | 25  |
| 2022                  | Scottsdale          | AZ                                | —                       | —                          | 9,179        | 237   | —   | 9,416                | 9,416        | (1,260)                  | 2012                       | 25  |
| 2023                  | Scottsdale          | AZ                                | —                       | —                          | 6,398        | 392   | —   | 6,790                | 6,790        | (727)                    | 2012                       | 25  |
| 2024                  | Scottsdale          | AZ                                | —                       | —                          | 9,522        | 503   | —   | 10,025               | 10,025       | (997)                    | 2012                       | 25  |
| 2025                  | Scottsdale          | AZ                                | —                       | —                          | 4,102        | 822   | —   | 4,924                | 4,924        | (621)                    | 2012                       | 25  |
| 2026                  | Scottsdale          | AZ                                | —                       | —                          | 3,655        | 388   | —   | 4,042                | 4,042        | (406)                    | 2012                       | 25  |
| 2027                  | Scottsdale          | AZ                                | —                       | —                          | 7,168        | 669   | —   | 7,837                | 7,837        | (840)                    | 2012                       | 25  |
| 2028                  | Scottsdale          | AZ                                | —                       | —                          | 6,659        | 661   | —   | 7,320                | 7,320        | (755)                    | 2012                       | 25  |
| 0453                  | Tucson              | AZ                                | —                       | 215                        | 6,318        | 1,052                                       | 326   | 6,974                | 7,300        | (2,749)                  | 2000                       | 35  |
| 0556                  | Tucson              | AZ                                | —                       | 215                        | 3,940        | 657   | 267   | 4,117                | 4,384        | (1,037)                  | 2003                       | 43  |
| 1041                  | Brentwood           | CA                                | —                       | —                          | 30,864       | 2,362                                       | 187   | 32,843               | 33,030       | (7,099)                  | 2006                       | 40  |
| 1200                  | Encino              | CA                                | —                       | 6,151                      | 10,438       | 3,075                                       | 6,535   | 12,893               | 19,428       | (3,687)                  | 2006                       | 33  |
| 0436                  | Murietta            | CA                                | —                       | 400                        | 9,266        | 2,544                                       | 578   | 10,736               | 11,314       | (4,497)                  | 1999                       | 33  |
| 0239                  | Poway               | CA                                | —                       | 2,700                      | 10,839       | 2,354                                       | 2,872   | 11,670               | 14,542       | (5,705)                  | 1997                       | 35  |
| 0318                  | Sacramento          | CA                                | —                       | 2,860                      | 21,850       | 13,977                                      | 2,860   | 34,980               | 37,840       | (6,278)                  | 1998                       | *   |
| 0234                  | San Diego           | CA                                | —                       | 2,848                      | 5,879        | 1,435                                       | 3,009   | 5,303                | 8,312        | (2,851)                  | 1997                       | 21  |

| City | State            | Encumbrances at December 31, 2014 | Initial Cost to Company |                            |        | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                      |        | Accumulated Depreciation | Year Acquired/Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|------|------------------|-----------------------------------|-------------------------|----------------------------|--------|---|---|----------------------|--------|--------------------------|---------------------------|---|
|      |                  |                                   | Land                    | Buildings and Improvements | Land   |   | Buildings and Improvements                            | Total <sup>(1)</sup> |        |                          |                           |   |
| 0235 | San Diego        | CA                                | —                       | 2,863                      | 8,913  | 2,913                                       | 3,068   | 9,605                | 12,673 | (5,402)                  | 1997                      | 21  |
| 0236 | San Diego        | CA                                | —                       | 4,619                      | 19,370 | 3,901                                       | 4,711   | 17,887               | 22,598 | (9,516)                  | 1997                      | 21  |
| 0421 | San Diego        | CA                                | —                       | 2,910                      | 17,362 | 11,144                                      | 2,910   | 28,506               | 31,416 | (5,854)                  | 1999                      | 22  |
| 0564 | San Jose         | CA                                | 2,764                   | 1,935                      | 1,728  | 1,774                                       | 1,935   | 3,065                | 5,000  | (1,237)                  | 2003                      | 37  |
| 0565 | San Jose         | CA                                | 6,436                   | 1,460                      | 7,672  | 495   | 1,460   | 8,161                | 9,621  | (2,677)                  | 2003                      | 37  |
| 0659 | San Jose         | CA                                | —                       | 1,718                      | 3,124  | 577   | 1,718   | 3,618                | 5,336  | (920)                    | 2000                      | 34  |
| 1209 | Sherman Oaks     | CA                                | —                       | 7,472                      | 10,075 | 3,755                                       | 7,904   | 13,164               | 21,068 | (4,966)                  | 2006                      | 22  |
| 0439 | Valencia         | CA                                | —                       | 2,300                      | 6,967  | 1,512                                       | 2,390   | 7,018                | 9,408  | (3,089)                  | 1999                      | 35  |
| 1211 | Valencia         | CA                                | —                       | 1,344                      | 7,507  | 614   | 1,383   | 7,941                | 9,324  | (1,734)                  | 2006                      | 40  |
| 0440 | West Hills       | CA                                | —                       | 2,100                      | 11,595 | 2,273                                       | 2,156   | 10,868               | 13,024 | (4,708)                  | 1999                      | 32  |
| 0728 | Aurora           | CO                                | —                       | —                          | 8,764  | 2,226                                       | —   | 10,991               | 10,991 | (4,041)                  | 2005                      | 39  |
| 1196 | Aurora           | CO                                | —                       | 210                        | 12,362 | 1,456                                       | 210   | 13,672               | 13,882 | (3,143)                  | 2006                      | 40  |
| 1197 | Aurora           | CO                                | —                       | 200                        | 8,414  | 921   | 200   | 9,232                | 9,432  | (2,538)                  | 2006                      | 33  |
| 0882 | Colorado Springs | CO                                | —                       | —                          | 12,933 | 9,640                                       | —   | 21,901               | 21,901 | (4,899)                  | 2006                      | 40  |
| 0814 | Conifer          | CO                                | —                       | —                          | 1,485  | 35  | 13  | 1,508                | 1,521  | (357)                    | 2005                      | 40  |
| 1199 | Denver           | CO                                | —                       | 493                        | 7,897  | 1,690                                       | 558   | 9,494                | 10,052 | (2,318)                  | 2006                      | 33  |
| 0808 | Englewood        | CO                                | —                       | —                          | 8,616  | 6,815                                       | 11  | 14,696               | 14,707 | (3,282)                  | 2005                      | 35  |
| 0809 | Englewood        | CO                                | —                       | —                          | 8,449  | 3,022                                       | —   | 10,863               | 10,863 | (3,167)                  | 2005                      | 35  |
| 0810 | Englewood        | CO                                | —                       | —                          | 8,040  | 4,786                                       | —   | 12,421               | 12,421 | (4,022)                  | 2005                      | 35  |
| 0811 | Englewood        | CO                                | —                       | —                          | 8,472  | 2,483                                       | —   | 10,593               | 10,593 | (3,123)                  | 2005                      | 35  |
| 0812 | Littleton        | CO                                | —                       | —                          | 4,562  | 1,970                                       | 256   | 5,996                | 6,252  | (1,824)                  | 2005                      | 35  |
| 0813 | Littleton        | CO                                | —                       | —                          | 4,926  | 1,360                                       | 5   | 6,115                | 6,120  | (1,737)                  | 2005                      | 38  |
| 0570 | Lone Tree        | CO                                | —                       | —                          | —      | 18,968                                      | —   | 18,551               | 18,551 | (4,979)                  | 2003                      | 39  |
| 0666 | Lone Tree        | CO                                | —                       | —                          | 23,274 | 2,102                                       | —   | 25,188               | 25,188 | (5,694)                  | 2000                      | 37  |
| 2233 | Lone Tree        | CO                                | —                       | —                          | —      | 5,453                                       | —   | 5,453                | 5,453  | —                        | 2014                      | *   |
| 1076 | Parker           | CO                                | —                       | —                          | 13,388 | 496   | 8   | 13,788               | 13,796 | (3,027)                  | 2006                      | 40  |
| 0510 | Thornton         | CO                                | —                       | 236                        | 10,206 | 2,303                                       | 244   | 12,477               | 12,721 | (3,835)                  | 2002                      | 43  |
| 0433 | Atlantis         | FL                                | —                       | —                          | 5,651  | 694   | 33  | 5,500                | 5,533  | (2,386)                  | 1999                      | 35  |
| 0434 | Atlantis         | FL                                | —                       | —                          | 2,027  | 258   | 5   | 2,173                | 2,178  | (941)                    | 1999                      | 34  |
| 0435 | Atlantis         | FL                                | —                       | —                          | 2,000  | 727   | —   | 2,530                | 2,530  | (1,099)                  | 1999                      | 32  |
| 0602 | Atlantis         | FL                                | —                       | 455                        | 2,231  | 342   | 455   | 2,368                | 2,823  | (640)                    | 2000                      | 34  |
| 0604 | Englewood        | FL                                | —                       | 170                        | 1,134  | 389   | 198   | 1,388                | 1,586  | (377)                    | 2000                      | 34  |
| 0609 | Kissimmee        | FL                                | —                       | 788                        | 174    | 214   | 788   | 299                  | 1,087  | (84)                     | 2000                      | 34  |
| 0610 | Kissimmee        | FL                                | —                       | 481                        | 347    | 629   | 486   | 931                  | 1,417  | (237)                    | 2000                      | 34  |
| 0671 | Kissimmee        | FL                                | —                       | —                          | 7,574  | 1,983                                       | —   | 8,883                | 8,883  | (2,497)                  | 2000                      | 36  |
| 0603 | Lake Worth       | FL                                | —                       | 1,507                      | 2,894  | 1,807                                       | 1,507   | 4,569                | 6,076  | (1,194)                  | 2000                      | 34  |
| 0612 | Margate          | FL                                | —                       | 1,553                      | 6,898  | 1,058                                       | 1,553   | 7,920                | 9,473  | (1,944)                  | 2000                      | 34  |
| 0613 | Miami            | FL                                | —                       | 4,392                      | 11,841 | 3,081                                       | 4,392   | 14,323               | 18,715 | (4,097)                  | 2000                      | 34  |
| 2202 | Miami            | FL                                | —                       | —                          | 13,123 | 2,237                                       | —   | 15,360               | 15,360 | (355)                    | 2014                      | 25  |
| 2203 | Miami            | FL                                | —                       | —                          | 8,877  | 850   | —   | 9,727                | 9,727  | (203)                    | 2014                      | 30  |
| 1067 | Milton           | FL                                | —                       | —                          | 8,566  | 248   | —   | 8,806                | 8,806  | (1,856)                  | 2006                      | 40  |
| 0563 | Orlando          | FL                                | —                       | 2,144                      | 5,136  | 4,182                                       | 2,332   | 8,558                | 10,890 | (3,206)                  | 2003                      | 37  |
| 0833 | Pace             | FL                                | —                       | —                          | 10,309 | 2,580                                       | 26  | 10,729               | 10,755 | (2,221)                  | 2006                      | 44  |
| 0834 | Pensacola        | FL                                | —                       | —                          | 11,166 | 478   | —   | 11,644               | 11,644 | (2,428)                  | 2006                      | 45  |
| 0614 | Plantation       | FL                                | —                       | 969                        | 3,241  | 1,075                                       | 1,011   | 4,029                | 5,040  | (1,179)                  | 2000                      | 34  |
| 0673 | Plantation       | FL                                | 4,611                   | 1,091                      | 7,176  | 687   | 1,091   | 7,530                | 8,621  | (1,735)                  | 2002                      | 36  |
| 0701 | St. Petersburg   | FL                                | —                       | —                          | 10,141 | 8,183                                       | —   | 17,710               | 17,710 | (3,477)                  | 2006                      | †   |
| 1210 | Tampa            | FL                                | —                       | 1,967                      | 6,602  | 4,674                                       | 2,142   | 10,589               | 12,731 | (4,080)                  | 2006                      | 25  |
| 1058 | Mccaysville      | GA                                | —                       | —                          | 3,231  | 18  | —   | 3,249                | 3,249  | (678)                    | 2006                      | 40  |
| 1065 | Marion           | IL                                | —                       | 99                         | 11,484 | 319   | 100   | 11,783               | 11,883 | (2,546)                  | 2006                      | 40  |
| 1057 | Newburgh         | IN                                | —                       | —                          | 14,019 | 2,910                                       | —   | 16,923               | 16,923 | (3,324)                  | 2006                      | 40  |
| 2039 | Kansas City      | KS                                | 1,789                   | 440                        | 2,173  | 9   | 448   | 2,173                | 2,621  | (164)                    | 2012                      | 35  |
| 2043 | Overland Park    | KS                                | —                       | —                          | 7,668  | —   | —   | 7,668                | 7,668  | (527)                    | 2012                      | 40  |
| 0483 | Wichita          | KS                                | —                       | 530                        | 3,341  | 460   | 530   | 3,801                | 4,331  | (1,233)                  | 2001                      | 45  |
| 1064 | Lexington        | KY                                | —                       | —                          | 12,726 | 1,119                                       | —   | 13,765               | 13,765 | (3,250)                  | 2006                      | 40  |
| 0735 | Louisville       | KY                                | —                       | 936                        | 8,426  | 4,405                                       | 936   | 12,106               | 13,042 | (8,652)                  | 2005                      | 11  |
| 0737 | Louisville       | KY                                | —                       | 835                        | 27,627 | 3,679                                       | 835   | 30,674               | 31,509 | (8,706)                  | 2005                      | 37  |
| 0738 | Louisville       | KY                                | 4,820                   | 780                        | 8,582  | 4,229                                       | 818   | 11,962               | 12,780 | (5,923)                  | 2005                      | 18  |
| 0739 | Louisville       | KY                                | 7,791                   | 826                        | 13,814 | 1,624                                       | 826   | 14,768               | 15,594 | (4,246)                  | 2005                      | 38  |
| 0740 | Louisville       | KY                                | 8,436                   | 2,983                      | 13,171 | 3,695                                       | 2,991   | 16,501               | 19,492 | (5,623)                  | 2005                      | 30  |
| 1944 | Louisville       | KY                                | —                       | 788                        | 2,414  | —   | 788   | 2,414                | 3,202  | (386)                    | 2010                      | 25  |
| 1945 | Louisville       | KY                                | 24,782                  | 3,255                      | 28,644 | 653   | 3,255   | 29,297               | 32,552 | (4,128)                  | 2010                      | 30  |
| 1946 | Louisville       | KY                                | —                       | 430                        | 6,125  | 46  | 430   | 6,171                | 6,601  | (822)                    | 2010                      | 30  |
| 2237 | Louisville       | KY                                | 10,162                  | 1,519                      | 15,386 | —   | 1,519   | 15,386               | 16,905 | (51)                     | 2014                      | 25  |
| 2238 | Louisville       | KY                                | 10,162                  | 1,334                      | 12,172 | —   | 1,334   | 12,172               | 13,506 | (41)                     | 2014                      | 25  |
| 2239 | Louisville       | KY                                | 12,889                  | 1,644                      | 10,832 | —   | 1,644   | 10,832               | 12,476 | (36)                     | 2014                      | 25  |
| 1324 | Haverhill        | MA                                | —                       | 800                        | 8,537  | 1,827                                       | 828   | 10,137               | 10,965 | (2,634)                  | 2007                      | 40  |
| 1213 | Ellicott City    | MD                                | —                       | 1,115                      | 3,206  | 2,511                                       | 1,222   | 5,403                | 6,625  | (1,435)                  | 2006                      | 34  |
| 0361 | GlenBurnie       | MD                                | —                       | 670                        | 5,085  | —   | 670   | 5,085                | 5,755  | (2,276)                  | 1999                      | 35  |
| 1052 | Towson           | MD                                | —                       | —                          | 14,233 | 3,599                                       | —   | 15,788               | 15,788 | (4,815)                  | 2006                      | 40  |
| 0240 | Minneapolis      | MN                                | —                       | 117                        | 13,213 | 1,620                                       | 117   | 14,444               | 14,561 | (6,945)                  | 1997                      | 32  |
| 0300 | Minneapolis      | MN                                | 490                     | 160                        | 10,131 | 2,823                                       | 160   | 12,520               | 12,680 | (5,983)                  | 1997                      | 35  |
| 2032 | Independence     | MO                                | 32,018                  | —                          | 48,025 | 337   | —   | 48,361               | 48,361 | (2,582)                  | 2012                      | 45  |
| 1078 | Flowood          | MS                                | —                       | —                          | 8,413  | 729   | —   | 9,115                | 9,115  | (2,131)                  | 2006                      | 40  |
| 1059 | Jackson          | MS                                | —                       | —                          | 8,869  | 65  | —   | 8,933                | 8,933  | (1,843)                  | 2006                      | 40  |
| 1060 | Jackson          | MS                                | —                       | —                          | 7,187  | 2,160                                       | —   | 9,347                | 9,347  | (2,325)                  | 2006                      | 40  |
| 1068 | Omaha            | NE                                | —                       | —                          | 16,243 | 737   | 17  | 16,915               | 16,932 | (3,639)                  | 2006                      | 40  |
| 0729 | Albuquerque      | NM                                | —                       | —                          | 5,380  | 388   | —   | 5,768                | 5,768  | (1,509)                  | 2005                      | 39  |
| 0348 | Elko             | NV                                | —                       | 55                         | 2,637  | 12  | 55  | 2,649                | 2,704  | (1,203)                  | 1999                      | 35  |
| 0571 | Las Vegas        | NV                                | —                       | —                          | —      | 18,307                                      | —   | 17,421               | 17,421 | (4,927)                  | 2003                      | 40  |
| 0660 | Las Vegas        | NV                                | —                       | 1,121                      | 4,363  | 4,389                                       | 1,302   | 7,141                | 8,443  | (2,218)                  | 2000                      | 34  |
| 0661 | Las Vegas        | NV                                | —                       | 2,125                      | 4,829  | 4,435                                       | 2,267   | 8,564                | 10,831 | (2,603)                  | 2000                      | 34  |

| City | State                | Encumbrances at December 31, 2014 | Initial Cost to Company |                            |         | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                      |         | Accumulated Depreciation | Year Acquired/ Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|------|----------------------|-----------------------------------|-------------------------|----------------------------|---------|---|---|----------------------|---------|--------------------------|----------------------------|---|
|      |                      |                                   | Land                    | Buildings and Improvements | Land    |   | Buildings and Improvements                            | Total <sup>(1)</sup> |         |                          |                            |   |
| 0662 | Las Vegas            | NV                                | —                       | 3,480                      | 12,305  | 4,376                                       | 3,480   | 15,182               | 18,662  | (3,974)                  | 2000                       | 34  |
| 0663 | Las Vegas            | NV                                | —                       | 1,717                      | 3,597   | 2,850                                       | 1,717   | 6,072                | 7,789   | (2,119)                  | 2000                       | 34  |
| 0664 | Las Vegas            | NV                                | —                       | 1,172                      | 1,550   | 321   | 1,172   | 1,596                | 2,768   | (1,589)                  | 2000                       | *   |
| 0691 | Las Vegas            | NV                                | —                       | 3,244                      | 18,339  | 5,859                                       | 3,273   | 23,218               | 26,491  | (6,935)                  | 2004                       | 40  |
| 2037 | Mesquite             | NV                                | 3,040                   | —                          | 5,559   | 17  | —   | 5,576                | 5,576   | (373)                    | 2012                       | 40  |
| 1285 | Cleveland            | OH                                | —                       | 823                        | 2,726   | 676   | 853   | 2,668                | 3,521   | (812)                    | 2006                       | 40  |
| 0400 | Harrison             | OH                                | —                       | —                          | 4,561   | 300   | —   | 4,861                | 4,861   | (2,096)                  | 1999                       | 35  |
| 1054 | Durant               | OK                                | —                       | 619                        | 9,256   | 1,331                                       | 659   | 10,534               | 11,193  | (2,157)                  | 2006                       | 40  |
| 0817 | Owasso               | OK                                | —                       | —                          | 6,582   | 643   | —   | 7,225                | 7,225   | (2,976)                  | 2005                       | 40  |
| 0404 | Roseburg             | OR                                | —                       | —                          | 5,707   | —   | —   | 5,707                | 5,707   | (2,404)                  | 1999                       | 35  |
| 2234 | Philadelphia         | PA                                | —                       | 24,264                     | 99,904  | 786   | 24,264  | 100,690              | 124,954 | (965)                    | 2014                       | 35  |
| 0252 | Clarksville          | TN                                | —                       | 765                        | 4,184   | 47  | 765   | 4,231                | 4,996   | (2,005)                  | 1998                       | 35  |
| 0624 | Hendersonville       | TN                                | —                       | 256                        | 1,530   | 1,114                                       | 256   | 2,343                | 2,599   | (678)                    | 2000                       | 34  |
| 0559 | Hermitage            | TN                                | —                       | 830                        | 5,036   | 5,332                                       | 830   | 9,828                | 10,658  | (3,213)                  | 2003                       | 35  |
| 0561 | Hermitage            | TN                                | —                       | 596                        | 9,698   | 3,816                                       | 596   | 12,723               | 13,319  | (4,126)                  | 2003                       | 37  |
| 0562 | Hermitage            | TN                                | —                       | 317                        | 6,528   | 2,437                                       | 317   | 8,588                | 8,905   | (2,851)                  | 2003                       | 37  |
| 0154 | Knoxville            | TN                                | —                       | 700                        | 4,559   | 4,812                                       | 700   | 9,277                | 9,977   | (3,019)                  | 1994                       | 19  |
| 0625 | Nashville            | TN                                | —                       | 955                        | 14,289  | 2,055                                       | 955   | 15,717               | 16,672  | (4,369)                  | 2000                       | 34  |
| 0626 | Nashville            | TN                                | —                       | 2,050                      | 5,211   | 3,048                                       | 2,055   | 8,012                | 10,067  | (2,299)                  | 2000                       | 34  |
| 0627 | Nashville            | TN                                | —                       | 1,007                      | 181     | 572   | 1,007   | 727                  | 1,734   | (268)                    | 2000                       | 34  |
| 0628 | Nashville            | TN                                | —                       | 2,980                      | 7,164   | 2,136                                       | 2,980   | 8,998                | 11,978  | (2,384)                  | 2000                       | 34  |
| 0630 | Nashville            | TN                                | —                       | 515                        | 848     | 251   | 528   | 1,085                | 1,613   | (355)                    | 2000                       | 34  |
| 0631 | Nashville            | TN                                | —                       | 266                        | 1,305   | 1,343                                       | 266   | 2,499                | 2,765   | (665)                    | 2000                       | 34  |
| 0632 | Nashville            | TN                                | —                       | 827                        | 7,642   | 3,642                                       | 827   | 10,829               | 11,656  | (3,113)                  | 2000                       | 34  |
| 0633 | Nashville            | TN                                | —                       | 5,425                      | 12,577  | 4,064                                       | 5,425   | 16,360               | 21,785  | (4,742)                  | 2000                       | 34  |
| 0634 | Nashville            | TN                                | —                       | 3,818                      | 15,185  | 6,275                                       | 3,818   | 20,378               | 24,196  | (5,330)                  | 2000                       | 34  |
| 0636 | Nashville            | TN                                | —                       | 583                        | 450     | 298   | 583   | 748                  | 1,331   | (159)                    | 2000                       | 34  |
| 0573 | Arlington            | TX                                | —                       | 769                        | 12,355  | 2,849                                       | 769   | 14,753               | 15,522  | (3,845)                  | 2003                       | 34  |
| 0576 | Conroe               | TX                                | —                       | 324                        | 4,842   | 1,877                                       | 324   | 5,809                | 6,133   | (1,551)                  | 2000                       | 34  |
| 0577 | Conroe               | TX                                | —                       | 397                        | 7,966   | 2,363                                       | 397   | 9,841                | 10,238  | (2,406)                  | 2000                       | 34  |
| 0578 | Conroe               | TX                                | —                       | 388                        | 7,975   | 3,801                                       | 388   | 11,588               | 11,976  | (2,490)                  | 2006                       | 31  |
| 0579 | Conroe               | TX                                | —                       | 188                        | 3,618   | 698   | 188   | 4,298                | 4,486   | (1,134)                  | 2000                       | 34  |
| 0581 | Corpus Christi       | TX                                | —                       | 717                        | 8,181   | 4,222                                       | 717   | 11,693               | 12,410  | (3,240)                  | 2000                       | 34  |
| 0600 | Corpus Christi       | TX                                | —                       | 328                        | 3,210   | 3,084                                       | 328   | 5,916                | 6,244   | (1,806)                  | 2000                       | 34  |
| 0601 | Corpus Christi       | TX                                | —                       | 313                        | 1,771   | 1,608                                       | 313   | 3,131                | 3,444   | (797)                    | 2000                       | 34  |
| 0582 | Dallas               | TX                                | —                       | 1,664                      | 6,785   | 3,135                                       | 1,693   | 9,460                | 11,153  | (2,634)                  | 2000                       | 34  |
| 1314 | Dallas               | TX                                | —                       | 15,230                     | 162,971 | 7,355                                       | 15,860  | 168,420              | 184,280 | (39,215)                 | 2006                       | 35  |
| 2201 | Dallas               | TX                                | —                       | 1,043                      | 25,841  | 56  | 1,043   | 25,896               | 26,939  | (308)                    | 2014                       | 35  |
| 0583 | Fort Worth           | TX                                | —                       | 898                        | 4,866   | 1,606                                       | 898   | 6,273                | 7,171   | (1,868)                  | 2000                       | 34  |
| 0805 | Fort Worth           | TX                                | —                       | —                          | 2,481   | 880   | 2   | 3,230                | 3,232   | (1,263)                  | 2005                       | 25  |
| 0806 | Fort Worth           | TX                                | —                       | —                          | 6,070   | 347   | 5   | 6,311                | 6,316   | (1,484)                  | 2005                       | 40  |
| 2231 | Fort Worth           | TX                                | —                       | 902                        | —       | —   | 902   | —                    | 902     | —                        | 2014                       | **  |
| 1061 | Granbury             | TX                                | —                       | —                          | 6,863   | 152   | —   | 7,015                | 7,015   | (1,491)                  | 2006                       | 40  |
| 0430 | Houston              | TX                                | —                       | 1,927                      | 33,140  | 3,597                                       | 2,062   | 36,365               | 38,427  | (15,777)                 | 1999                       | 35  |
| 0446 | Houston              | TX                                | —                       | 2,200                      | 19,585  | 7,004                                       | 2,209   | 22,769               | 24,978  | (15,016)                 | 1999                       | 17  |
| 0586 | Houston              | TX                                | —                       | 1,033                      | 3,165   | 1,105                                       | 1,033   | 4,026                | 5,059   | (1,234)                  | 2000                       | 34  |
| 0589 | Houston              | TX                                | —                       | 1,676                      | 12,602  | 3,980                                       | 1,706   | 15,701               | 17,407  | (4,483)                  | 2000                       | 34  |
| 0670 | Houston              | TX                                | —                       | 257                        | 2,884   | 1,159                                       | 318   | 3,823                | 4,141   | (1,141)                  | 2000                       | 35  |
| 0702 | Houston              | TX                                | —                       | —                          | 7,414   | 1,320                                       | 7   | 8,706                | 8,713   | (2,632)                  | 2004                       | 36  |
| 1044 | Houston              | TX                                | —                       | —                          | 4,838   | 3,218                                       | —   | 7,964                | 7,964   | (2,499)                  | 2006                       | 40  |
| 0590 | Irving               | TX                                | —                       | 828                        | 6,160   | 2,446                                       | 828   | 8,437                | 9,265   | (2,189)                  | 2000                       | 34  |
| 0700 | Irving               | TX                                | —                       | —                          | 8,550   | 3,147                                       | —   | 11,255               | 11,255  | (3,372)                  | 2004                       | 34  |
| 1202 | Irving               | TX                                | —                       | 1,604                      | 16,107  | 950   | 1,604   | 17,026               | 18,630  | (3,611)                  | 2006                       | 40  |
| 1207 | Irving               | TX                                | —                       | 1,955                      | 12,793  | 1,255                                       | 1,986   | 14,016               | 16,002  | (2,974)                  | 2006                       | 40  |
| 1062 | Lancaster            | TX                                | —                       | 172                        | 2,692   | 881   | 185   | 3,510                | 3,695   | (993)                    | 2006                       | 39  |
| 2195 | Lancaster            | TX                                | —                       | —                          | 1,138   | 672   | 131   | 1,679                | 1,810   | (74)                     | 2006                       | 39  |
| 0591 | Lewisville           | TX                                | —                       | 561                        | 8,043   | 1,170                                       | 561   | 9,129                | 9,690   | (2,271)                  | 2000                       | 34  |
| 0144 | Longview             | TX                                | —                       | 102                        | 7,998   | 423   | 102   | 8,420                | 8,522   | (3,994)                  | 1992                       | 45  |
| 0143 | Lufkin               | TX                                | —                       | 338                        | 2,383   | 40  | 338   | 2,383                | 2,721   | (1,061)                  | 1992                       | 45  |
| 0568 | McKinney             | TX                                | —                       | 541                        | 6,217   | 799   | 541   | 6,495                | 7,036   | (2,091)                  | 2003                       | 36  |
| 0569 | McKinney             | TX                                | —                       | —                          | 636     | 7,673                                       | —   | 7,661                | 7,661   | (2,146)                  | 2003                       | 40  |
| 0596 | Nassau Bay           | TX                                | —                       | 812                        | 8,883   | 2,202                                       | 812   | 10,830               | 11,642  | (2,605)                  | 2000                       | 37  |
| 1079 | North Richland Hills | TX                                | —                       | —                          | 8,942   | 798   | —   | 9,607                | 9,607   | (2,145)                  | 2006                       | 40  |
| 2048 | North Richland Hills | TX                                | —                       | 1,385                      | 10,213  | 1,365                                       | 1,385   | 11,578               | 12,963  | (1,047)                  | 2012                       | 30  |
| 1048 | Pearland             | TX                                | —                       | —                          | 4,014   | 4,043                                       | —   | 7,848                | 7,848   | (2,243)                  | 2006                       | 40  |
| 2232 | Pearland             | TX                                | —                       | —                          | —       | 5,491                                       | —   | 5,491                | 5,491   | —                        | 2014                       | *   |
| 0447 | Plano                | TX                                | —                       | 1,700                      | 7,810   | 5,926                                       | 1,704   | 13,113               | 14,817  | (4,403)                  | 1999                       | 20  |
| 0597 | Plano                | TX                                | —                       | 1,210                      | 9,588   | 3,418                                       | 1,210   | 12,266               | 13,476  | (2,952)                  | 2000                       | 34  |
| 0672 | Plano                | TX                                | 8,962                   | 1,389                      | 12,768  | 1,501                                       | 1,389   | 13,683               | 15,072  | (3,636)                  | 2002                       | 36  |
| 1284 | Plano                | TX                                | —                       | 2,049                      | 18,793  | 1,119                                       | 2,087   | 18,648               | 20,735  | (6,171)                  | 2006                       | 40  |
| 1286 | Plano                | TX                                | —                       | 3,300                      | —       | —   | 3,300   | —                    | 3,300   | —                        | 2006                       | **  |
| 0815 | San Antonio          | TX                                | —                       | —                          | 9,193   | 1,338                                       | 12  | 10,059               | 10,071  | (2,603)                  | 2006                       | 35  |
| 0816 | San Antonio          | TX                                | 4,072                   | —                          | 8,699   | 2,063                                       | 148   | 10,176               | 10,324  | (2,522)                  | 2006                       | 35  |
| 1591 | San Antonio          | TX                                | —                       | —                          | 7,309   | 327   | 12  | 7,624                | 7,636   | (1,191)                  | 2010                       | 30  |
| 1977 | San Antonio          | TX                                | —                       | —                          | 26,191  | 889   | —   | 27,080               | 27,080  | (3,796)                  | 2011                       | 30  |
| 0598 | Sugarland            | TX                                | —                       | 1,078                      | 5,158   | 2,066                                       | 1,135   | 6,858                | 7,993   | (1,944)                  | 2000                       | 34  |
| 1081 | Texarkana            | TX                                | —                       | 1,117                      | 7,423   | 674   | 1,195   | 7,228                | 8,423   | (2,831)                  | 2006                       | 40  |
| 0599 | Texas City           | TX                                | —                       | —                          | 9,519   | 157   | —   | 9,676                | 9,676   | (2,214)                  | 2000                       | 37  |
| 0152 | Victoria             | TX                                | —                       | 125                        | 8,977   | 394   | 125   | 9,371                | 9,496   | (4,048)                  | 1994                       | 45  |
| 1592 | Bountiful            | UT                                | 4,973                   | 999                        | 7,426   | 54  | 999   | 7,481                | 8,480   | (1,118)                  | 2010                       | 30  |
| 0169 | Bountiful            | UT                                | —                       | 276                        | 5,237   | 864   | 330   | 6,035                | 6,365   | (2,580)                  | 1995                       | 45  |
| 0346 | Castle Dale          | UT                                | —                       | 50                         | 1,818   | 63  | 50  | 1,881                | 1,931   | (875)                    | 1998                       | 35  |

| City                               | State              | Encumbrances at December 31, 2014 | Initial Cost to Company |                            |              | Costs Capitalized Subsequent to Acquisition | Gross Amount at Which Carried As of December 31, 2014 |                            |                      | Accumulated Depreciation | Year Acquired/ Constructed | Life on Which Depreciation in Latest Income Statement is Computed |
|------------------------------------|--------------------|-----------------------------------|-------------------------|----------------------------|--------------|---|---|----------------------------|----------------------|--------------------------|----------------------------|---|
|                                    |                    |                                   | Land                    | Buildings and Improvements |              |   | Land  | Buildings and Improvements | Total <sup>(1)</sup> |                          |                            |   |
| 0347                               | Centerville        | UT                                | —                       | 300                        | 1,288        | 191   | 300   | 1,479                      | 1,779                | (734)                    | 1999                       | 35  |
| 2035                               | Draper             | UT                                | 5,549                   | —                          | 10,803       | 113   | —   | 10,916                     | 10,916               | (684)                    | 2012                       | 45  |
| 0469                               | Kaysville          | UT                                | —                       | 530                        | 4,493        | 146   | 530   | 4,639                      | 5,169                | (1,389)                  | 2001                       | 43  |
| 0456                               | Layton             | UT                                | —                       | 371                        | 7,073        | 512   | 389   | 7,457                      | 7,846                | (2,994)                  | 2001                       | 35  |
| 2042                               | Layton             | UT                                | —                       | —                          | 10,275       | 26  | —   | 10,302                     | 10,302               | (622)                    | 2012                       | 45  |
| 0359                               | Ogden              | UT                                | —                       | 180                        | 1,695        | 121   | 180   | 1,764                      | 1,944                | (839)                    | 1999                       | 35  |
| 1283                               | Ogden              | UT                                | —                       | 106                        | 4,464        | 678   | 106   | 4,533                      | 4,639                | (4,478)                  | 2006                       | 40  |
| 0357                               | Orem               | UT                                | —                       | 337                        | 8,744        | 1,538                                       | 306   | 9,411                      | 9,717                | (4,837)                  | 1999                       | 35  |
| 0371                               | Providence         | UT                                | —                       | 240                        | 3,876        | 202   | 256   | 3,774                      | 4,030                | (1,674)                  | 1999                       | 35  |
| 0353                               | Salt Lake City     | UT                                | —                       | 190                        | 779          | 148   | 201   | 916                        | 1,117                | (407)                    | 1999                       | 35  |
| 0354                               | Salt Lake City     | UT                                | —                       | 220                        | 10,732       | 1,539                                       | 220   | 11,991                     | 12,211               | (5,399)                  | 1999                       | 35  |
| 0355                               | Salt Lake City     | UT                                | —                       | 180                        | 14,792       | 1,755                                       | 180   | 16,375                     | 16,555               | (7,407)                  | 1999                       | 35  |
| 0467                               | Salt Lake City     | UT                                | —                       | 3,000                      | 7,541        | 1,545                                       | 3,126   | 8,623                      | 11,749               | (2,702)                  | 2001                       | 38  |
| 0566                               | Salt Lake City     | UT                                | —                       | 509                        | 4,044        | 1,359                                       | 509   | 5,143                      | 5,652                | (1,604)                  | 2003                       | 37  |
| 2041                               | Salt Lake City     | UT                                | —                       | —                          | 12,326       | 21  | —   | 12,346                     | 12,346               | (733)                    | 2012                       | 45  |
| 2033                               | Sandy              | UT                                | 2,787                   | 867                        | 3,513        | 365   | 867   | 3,879                      | 4,746                | (490)                    | 2012                       | 20  |
| 0358                               | Springville        | UT                                | —                       | 85                         | 1,493        | 233   | 95  | 1,618                      | 1,713                | (723)                    | 1999                       | 35  |
| 0482                               | Stansbury          | UT                                | —                       | 450                        | 3,201        | 368   | 450   | 3,468                      | 3,918                | (1,098)                  | 2001                       | 45  |
| 0351                               | Washington Terrace | UT                                | —                       | —                          | 4,573        | 2,273                                       | —   | 6,465                      | 6,465                | (2,835)                  | 1999                       | 35  |
| 0352                               | Washington Terrace | UT                                | —                       | —                          | 2,692        | 1,128                                       | —   | 3,459                      | 3,459                | (1,388)                  | 1999                       | 35  |
| 2034                               | West Jordan        | UT                                | 7,422                   | —                          | 12,021       | —   | —   | 12,021                     | 12,021               | (705)                    | 2012                       | 45  |
| 2036                               | West Jordan        | UT                                | 1,160                   | —                          | 1,383        | 312   | —   | 1,695                      | 1,695                | (201)                    | 2012                       | 20  |
| 0495                               | West Valley City   | UT                                | —                       | 410                        | 8,266        | 1,002                                       | 410   | 9,268                      | 9,678                | (3,580)                  | 2002                       | 35  |
| 0349                               | West Valley City   | UT                                | —                       | 1,070                      | 17,463       | 128   | 1,036   | 17,619                     | 18,655               | (7,982)                  | 1999                       | 35  |
| 1208                               | Fairfax            | VA                                | —                       | 8,396                      | 16,710       | 4,194                                       | 8,494   | 20,670                     | 29,164               | (6,222)                  | 2006                       | 28  |
| 2230                               | Fredericksburg     | VA                                | —                       | 1,101                      | 8,570        | —   | 1,101   | 8,570                      | 9,671                | (102)                    | 2014                       | 40  |
| 0572                               | Reston             | VA                                | —                       | —                          | 11,902       | 563   | —   | 12,394                     | 12,394               | (3,794)                  | 2003                       | 43  |
| 0448                               | Renton             | WA                                | —                       | —                          | 18,724       | 1,862                                       | —   | 19,908                     | 19,908               | (8,663)                  | 1999                       | 35  |
| 0781                               | Seattle            | WA                                | —                       | —                          | 52,703       | 10,414                                      | —   | 59,830                     | 59,830               | (15,273)                 | 2004                       | 39  |
| 0782                               | Seattle            | WA                                | —                       | —                          | 24,382       | 6,072                                       | 21  | 29,421                     | 29,442               | (8,599)                  | 2004                       | 36  |
| 0783                               | Seattle            | WA                                | —                       | —                          | 5,625        | 1,243                                       | 142   | 6,678                      | 6,820                | (6,061)                  | 2004                       | 10  |
| 0785                               | Seattle            | WA                                | —                       | —                          | 7,293        | 1,705                                       | —   | 8,043                      | 8,043                | (2,612)                  | 2004                       | 33  |
| 1385                               | Seattle            | WA                                | —                       | —                          | 38,925       | 1,978                                       | —   | 40,776                     | 40,776               | (10,077)                 | 2007                       | 30  |
| 2038                               | Evanston           | WY                                | 1,986                   | —                          | 4,601        | 8   | —   | 4,609                      | 4,609                | (303)                    | 2012                       | 40  |
| 0884                               | Coyoacan           | DF                                | —                       | 415                        | 3,739        | 51  | 256   | 3,952                      | 4,208                | (936)                    | 2006                       | 40  |
|                                    |                    |                                   | \$167,101               | \$ 223,689                 | \$ 2,167,443 | \$ 457,932                                  | \$ 228,743  | \$ 2,540,380               | \$ 2,769,123         | \$ (652,966)             |                            |   |
| <b>Hospital</b>                    |                    |                                   |                         |                            |              |   |   |                            |                      |                          |                            |   |
| 0126                               | Sherwood           | AR                                | —                       | 709                        | 9,604        | —   | 709   | 9,587                      | 10,296               | (5,105)                  | 1990                       | 45  |
| 0113                               | Glendale           | AZ                                | —                       | 1,565                      | 7,050        | —   | 1,565   | 7,050                      | 8,615                | (3,837)                  | 1988                       | 45  |
| 1038                               | Fresno             | CA                                | —                       | 3,652                      | 29,113       | 21,935                                      | 3,652   | 51,048                     | 54,700               | (12,716)                 | 2006                       | 40  |
| 0423                               | Irvine             | CA                                | —                       | 18,000                     | 70,800       | —   | 18,000  | 70,800                     | 88,800               | (30,686)                 | 1999                       | 35  |
| 0127                               | Colorado Springs   | CO                                | —                       | 690                        | 8,338        | —   | 690   | 8,338                      | 9,028                | (4,419)                  | 1989                       | 45  |
| 0887                               | Atlanta            | GA                                | —                       | 4,300                      | 13,690       | —   | 4,300   | 11,890                     | 16,190               | (4,657)                  | 2007                       | 40  |
| 0112                               | Overland Park      | KS                                | —                       | 2,316                      | 10,681       | —   | 2,316   | 10,680                     | 12,996               | (6,019)                  | 1989                       | 45  |
| 1383                               | Baton Rouge        | LA                                | —                       | 690                        | 8,545        | 86  | 690   | 8,502                      | 9,192                | (2,592)                  | 2007                       | 40  |
| 0877                               | Slidell            | LA                                | —                       | 1,490                      | 22,034       | —   | 1,490   | 20,934                     | 22,424               | (4,274)                  | 2006                       | 40  |
| 2031                               | Slidell            | LA                                | —                       | 3,000                      | —            | 643   | 3,000   | 643                        | 3,643                | —                        | 2012                       | **  |
| 0886                               | Dallas             | TX                                | —                       | 1,820                      | 8,508        | 26  | 1,820   | 7,454                      | 9,274                | (1,460)                  | 2007                       | 40  |
| 1319                               | Dallas             | TX                                | —                       | 18,840                     | 155,659      | 1,428                                       | 18,840  | 157,087                    | 175,927              | (34,706)                 | 2007                       | 35  |
| 1384                               | Plano              | TX                                | —                       | 6,290                      | 22,686       | 5,707                                       | 6,290   | 28,203                     | 34,493               | (7,709)                  | 2007                       | 25  |
| 2198                               | Webster            | TX                                | —                       | 2,220                      | 9,602        | —   | 2,220   | 9,602                      | 11,822               | (544)                    | 2013                       | 35  |
|                                    |                    |                                   | \$ —                    | \$ 65,582                  | \$ 376,310   | \$ 29,825                                   | \$ 65,582   | \$ 401,818                 | \$ 467,400           | \$ (118,724)             |                            |   |
| <b>Total operations properties</b> |                    |                                   |                         |                            |              |   |   |                            |                      |                          |                            |   |
|                                    |                    |                                   | \$984,431               | \$1,879,685                | \$10,132,425 | \$1,320,375                                 | \$1,889,438   | \$11,247,967               | \$13,137,405         | \$ (2,250,677)           |                            |   |
| <b>Corporate and other assets</b>  |                    |                                   |                         |                            |              |   |   |                            |                      |                          |                            |   |
|                                    |                    |                                   | —                       | —                          | —            | 467   | —   | 239                        | 239                  | (80)                     |                            |   |
|                                    |                    |                                   | \$984,431               | \$1,879,685                | \$10,132,425 | \$1,320,842                                 | \$1,889,438   | \$11,248,206               | \$13,137,644         | \$ (2,250,757)           |                            |   |

\* Property is in development and not yet placed in service or taken out of service and placed in redevelopment.

\*\* Represents land parcels which are not depreciated.

† A portion of the property has been taken out of service and placed in redevelopment.

(1) At December 31, 2014, the tax basis of the Company's net real estate assets is less than the reported amounts by approximately \$1.4 billion.

- (b) A summary of activity for real estate and accumulated depreciation for the years ended December 31, 2014, 2013 and 2012 follows (in thousands):

|   | Year ended December 31, |                     |                     |
|---|-------------------------|---------------------|---------------------|
|   | 2014                    | 2013                | 2012                |
| <i>Real estate:</i>   |                         |                     |                     |
| Balances at beginning of year   | \$12,592,841            | \$12,524,224        | \$10,616,690        |
| Acquisition of real estate and development and improvements               | 756,043                 | 257,189             | 1,941,091           |
| Disposition of real estate  | (169,311)               | (78,151)            | (148,752)           |
| Impairments   | —                       | —                   | (7,878)             |
| Balances associated with changes in reporting presentation <sup>(1)</sup> | (41,929)                | (110,421)           | 123,073             |
| Balances at end of year   | <u>\$13,137,644</u>     | <u>\$12,592,841</u> | <u>\$12,524,224</u> |
| <i>Accumulated depreciation:</i>  |                         |                     |                     |
| Balances at beginning of year   | \$ 1,965,592            | \$ 1,694,892        | \$ 1,408,310        |
| Depreciation expense  | 384,019                 | 353,344             | 302,332             |
| Disposition of real estate  | (55,745)                | (38,447)            | (32,942)            |
| Balances associated with changes in reporting presentation <sup>(1)</sup> | (43,109)                | (44,197)            | 17,192              |
| Balances at end of year   | <u>\$ 2,250,757</u>     | <u>\$ 1,965,592</u> | <u>\$ 1,694,892</u> |

(1) The balances associated with changes in reporting presentation represent real estate and accumulated depreciation related to properties placed into discontinued operations or where the lease classification has changed to direct financing leases as of December 31, 2014.

#### **(a) 2. Exhibits**

See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

## SIGNATURES

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

Dated: February 10, 2015

HCP, Inc. (Registrant)

/s/ Lauralee E. Martin

Lauralee E. Martin,  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                               | <u>Title</u>   | <u>Date</u>       |
|--|--|-------------------|
| /s/ Lauralee E. Martin<br>Lauralee E. Martin   | President and Chief Executive Officer<br>(Principal Executive Officer)             | February 10, 2015 |
| /s/ Timothy M. Schoen<br>Timothy M. Schoen     | Executive Vice President and Chief Financial Officer (Principal Financial Officer) | February 10, 2015 |
| /s/ Scott A. Anderson<br>Scott A. Anderson     | Senior Vice President — Chief Accounting Officer (Principal Accounting Officer)    | February 10, 2015 |
| /s/ Brian G. Cartwright<br>Brian G. Cartwright | Director   | February 10, 2015 |
| /s/ Christine N. Garvey<br>Christine N. Garvey | Director   | February 10, 2015 |
| /s/ David B. Henry<br>David B. Henry           | Director   | February 10, 2015 |
| /s/ James Hoffman<br>James Hoffmann            | Director   | February 10, 2015 |

| <u>Signature</u>                             | <u>Title</u> | <u>Date</u>       |
|--|--------------|-------------------|
| /s/ Michael D. McKee<br>Michael D. McKee     | Director     | February 10, 2015 |
| /s/ Peter L. Rhein<br>Peter L. Rhein         | Director     | February 10, 2015 |
| /s/ Joseph P. Sullivan<br>Joseph P. Sullivan | Director     | February 10, 2015 |

## EXHIBIT INDEX

| Exhibit<br>Number | Description   | Incorporated by reference herein                                 |                    |
|-------------------|---|--|--------------------|
|                   |   | Form   | Date Filed         |
| 2.1               | Purchase Agreement, dated as of December 13, 2010, by and among HCP, Inc., HCP 2010 REIT LLC, HCR ManorCare, Inc., HCR Properties, LLC and HCR Healthcare, LLC.***  | Current Report on Form 8-K (File No. 001-08895)                  | December 14, 2010  |
| 2.1.1             | Amendment to Purchase Agreement, dated as of April 7, 2011, by and among HCP, Inc., HCP 2010 REIT LLC, HCR ManorCare MergeCo, Inc., HCR ManorCare, LLC, HCR Properties, LLC and HCR Healthcare, LLC.**  | Current Report on Form 8-K (File No. 001-08895)                  | April 13, 2011     |
| 2.2               | Purchase and Sale Agreement, dated as of October 16, 2012, by and among BRE/SW Portfolio LLC, those owner entities listed on Schedule 1 thereto, HCP, Inc. and Emeritus Corporation; and First Amendment to such Purchase and Sale Agreement, by and among such parties, dated as of December 4, 2012.*** | Quarterly Report on Form 10-Q (File No. 001-08895)               | May 2, 2013        |
| 2.3               | Master Contribution and Transactions Agreement, dated April 23, 2014, by and between HCP, Inc. and Brookdale Senior Living Inc.***  | Quarterly Report on Form 10-Q (File No. 001-08895)               | August 5, 2014     |
| 3.1               | Articles of Restatement of HCP.   | Registration Statement on Form S-3 (Registration No. 333-182824) | July 24, 2012      |
| 3.2               | Fourth Amended and Restated Bylaws of HCP.  | Current Report on Form 8-K (File No. 001-08895)                  | September 25, 2006 |
| 3.2.1             | Amendment No. 1 to Fourth Amended and Restated Bylaws of HCP.   | Quarterly Report on Form 10-Q (File No. 001-08895)               | October 30, 2007   |
| 3.2.2             | Amendment No. 2 to Fourth Amended and Restated Bylaws of HCP.   | Quarterly Report on Form 10-Q (File No. 001-08895)               | November 3, 2009   |
| 3.2.3             | Amendment No. 3 to Fourth Amended and Restated Bylaws of HCP.   | Current Report on Form 8-K (File No. 001-08895)                  | March 10, 2011     |

| <b>Exhibit<br/>Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b>                           |                   |
|---------------------------|---|---|-------------------|
|                           |   | <b>Form</b>   | <b>Date Filed</b> |
| 3.2.4                     | Amendment No. 4 to Fourth Amended and Restated Bylaws of HCP.   | Current Report on Form 8-K (File No. 001-08895)                   | October 3, 2013   |
| 4.1                       | Indenture, dated as of September 1, 1993, between HCP and The Bank of New York, as Trustee.   | Registration Statement on Form S-3/A (Registration No. 333-86654) | May 21, 2002      |
| 4.1.1                     | First Supplemental Indenture dated as of January 24, 2011, to the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York Mellon Trust Company, N.A., as Trustee. | Current Report on Form 8-K (File No. 001-08895)                   | January 24, 2011  |
| 4.2                       | Indenture, dated November 19, 2012, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.  | Current Report on Form 8-K (File No. 001- 08895)                  | November 19, 2012 |
| 4.2.1                     | First Supplemental Indenture, dated November 19, 2012, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.   | Current Report on Form 8-K (File No. 001-08895)                   | November 19, 2012 |
| 4.2.2                     | Second Supplemental Indenture, dated November 12, 2013, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.  | Current Report on Form 8-K (File No. 001-08895)                   | November 13, 2013 |
| 4.2.3                     | Third Supplemental Indenture dated February 21, 2014, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee.  | Current Report on Form 8-K (File No. 001-08895)                   | February 24, 2014 |
| 4.2.4                     | Fourth Supplemental Indenture, dated August 14, 2014, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.  | Current Report on Form 8-K (File No. 001-08895)                   | August 14, 2014   |
| 4.3                       | Form of Fixed Rate Global Medium-Term Note.   | Current Report on Form 8-K (File No. 001-08895)                   | November 20, 2003 |
| 4.4                       | Form of Floating Rate Global Medium-Term Note.  | Current Report on Form 8-K (File No. 001-08895)                   | November 20, 2003 |
| 4.5                       | Form of Fixed Rate Global Medium-Term Note.   | Current Report on Form 8-K (File No. 001-08895)                   | February 17, 2006 |
| 4.6                       | Form of Floating Rate Global Medium-Term Note.  | Current Report on Form 8-K (File No. 001-08895)                   | February 17, 2006 |

| <b>Exhibit<br/>Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b>            |                    |
|---------------------------|---|--|--------------------|
|                           |   | <b>Form</b>  | <b>Date Filed</b>  |
| 4.7                       | Officers' Certificate, dated February 25, 2003, pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled "6.00% Senior Notes due March 1, 2015".  | Current Report on Form 8-K (File No. 001-08895)    | February 28, 2003  |
| 4.8                       | Officers' Certificate, dated April 22, 2005, pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as Trustee, establishing a series of securities entitled "5%% Senior Notes due May 1, 2017".   | Current Report on Form 8-K (File No. 001-08895)    | April 27, 2005     |
| 4.9                       | Officers' Certificate, dated February 17, 2006, pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York, as trustee, setting forth the terms of HCP's Fixed Rate Medium-Term Notes and Floating Rate Medium-Term Notes.  | Current Report on Form 8-K (File No. 001-08895)    | February 17, 2006  |
| 4.10                      | Form of 6.30% Notes Due 2016.   | Current Report on Form 8-K (File No. 001-08895)    | September 19, 2006 |
| 4.11                      | Form of 6.00% Senior Notes Due 2017.  | Current Report on Form 8-K (File No. 001-08895)    | January 22, 2007   |
| 4.12                      | Officers' Certificate (including Form of 6.70% Senior Notes Due 2018 as Annex A thereto), dated October 15, 2007, pursuant to Section 301 of the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York Trust Company, N.A., as successor trustee to The Bank of New York, establishing a series of securities entitled "6.70% Senior Notes due 2018". | Quarterly Report on Form 10-Q (File No. 001-08895) | October 30, 2007   |
| 4.13                      | Form of 2.700% Senior Notes due 2014.   | Current Report on Form 8-K (File No. 001-08895)    | January 24, 2011   |
| 4.14                      | Form of 3.750% Senior Notes due 2016.   | Current Report on Form 8-K (File No. 001-08895)    | January 24, 2011   |
| 4.15                      | Form of 5.375% Senior Notes due 2021.   | Current Report on Form 8-K (File No. 001-08895)    | January 24, 2011   |

| <b>Exhibit<br/>Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b>               |                   |
|---------------------------|---|---|-------------------|
|                           |   | <b>Form</b>   | <b>Date Filed</b> |
| 4.16                      | Form of 6.750% Senior Notes due 2041.   | Current Report on Form 8-K (File No. 001-08895)       | January 24, 2011  |
| 4.17                      | Form of 3.75% Senior Notes due 2019.  | Current Report on Form 8-K (File No. 001-08895)       | January 23, 2012  |
| 4.18                      | Form of 3.15% Senior Notes due 2022.  | Current Report on Form 8-K (File No. 001-08895)       | July 23, 2012     |
| 4.19                      | Form of 2.625% Senior Notes due 2020.   | Current Report on Form 8-K (File No. 001-08895)       | November 19, 2012 |
| 4.20                      | Form of 4.250% Senior Notes due 2023.   | Current Report on Form 8-K (File No. 001-08895)       | November 13, 2013 |
| 4.21                      | Form of 4.20% Senior Notes due 2024.  | Current Report on Form 8-K (File No. 001-08895)       | February 24, 2014 |
| 4.22                      | Form of 3.875% Senior Notes due 2024.   | Current Report on Form 8-K (File No. 001-08895)       | August 14, 2014   |
| 10.1                      | Second Amended and Restated Director Deferred Compensation Plan.*   | Quarterly Report on Form 10-Q (File No. 001-08895)    | November 3, 2009  |
| 10.2                      | Amended and Restated Executive Retirement Plan, effective as of May 7, 2003.*   | Annual Report on Form 10-K (File No. 001-08895)       | March 15, 2004    |
| 10.3                      | 2006 Performance Incentive Plan, as amended and restated.*  | Annex 2 to HCP's Proxy Statement (File No. 001-08895) | March 10, 2009    |
| 10.3.1                    | Form of Employee 2006 Performance Incentive Plan Performance Restricted Stock Unit Agreement with five-year installment vesting.* | Quarterly Report on Form 10-Q (File No. 001-08895)    | April 28, 2009    |
| 10.3.2                    | Form of Director 2006 Performance Incentive Plan Director Stock Unit Award Agreement with four-year installment vesting.*         | Quarterly Report on Form 10-Q (File No. 001-08895)    | August 4, 2009    |
| 10.3.3                    | HCP, Inc. Terms and Conditions Applicable to Restricted Stock Unit Awards Granted Under the 2006 Performance Incentive Plan.*     | Quarterly Report on Form 10-Q (File No. 001-08895)    | May 3, 2011       |

| <b>Exhibit Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b>            |                   |
|-----------------------|---|--|-------------------|
|                       |   | <b>Form</b>  | <b>Date Filed</b> |
| 10.3.4                | Form of Non-Employee Directors 2006 Performance Incentive Plan Stock-For-Fees Program.*                                   | Current Report on Form 8-K (File No. 001-08895)    | August 2, 2006    |
| 10.3.5                | Form of Employee 2006 Performance Incentive Plan Nonqualified Stock Option Agreement.*                                    | Quarterly Report on Form 10-Q (File No. 001-08895) | May 1, 2012       |
| 10.3.6                | Form of Employee 2006 Performance Incentive Plan Performance-Based Restricted Stock Unit Agreement.*                      | Quarterly Report on Form 10-Q (File No. 001-08895) | May 1, 2012       |
| 10.3.7                | Form of Employee 2006 Performance Incentive Plan Time-Based Restricted Stock Unit Agreement.*                             | Quarterly Report on Form 10-Q (File No. 001-08895) | May 1, 2012       |
| 10.3.8                | Restricted Stock Unit Award Agreement, dated as of October 3, 2013, by and between HCP and Paul F. Gallagher.*            | Quarterly Report on Form 10-Q (File 001- 08895)    | November 4, 2013  |
| 10.3.9                | Restricted Stock Unit Award Agreement, dated as of October 3, 2013, by and between HCP and Timothy M. Schoen.*            | Quarterly Report on Form 10-Q (File 001- 08895)    | November 4, 2013  |
| 10.3.10               | Restricted Stock Unit Award Agreement, dated as of October 31, 2013, by and between HCP and James W. Mercer.*             | Quarterly Report on Form 10-Q (File 001- 08895)    | November 4, 2013  |
| 10.3.11               | Amended 2013 Restricted Stock Award Agreement, dated as of December 20, 2013, by and between HCP and Lauralee E. Martin.* | Annual Report on Form 10-K (File No. 001-08895)    | February 11, 2014 |
| 10.4                  | HCP, Inc. 2014 Performance Incentive Plan*  | Current Report on Form 8-K (File No. 001-08895)    | May 6, 2014       |
| 10.4.1                | Form of 2014 Performance Incentive Plan Non-Employee Director Restricted Stock Unit Award Agreement.*                     | Quarterly Report on Form 10-Q (File No. 001-08895) | August 5, 2014    |
| 10.4.2                | Form of 2014 Performance Incentive Plan CEO Annual LTIP Restricted Stock Unit Award Agreement.*                           | Quarterly Report on Form 10-Q (File No. 001-08895) | August 5, 2014    |
| 10.4.3                | Form of 2014 Performance Incentive Plan CEO Annual LTIP Option Agreement.*  | Quarterly Report on Form 10-Q (File No. 001-08895) | August 5, 2014    |
| 10.4.4                | Form of 2014 Performance Incentive Plan CEO 3-Year LTIP Restricted Stock Unit Award Agreement.*                           | Quarterly Report on Form 10-Q (File No. 001-08895) | August 5, 2014    |
| 10.4.5                | Form of 2014 Performance Incentive Plan NEO Annual LTIP Restricted Stock Unit Award Agreement.*                           | Quarterly Report on Form 10-Q (File No. 001-08895) | August 5, 2014    |

| <b>Exhibit Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b>                          |  |
|-----------------------|---|--|--|
|                       |   | <b>Form</b>  | <b>Date Filed</b>                                  |
| 10.4.6                | Form of 2014 Performance Incentive Plan NEO Annual LTIP Option Agreement.*  | Quarterly Report on Form 10-Q (File No. 001-08895)               | August 5, 2014                                     |
| 10.4.7                | Form of 2014 Performance Incentive Plan NEO 3-Year LTIP Restricted Stock Unit Award Agreement.*   | Quarterly Report on Form 10-Q (File No. 001-08895)               | August 5, 2014                                     |
| 10.4.8                | Form of 2014 Performance Incentive Plan Non-NEO Restricted Stock Unit Award Agreement.*   | Quarterly Report on Form 10-Q (File No. 001-08895)               | August 5, 2014                                     |
| 10.4.9                | Form of 2014 Performance Incentive Plan Non-NEO Option Agreement.*  | Quarterly Report on Form 10-Q (File No. 001-08895)               | August 5, 2014                                     |
| 10.4.10               | Form of 2014 Performance Incentive Plan Non-Employee Directors Stock-for-Fees Program.*   | Quarterly Report on Form 10-Q (File No. 001-08895)               | August 5, 2014                                     |
| 10.5                  | Change in Control Severance Plan.*  | Quarterly Report on Form 10-Q (File No. 001-08895)               | October 30, 2012                                   |
| 10.5.1                | HCP, Inc. Change in Control Severance Plan (as Amended and Restated as of March 13, 2014).*†  |  |  |
| 10.6                  | Executive Bonus Program.*   | Current Report on Form 8-K (File No. 001-08895)                  | January 31, 2008                                   |
| 10.7                  | Amended and Restated Dividend Reinvestment and Stock Purchase Plan, amended as of July 25, 2012.  | Registration Statement on Form S-3 (Registration No. 333-182824) | July 24, 2012 and as supplemented on July 25, 2012 |
| 10.8                  | Form of directors and officers Indemnification Agreement.*  | Annual Report on Form 10-K, as amended (File No. 001-08895)      | February 12, 2008                                  |
| 10.9                  | Employment Agreement, dated as of January 26, 2012, by and between HCP and Paul F. Gallagher.*  | Current Report on Form 8-K (File 001-08895)                      | February 1, 2012                                   |
| 10.9.1                | Amendment No. 1, dated as of April 5, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and Paul F. Gallagher.* | Current Report on Form 8-K (File 001-08895)                      | April 5, 2013                                      |
| 10.9.2                | Term Sheet Amendment to Employment Agreement, dated as of October 3, 2013, by and between HCP and Paul F. Gallagher.*                             | Current Report on Form 8-K (File 001-08895)                      | October 3, 2013                                    |

| <b>Exhibit<br/>Number</b> | <b>Description</b>   | <b>Incorporated by reference herein</b>             |                   |
|---------------------------|--|---|-------------------|
|                           |  | <b>Form</b>   | <b>Date Filed</b> |
| 10.9.3                    | Amendment No. 2, dated as of October 31, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and Paul F. Gallagher.* | Quarterly Report on Form 10-Q<br>(File 001-08895)   | November 4, 2013  |
| 10.10                     | Employment Agreement, dated as of January 26, 2012, by and between HCP and Timothy M. Schoen.*   | Current Report on Form 8-K<br>(File 001-08895)      | February 1, 2012  |
| 10.10.1                   | Amendment No. 1, dated as of April 5, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and Timothy M. Schoen.*    | Current Report on Form 8-K<br>(File 001-08895)      | April 5, 2013     |
| 10.10.2                   | Term Sheet Amendment to Employment Agreement, dated as of October 3, 2013, by and between HCP and Timothy M. Schoen.*                                | Current Report on Form 8-K<br>(File 001- 08895)     | October 3, 2013   |
| 10.10.3                   | Amendment No. 2, dated as of October 31, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and Timothy M. Schoen.* | Quarterly Report on Form 10-Q<br>(File 001-08895)   | November 4, 2013  |
| 10.11                     | Employment Agreement, dated October 25, 2012, by and between HCP, Inc. and James W. Mercer.*   | Quarterly Report on Form 10-Q (File No. 001-08895)  | October 30, 2012  |
| 10.11.1                   | Amendment No. 1, dated as of April 5, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and James W. Mercer.*      | Current Report on Form 8-K<br>(File 001-08895)      | April 5, 2013     |
| 10.11.2                   | Amendment No. 2, dated as of October 31, 2013, to the Employment Agreement, dated as of January 26, 2012, by and between HCP and James W. Mercer.*   | Quarterly Report on Form 10-Q<br>(File 001-08895)   | November 4, 2013  |
| 10.12                     | Employment Agreement, dated as of October 2, 2013, by and between HCP, Inc. and Lauralee E. Martin.*   | Current Report on Form 8-K<br>(File 001-08895)      | October 3, 2013   |
| 10.13                     | Amended and Restated Limited Liability Company Agreement of HCPI/Utah, LLC, dated as of January 20, 1999.  | Annual Report on Form 10-K (File No. 001- 08895)    | March 29, 1999    |
| 10.14                     | Amended and Restated Limited Liability Company Agreement of HCPI/Utah II, LLC, dated as of August 17, 2001, as amended.                              | Current Report on Form 8-K (File No. 001-08895)     | November 9, 2012  |
| 10.15                     | Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, dated as of October 2, 2003.  | Quarterly Report on Form 10-Q (File No. 001- 08895) | November 12, 2003 |

| <b>Exhibit<br/>Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b>                     |                   |
|---------------------------|---|---|-------------------|
|                           |   | <b>Form</b>   | <b>Date Filed</b> |
| 10.15.1                   | Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, dated as of September 29, 2004.   | Quarterly Report on Form 10-Q (File No. 001-08895)          | November 8, 2004  |
| 10.15.2                   | Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, dated as of October 29, 2004.   | Annual Report on Form 10-K (File No. 001-08895)             | March 15, 2005    |
| 10.15.3                   | Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC and New Member Joinder Agreement, dated as of October 19, 2005, by and among HCP, HCPI/Tennessee, LLC and A. Daniel Weyland. | Quarterly Report on Form 10-Q (File No. 001-08895)          | November 1, 2005  |
| 10.15.4                   | Amendment No. 4 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, effective as of January 1, 2007.  | Annual Report on Form 10-K, as amended (File No. 001-08895) | February 12, 2008 |
| 10.16                     | Amended and Restated Limited Liability Company Agreement of HC PDR MCD, LLC, dated as of February 9, 2007.  | Current Report on Form 8-K (File No. 001-08895)             | April 20, 2012    |
| 10.17                     | Amended and Restated Limited Liability Company Agreement of HCP DR California II, LLC, dated as of June 1, 2014.  | Quarterly Report on Form 10-Q (File No. 001-08895)          | August 5, 2014    |
| 10.18                     | Stockholders Agreement, dated as of December 13, 2010, among HCP, Inc., HCR ManorCare, Inc. and certain stockholders of HCR ManorCare, Inc..  | Current Report on Form 8-K (File No. 001-08895)             | December 14, 2010 |
| 10.19                     | Credit Agreement, dated March 11, 2011, by and among HCP, as borrower, the lenders referred to therein, and Bank of America, N.A., as administrative agent.   | Current Report on Form 8-K (File No. 001-08895)             | March 15, 2011    |
| 10.19.1                   | Amendment No. 1 to Credit Agreement, dated March 27, 2012, by and among HCP, as borrower, the lenders referred to therein and Bank of America, N.A., as administrative agent.   | Current Report on Form 8-K (File No. 001-08895)             | March 29, 2012    |
| 10.19.2                   | Amendment No. 2 to Credit Agreement, dated May 7, 2013, by and among HCP, as borrower, the financial institutions referred to therein, and Bank of America, N.A., as administrative agent.                                      | Quarterly Report on Form 10-Q (File No. 001-08895)          | August 2, 2013    |

| <b>Exhibit Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b>            |                   |
|-----------------------|---|--|-------------------|
|                       |   | <b>Form</b>  | <b>Date Filed</b> |
| 10.19.3               | Amendment No. 3 to Credit Agreement, dated March 31, 2014, by and among the Company, as borrower, the financial institutions referred to therein, and Bank of America, N.A., as administrative agent.         | Current Report on Form 8-K (File No. 001-08895)    | March 31, 2014    |
| 10.19.4               | Amendment No. 4 to Credit Agreement, dated November 24, 2014, by and among the Company, as borrower, the financial institutions referred to therein, and Bank of America, N.A., as administrative agent.†     |  |                   |
| 10.20                 | Master Lease and Security Agreement, dated as of April 7, 2011, by and between the parties set forth on Exhibit A-1, Exhibit A-2, Exhibit A-3 and Exhibit A-4 attached thereto and HCR III Healthcare, LLC.** | Current Report on Form 8-K (File No. 001-08895)    | July 12, 2011     |
| 10.20.1               | First Amendment to Master Lease and Security Agreement, dated as of April 7, 2011, by and among the parties signatory thereto and HCR III Healthcare, LLC.  | Annual Report on Form 10-K (File No. 001-08895)    | February 14, 2012 |
| 10.20.2               | Second Amendment to Master Lease and Security Agreement, dated as of May 16, 2011, by and among the parties signatory thereto and HCR III Healthcare, LLC.  | Annual Report on Form 10-K (File No. 001-08895)    | February 14, 2012 |
| 10.20.3               | Third Amendment to Master Lease and Security Agreement, dated as of January 10, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC.   | Annual Report on Form 10-K (File No. 001-08895)    | February 14, 2012 |
| 10.20.4               | Fourth Amendment to Master Lease and Security Agreement, dated as of April 18, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC.  | Quarterly Report on Form 10-Q (File No. 001-08895) | May 1, 2012       |
| 10.20.5               | Fifth Amendment to Master Lease and Security Agreement, dated as of May 4, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC.  | Quarterly Report on Form 10-Q (File No. 001-08895) | July 31, 2012     |
| 10.20.6               | Sixth Amendment to Master Lease and Security Agreement, dated as of May 30, 2012, by and among the parties signatory thereto and HCR III Healthcare, LLC.   | Quarterly Report on Form 10-Q (File No. 001-08895) | July 31, 2012     |
| 10.20.7               | Seventh Amendment to Master Lease and Security Agreement, dated as of February 11, 2013, by and among the parties signatory thereto and HCR III Healthcare, LLC.  | Quarterly Report on Form 10-Q (File No. 001-08895) | May 2, 2013       |

| <b>Exhibit<br/>Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b>            |                   |
|---------------------------|---|--|-------------------|
|                           |   | <b>Form</b>  | <b>Date Filed</b> |
| 10.20.8                   | Eighth Amendment to Master Lease and Security Agreement, dated as of July 31, 2014, by and among the parties signatory thereto and HCR III Healthcare, LLC.   | Quarterly Report on Form 10-Q (File No. 001-08895) | November 4, 2014  |
| 10.20.9                   | Ninth Amendment to Master Lease and Security Agreement, dated as of September 30, 2014, by and among the parties signatory thereto and HCR III Healthcare, LLC.   | Quarterly Report on Form 10-Q (File No. 001-08895) | November 4, 2014  |
| 10.21                     | Master Lease and Security Agreement, dated as of October 31, 2012, by and between HCPI Trust, HCP Senior Housing Properties Trust, HCP SH ELP1 Properties, LLC, HCP SH ELP2 Properties, LLC, HCP SH ELP3 Properties, LLC, HCP SH Lassen House, LLC, HCP SH Mountain Laurel, LLC, HCP SH Mountain View, LLC, HCP SH Oakridge, LLC, HCP SH River Valley Landing, LLC and HCP SH Sellwood Landing, LLC, as lessor, and Emeritus Corporation, as lessee.**                    | Annual Report on Form 10-K (File No. 001-08895)    | February 12, 2013 |
| 10.21.1                   | First Amendment to Master Lease and Security Agreement, dated as of December 4, 2012, by and between HCPI Trust, HCP Senior Housing Properties Trust, HCP SH ELP1 Properties, LLC, HCP SH ELP2 Properties, LLC, HCP SH ELP3 Properties, LLC, HCP SH Lassen House, LLC, HCP SH Mountain Laurel, LLC, HCP SH Mountain View, LLC, HCP SH Oakridge, LLC, HCP SH River Valley Landing, LLC and HCP SH Sellwood Landing, LLC, as lessor, and Emeritus Corporation, as lessee.** | Annual Report on Form 10-K (File No. 001-08895)    | February 12, 2013 |

| <b>Exhibit<br/>Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b>            |                   |
|---------------------------|---|--|-------------------|
|                           |   | <b>Form</b>  | <b>Date Filed</b> |
| 10.21.2                   | Omnibus Amendment to Leases, dated as of July 31, 2014, which amends the Master Lease and Security Agreement, dated as of October 31, 2012, by and between HCPI Trust, HCP Senior Housing Properties Trust, HCP SH ELP1 Properties, LLC, HCP SH ELP2 Properties, LLC, HCP SH ELP3 Properties, LLC, HCP SH Lassen House, LLC, HCP SH Mountain Laurel, LLC, HCP SH Mountain View, LLC, HCP SH Oakridge, LLC, HCP SH River Valley Landing, LLC and HCP SH Sellwood Landing, LLC, as lessor, and Emeritus Corporation, as lessee, as amended.   | Quarterly Report on Form 10-Q (File No. 001-08895) | November 4, 2014  |
| 10.22                     | Amended and Restated Master Lease and Security Agreement, dated as of August 29, 2014, by and between HCP AUR1 California A Pack, LLC, HCP EMOH, LLC, HCP Hazel Creek, LLC, HCP MA2 California, LP, HCP MA2 Massachusetts, LP, HCP MA2 Ohio, LP, HCP MA2 Oklahoma, LP, HCP MA3 California, LP, HCP MA3 South Carolina, LP, HCP MA3 Washington LP, HCP Partners, LP, HCP Senior Housing Properties Trust, HCP SH Eldorado Heights LLC, HCP SH ELP1Properties, LLC, HCP SH ELP2 Properties, LLC, HCP SH ELP3 Properties, LLC, HCP SH Lassen House, LLC, HCP SH Mountain Laurel, LLC, HCP SH Mountain View, LLC, HCP SH River Valley Landing, LLC, HCP SH Sellwood Landing, LLC, HCP ST1 Colorado, LP, HCP, Inc. and HCPI Trust, as their interests may appear, as lessor, and Emeritus Corporation, Summerville at Hazel Creek, LLC and Summerville at Prince William, Inc., as lessee.** | Quarterly Report on Form 10-Q (File No. 001-08895) | November 4, 2014  |
| 10.22.1                   | First Amendment to Amended and Restated Master Lease and Security Agreement and Option Exercise Notice, dated as of December 29, 2014, by and between HCP, Inc. and Brookdale Senior Living Inc.***†  |  |                   |

| <b>Exhibit<br/>Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b> |                   |
|---------------------------|---|---|-------------------|
|                           |   | <b>Form</b>                             | <b>Date Filed</b> |
| 10.22.2                   | Second Amendment to Amended and Restated Master Lease and Security Agreement, dated as of January 1, 2015, by and among the entities collectively defined therein as Lessor, consisting of HCP, Inc. and certain of its subsidiaries, the entities collectively defined therein as Lessee, each a subsidiary of Brookdale Senior Living Inc., and Brookdale Senior Living Inc. as guarantor.**† |   |                   |
| 21.1                      | Subsidiaries of the Company.†   |   |                   |
| 23.1                      | Consent of Independent Registered Public Accounting Firm—Deloitte & Touche LLP.†  |   |                   |
| 23.2                      | Consent of Independent Registered Public Accounting Firm—Ernst & Young LLP.†  |   |                   |
| 31.1                      | Certification by Lauralee E. Martin, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).†  |   |                   |
| 31.2                      | Certification by Timothy M. Schoen, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).†   |   |                   |
| 32.1                      | Certification by Lauralee E. Martin, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.†   |   |                   |
| 32.2                      | Certification by Timothy M. Schoen, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.†  |   |                   |
| 99.1                      | HCR ManorCare, Inc. Financial Statements as of December 31, 2014 and 2013 and for the three years in the periods ended December 31, 2014.   |   |                   |
| 101.INS                   | XBRL Instance Document.††   |   |                   |
| 101.SCH                   | XBRL Taxonomy Extension Schema Document.††  |   |                   |
| 101.CAL                   | XBRL Taxonomy Extension Calculation Linkbase Document.††  |   |                   |
| 101.DEF                   | XBRL Taxonomy Extension Definition Linkbase Document.††   |   |                   |
| 101.LAB                   | XBRL Taxonomy Extension Labels Linkbase Document.††   |   |                   |

| <b>Exhibit<br/>Number</b> | <b>Description</b>  | <b>Incorporated by reference herein</b> |                   |
|---------------------------|---|---|-------------------|
|                           |   | <b>Form</b>                             | <b>Date Filed</b> |
| 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase Document.†† |   |                   |

\* Management Contract or Compensatory Plan or Arrangement.

\*\* Portions of this exhibit have been omitted pursuant to a request for confidential treatment with the SEC.

\*\*\* Certain schedules or similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally copies of any of the omitted schedules or attachments upon request by the SEC.

† Filed herewith.

†† Furnished herewith.

HCP 2014 Annual Report  
**CERTIFICATIONS**

**EXHIBIT 31.1 CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

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I, Lauralee E. Martin, certify that:

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

Dated: February 10, 2015

/s/ LAURALEE E. MARTIN

Lauralee E. Martin  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

## **EXHIBIT 31.2 CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

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I, Timothy M. Schoen, certify that:

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

Dated: February 10, 2015

/s/ TIMOTHY M. SCHOEN

Timothy M. Schoen  
*Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)*

**EXHIBIT 32.1 CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

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Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of HCP, Inc., a Maryland corporation (the “Company”), hereby certifies, to her knowledge, that:

- (i) the accompanying annual report on Form 10-K of the Company for the period ended December 31, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ LAURALEE E. MARTIN

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Dated: February 10, 2015

Lauralee E. Martin  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

A signed original of this written statement required by Section 906 has been provided to HCP, Inc. and will be retained by HCP, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2 CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

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Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of HCP, Inc., a Maryland corporation (the “Company”), hereby certifies, to his knowledge, that:

- (i) the accompanying annual report on Form 10-K of the Company for the period ended December 31, 2014 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ TIMOTHY M. SCHOEN

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Dated: February 10, 2015

Timothy M. Schoen

*Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)*

A signed original of this written statement required by Section 906 has been provided to HCP, Inc. and will be retained by HCP, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

HCP 2014 Annual Report  
**RECONCILIATIONS OF NON-GAAP MEASURES**

**RECONCILIATION OF SAME PROPERTY PERFORMANCE INFORMATION**  
**Dollars in thousands**  
**(Unaudited)**

|  | Year Ended<br>December 31, |                    |
|--|----------------------------|--------------------|
|  | 2014                       | 2013               |
| <b>Adjusted (Cash) NOI</b>                         | <b>\$1,647,000</b>         | <b>\$1,581,038</b> |
| Non-SPP adjusted (cash) NOI                        | (106,540)                  | (89,488)           |
| <b>Same property portfolio adjusted (cash) NOI</b> | <b>\$1,540,460</b>         | <b>\$1,491,550</b> |
| <b>Adjusted (Cash) NOI % change—SPP</b>            | <b>3.3%</b>                |                    |

**RECONCILIATION OF GROSS ASSETS**  
**Dollars in thousands**  
**(Unaudited)**

|   | December 31,<br>2014 |
|---|----------------------|
| Consolidated total assets   | \$21,369,940         |
| Investments in and advances to unconsolidated joint ventures (“JV”)                       | (605,448)            |
| Accumulated depreciation and amortization   | 2,600,152            |
| <b>Consolidated Gross Assets</b>  | <b>\$23,364,644</b>  |
| HCP’s share of unconsolidated JV total assets <sup>(1)</sup>                              | 1,088,589            |
| HCP’s share of unconsolidated JV accumulated depreciation and amortization <sup>(1)</sup> | 55,803               |
| <b>Total Gross Assets</b>   | <b>\$24,509,036</b>  |

(1) Reflects the Company’s pro-rata share of amounts from the Investment Management Platform and its equity interest in HCR ManorCare and the CCRC JV.

**RECONCILIATION OF PORTFOLIO INCOME**  
**Dollars in thousands**  
**(Unaudited)**

| <u>Segments</u>               | <u>Adjusted<br/>(Cash) NOI<br/>and Interest<br/>Income</u> | <u>Unconsolidated JV<br/>Adjusted<br/>(Cash) NOI<sup>(1)</sup></u> | <u>Total<br/>Portfolio<br/>Income</u> |
|-------------------------------|--|--|---------------------------------------|
| Senior housing                | \$ 631,724   | \$18,579   | \$ 650,303                            |
| Post-acute/skilled nursing    | 544,336  | —  | 544,336                               |
| Life science                  | 240,959  | 4,669  | 245,628                               |
| Medical office                | 221,351  | 8,853  | 230,204                               |
| Hospital                      | 83,121   | 942  | 84,063                                |
| <b>Total portfolio income</b> | <b>\$1,721,491</b>   | <b>\$33,043</b>  | <b>\$1,754,534</b>                    |

(1) Reflects the Company’s pro-rata share of adjusted (cash) NOI from its unconsolidated joint ventures.

## **PERTINENT REPORTING DEFINITIONS**

**Assets Under Management.** Represents the real estate investments owned by HCP, the carrying amount of debt investments and 100% of the real estate investments held in the Company's unconsolidated joint ventures excluding assets under development and land held for development.

**Consolidated Gross Assets.** The carrying amount of total assets, excluding investments in and advances to unconsolidated joint ventures, after adding back accumulated depreciation and amortization, as reported in the Company's consolidated financial statements.

**Investment Management Platform.** Includes the following unconsolidated joint ventures: (i) four life science properties in three joint ventures in which the Company's interests range from 50%—63%; (ii) HCP Ventures III, a medical office joint venture in which the Company owns an effective interest of 25.5%; and (iii) HCP Ventures IV, a medical office joint venture in which the Company holds a 20% interest.

**Portfolio Income.** Represents adjusted (cash) NOI from real estate owned by HCP, interest income from debt investments and the Company's pro rata share of adjusted (cash) NOI from real estate owned in the Company's unconsolidated joint ventures.

**Total Gross Assets.** Consolidated Gross Assets plus the Company's pro rata share of total assets from the Investment Management Platform and its equity interest in HCR ManorCare and the CCRC joint venture with Brookdale ("CCRC JV"), after adding back accumulated depreciation and amortization.

## **NOTES**

# 2014 Sustainability Report

HCP, Inc., an S&P 500 company, is a Maryland corporation organized to qualify as a self-administered real estate investment trust (REIT). HCP acquires, develops, leases, manages and disposes of healthcare real estate in addition to providing mortgage and other financing to healthcare providers. From our headquarters in Irvine, California, our offices in Nashville, Tennessee, Los Angeles and San Francisco, California, and London, England, we manage one of the largest and most diversified real estate portfolios of any healthcare REIT.



# Statement of Lauralee E. Martin, President and CEO

At HCP, sustainability is an integral part of our overall business strategy. Our mission to deliver value to our stakeholders applies not only in a financial sense, but also in terms of our environmental and social activities. In 2014, we reduced our environmental impact, strengthened our governance structure, and expanded our charitable initiatives. We continue to work with our operators and tenants to achieve building efficiencies and to improve tenant satisfaction through the promotion of sustainability best practices.

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This year, we increased our recycling by nearly 35% and made significant strides towards reaching our goal of a 15% energy reduction by 2020 across our boundary properties.

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We further advanced our sustainability efforts in 2014 by implementing our first solar panel project at one of our medical office buildings in Encino, California, and have plans to implement more solar projects in 2015. Our focus on the environment represents only one facet of our sustainability activities. We also remain committed to the highest ethical standards and to supporting the communities in which we operate.

Our commitment to sustainability continues to produce substantial results. A few of our 2014 sustainability achievements and awards include:

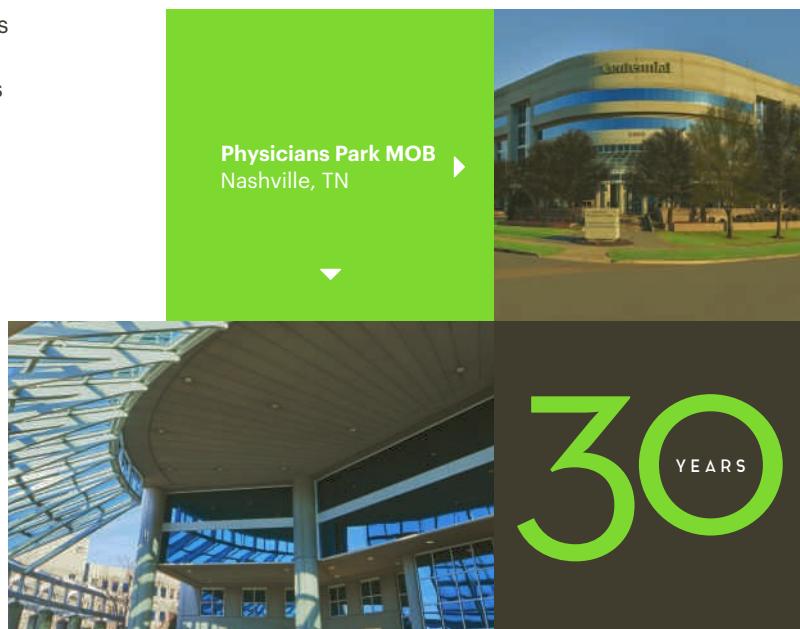
- Named the Global Leader for the healthcare sector by the Global Real Estate Sustainability Benchmark

(GRESB) and also named to the FTSE4Good Index, each for the third consecutive year

- Achieved constituency on the CDP S&P 500 Climate Disclosure Leadership Index and the Dow Jones Sustainability North America Index, each for the second consecutive year

Over the past 30 years, we have worked hard to become a leader in healthcare real estate. We are proud to also be recognized for our commitment to sustainability. None of our achievements could have been realized without the dedication of our operators, tenants, and employees. They, along with our shareholders, are the reason for our success over the last thirty years, and represent the key to our success for the next thirty years and beyond.

Thank you for following our progress through our sustainability reporting.



## ABOUT THIS REPORT

We are pleased to present our first **Combined Report**, which combines our annual financial performance with our sustainability (or non-financial) disclosures for the 2014 calendar year.

By incorporating financial and non-financial information into one report, we hope to provide our stakeholders with a more efficient vehicle in which to access HCP's information. This section of the Combined Report focuses on sustainability (this Sustainability Report), including the environmental, social, and governance aspects of HCP's operations.

### Reporting Standard

Our sustainability disclosures are prepared in accordance with the Global Reporting Initiative (GRI) G4 Guidelines Core Level. We have made a concerted effort to apply the GRI Principles for Defining Report Content and Ensuring Report Quality within this Sustainability Report. Additionally, in our first step towards bridging financial and non-financial measures into one

report, we have referred to the Integrated Reporting Principles during the materiality process for this Sustainability Report.

Energy and greenhouse gas emissions data were prepared in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, Revised Edition (2014 Corporate Standard), as amended (May 2013).

### Additional Reporting Outlets

Our annual CDP and GRESB responses can be accessed online at: <http://www.hcpi.com/sustainability>

**Feedback** We hope you enjoy our 2014 Report, and would like to hear your feedback. Please contact us at: [sustainability@hcpi.com](mailto:sustainability@hcpi.com)

### Assurance

A selection of our non-financial data (including the Management Assertion attached as Appendix A to the Assurance Letter included at the end of this Sustainability Report) has been independently assured by PricewaterhouseCoopers (PwC), and is identified throughout this Sustainability Report with an asterisk (\*).

**Our vision for sustainability stems from a simple commitment to promoting sustainable practices throughout our daily business activities.**

We believe ensuring better monitoring, evaluation, and modification to these practices has enabled us to strengthen our business as a model for excellence in corporate governance, financial integrity, environmental best practices, and social responsibility.



Torrey Pines Science Park  
San Diego, CA

### Sustainability Reporting Boundary

The information found within this Sustainability Report relates to activities within our full operational control as well as within our partial operational control, which flows through to our partners, suppliers, vendors, and communities where we operate. Accordingly, various levels of control and influence are essential for understanding how we manage our impacts. Our 2014 boundary comprises 411 properties, 267 of which we maintain full operational control, and 144 of which we maintain partial operational control.

### Our Environmental Reporting Boundary

Our environmental metrics are specific to properties or any portion thereof, in which we maintain operational control. We define operational control as the square footage portion of the building that we have the authority to implement operating policies with respect to energy usage, water usage and waste disposal.

We expanded the scope of our boundary this year to include existing and acquired properties in our Senior Housing, Life Science and Medical Office segments. As such, our 2011 base year was adjusted by 42 properties in 2012, by 16 properties in 2013, and by 72 properties in 2014 to reflect a rolling baseline year, and to evidence our growth.

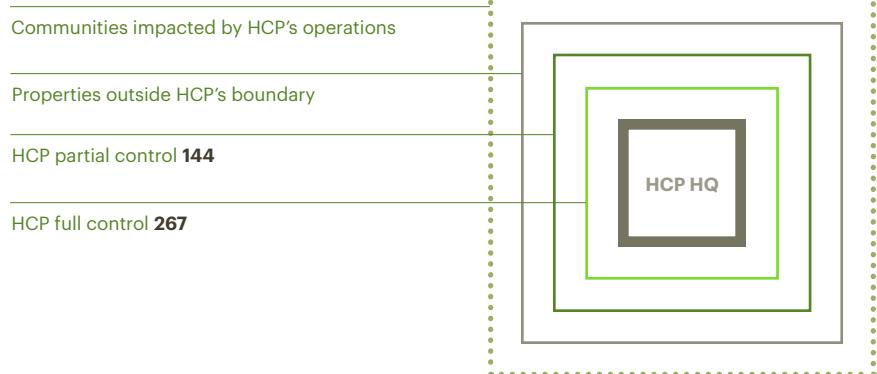
The 2013 total direct and indirect energy consumption, total GHG emissions, total water withdrawal, and total weight of waste metrics were adjusted to a rolling 2013 baseline year reflecting acquisitions, dispositions, and boundary changes where buildings were removed or added.

Since we do not maintain full operational control over all of the buildings in our portfolio, we make a conscious and dedicated effort to influence those properties outside of our boundary to join our sustainability initiatives and to be more conscientious of people and the planet.

# 411

# Total properties operated 2014

## Boundary Map



# TOBY Awards Winners



In 2014, four of our MOBs received an award for The Outstanding Building of the Year (TOBY) in their respective locations.

The TOBY Awards are sponsored by the Building Owners and Managers Association (BOMA), and are one of the most prestigious awards in the commercial real estate industry, recognizing quality in buildings and rewarding excellence in building management. Buildings are judged in a variety of categories, including community involvement, site management, and environmental policies and procedures.



## Skyline Medical Plaza

Nashville, Tennessee

## Westside Medical Arts

Plantation, Florida

## McDowell Mountain Medical

Scottsdale, Arizona

## Bayfront Medical Plaza

St. Petersburg, Florida

## STRATEGY + SUSTAINABILITY

### Sustainability as Value Creation

Our mission is to create shareholder value, but it is how we endeavor to reach this mission that solidifies our status as a good corporate citizen. Investors are finding it increasingly important to assess value and risk of a company from a broader perspective that includes sustainability. Assessing our short-, medium-, and long-term objectives from this broader perspective incorporating sustainability will allow us to better respond to inherent or potential risks.

We believe that the effective implementation of our business model enhances long-term value creation, and enables us to grow with our partners.

Accordingly, we are better able to address key sustainability impacts and drive sustainable value for our stakeholders by identifying those stakeholders affected by our business operations in each of our five business segments, as featured in the chart below.

# Driving sustainable value for our stakeholders



## RISKS, CHALLENGES, + OPPORTUNITIES

Macro and micro trends in sustainability are rapidly impacting the business landscape.

We have long established sound policies and procedures to support financial performance and governance, and are increasingly incorporating sustainability into our business decisions. An important role in sharpening our focus in sustainability is to engage in the annual assessment of sustainability trends related to risks, challenges, and opportunities identified through our strategic planning process. The graphic to the right reflects the focus of our sustainability impacts in four strategic areas.

The chart below reflects our strategic sustainability approach to the potential risks we face.



## PROGRESS + PRIORITIES

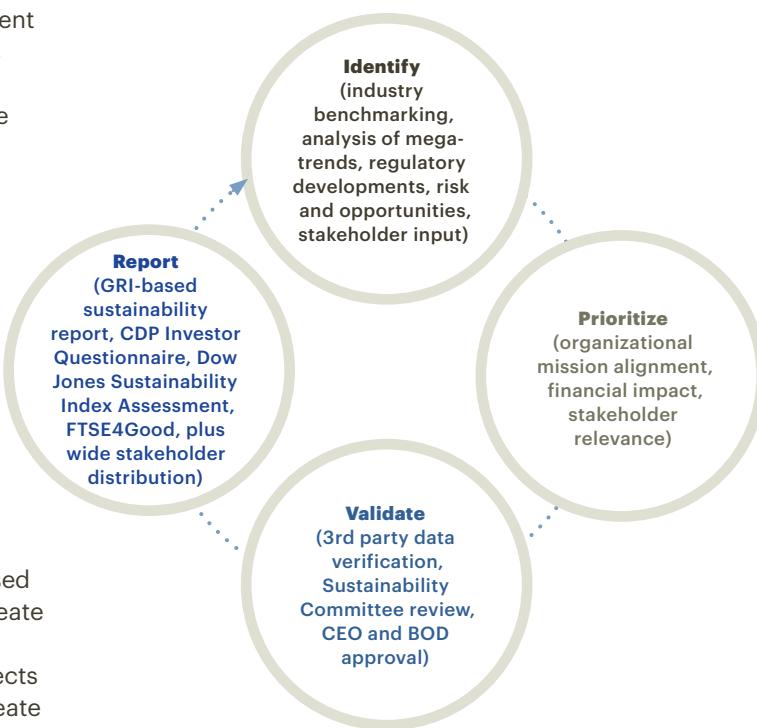
| RISK  | STRATEGIC SUSTAINABILITY APPROACH  |
|---|--|
| ABILITY OF OUR PARTNERS TO MEET OUR OPERATING STANDARDS | Potential legal liabilities, poor environmental, health and safety performance, and quality of life for inhabitants                                    |
| FINANCIAL   | Market credibility and ability to expand sustainability programming to a wider group of properties   |
| COMPETITION   | Expand high quality, affordable investment portfolio of buildings modelling innovative sustainability features, and employee recruitment and retention |
| REGIONAL ECONOMIC CONDITIONS                            | Local business resiliency, service accessibility, and performance against corporate sustainability goals   |
| ACQUISITION INTEGRATION                                 | Liabilities associated with clean-up or remediation, new partner practices, negligence succession, and reputation                                      |
| RISING HEALTHCARE COSTS                                 | Accessibility, service interruption, and long-term business strategy   |
| LEGISLATION   | Service coverage and costs, environmental regulations, and long-term business strategy   |
| CLIMATE RESILIENCY                                      | Natural resource availability, materials, and increased operating expenses   |
| INFORMATION TECHNOLOGY AND SECURITY                     | Long-term functionality, protection, and reliability   |

## DETERMINING MATERIALITY

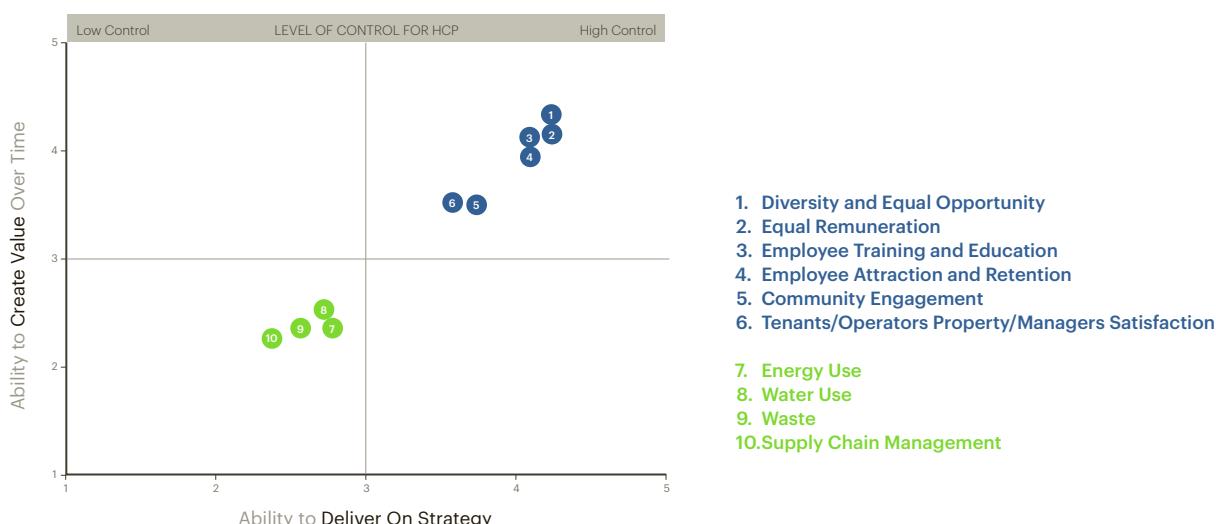
In determining materiality for this Sustainability Report, we employed a comprehensive assessment to discover key issues for our industry, as well as our company. This process also assists us with developing our strategy to further institutionalize sustainability and the reporting of our progress.

With this Combined Report, we have made advances to align sustainability reporting with our financial reporting and believe we are moving closer to integrated reporting. We have identified issues deemed material to our business, and engaged our Sustainability Committee to assess our performance and the status of our goals accordingly.

Our Sustainability Committee completed a Strategic Sustainability Survey aimed at identifying key areas of focus for the upcoming year. The core aspects of the survey were assessed based on HCP's ability to deliver strategy and create long-term value for our stakeholders. We used a structured process to identify sustainability aspects concerning our ability to deliver strategy and create long-term value for our stakeholders. In our process of prioritization, we also factored in our level of control over each individual aspect, and our survey results helped us to understand that our challenges lie in those areas in which we have the least amount of control. The chart below summarizes the results of this year's materiality process.



### HCP MATERIALITY VALIDATION BY HCP SUSTAINABILITY COMMITTEE



## STAKEHOLDER ENGAGEMENT

Stakeholder engagement is an integral component of our assessment process for the implementation of our sustainability initiatives. We engage with a number of stakeholders throughout the year as part of our regular business practice and the continued expansion of our sustainability efforts.

We concentrate our stakeholder engagement efforts on four core groups in order to facilitate the alignment of our sustainability strategy to our greater organizational mission: (i) shareholders; (ii) employees; (iii) property managers; and (iv) tenants/operators.

We understand the opportunities that lie within broadening our stakeholder engagement. Accordingly, we have formalized our engagement process by creating a focused dialogue supported through education and streamlined input. We can now assess and incorporate the results of our stakeholder engagement mechanisms systematically into our overall decision-making processes, as reflected in the chart below.

### STAKEHOLDER ENGAGEMENT MECHANISMS

|                              | ENGAGEMENT TYPE                     | FREQUENCY   | RESULT  |
|------------------------------|-------------------------------------|-------------|---|
| <b>SHAREHOLDERS</b>          | NAREIT Conferences                  | Bi-Annually | Increased awareness of HCP's environmental and social performance; obtained feedback for further value generating opportunities |
|                              | Investor Conference Calls           | Quarterly   | Increased awareness of HCP's financial results and sustainability activities  |
| <b>TENANTS AND OPERATORS</b> | Tenant Satisfaction Survey          | Annually    | Shared heightened expectations and best practices, while also helping shape incentive programs for more sustainable practices   |
|                              | Green Team Meetings                 | Monthly     | Evaluated and recommended solar and smart building projects results and sustainability activities                               |
|                              | Site Evaluations                    | Monthly     | Enhanced resource efficiency options, usability, facility performance   |
| <b>PROPERTY MANAGERS</b>     | Tenant Newsletter and Web Portals   | Monthly     | Provided insight into management techniques, design and implementation of best practices  |
|                              | HCP MOB and Life Science Conference | Annually    | Communicated sustainability and operational best practices to be implemented throughout our properties                          |
| <b>EMPLOYEES</b>             | Social Responsibility Subcommittee  | Quarterly   | Increased satisfaction and interest for more dedicated charitable activities  |
|                              | Town Hall Meetings                  | Quarterly   | Increased awareness of HCP's environmental and social activities  |

# Delivering Strategy Through Collaboration



Seaport Life Science Building  
Redwood City, CA

## Knowledge sharing is essential to understanding and communicating sustainability issues that present risks to our business.

We have created opportunities to discuss our sustainability strategy and expectations with key stakeholder groups. The following examples provide an overview of advances we made this year to promote a more structured and homogenized external stakeholder engagement approach across our operations.

### Our Annual Medical Office Building and Life Science Conference

Over 280 participants joined HCP in Nashville in May 2014 to share innovative energy reduction, water conservation, and preventive and corrective maintenance techniques. This year, the three-day session included:

- awards for leasing, service, and customer satisfaction;
- short courses on sustainability and environmental data management;
- breakout sessions for accounting, capital asset management, lease administration, leasing, life sciences, and operations;
- coaching for collectively achieving environmental targets; and

- an introduction to our recently implemented Vendor Code of Business Conduct and Ethics (Vendor Code of Conduct).

Feedback has resulted in expansion of the coaching program and developing the conference agenda much earlier in the year. We also are continuing our sustainability training throughout the year, to supplement the training received at the conference. The breakout training sessions are valued by our stakeholders as this gives all involved the opportunity to learn new processes, meet the key individuals who can achieve our common goals, and share new ideas.

### Our Senior Housing and Skilled Nursing Facilities

Through individualized site assessments we are able to prioritize equipment installments and retrofits that support electricity, gas, water efficiency, and other green building practices. We also continuously work with our operators on lighting retrofit and upgrade projects, as well as energy reduction projects.

## CORPORATE GOVERNANCE

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It is important to position ourselves as a leader in corporate citizenship. HCP's Board of Directors (Board) possess considerable business experience and an in-depth knowledge of the issues our company faces. Accordingly, our Board is in the best position to evaluate the needs of the company and how to organize our leadership structure to meet those needs.

Adapting to the needs of our company as whole is an integral part of our success. In October 2013, the Board appointed Michael D. McKee as non-executive Chairman and elected Lauralee E. Martin as President and Chief Executive Officer. We believe that the separation of the roles of Chief Executive Officer and Chairman of the Board enhances the Board's independence from management and leads to more effective oversight.

### OUR BOARD OF DIRECTORS AND COMMITTEE COMPOSITION

| A   C   N  |  |
|--|--|
| <b>Michael D. McKee*</b>                               | ★ Chairman, HCP, Inc.; Chief Executive Officer of Bentall Kennedy U.S., L.P.         |
| <b>Lauralee E. Martin</b>                              | President and Chief Executive Officer, HCP, Inc.                                     |
| <b>Brian G. Cartwright</b>                             | ■ ■ ■ Senior Advisor, Patomak Global Partners, LLC                                   |
| <b>Christine N. Garvey</b>                             | ★ Former Global Head of Corporate Real Estate Services, Deutsche Bank AG             |
| <b>David B. Henry</b>                                  | ★ ■ Vice Chairman, President and Chief Executive Officer of Kimco Realty Corporation |
| <b>James P. Hoffmann</b>                               | ■ Former Partner and Senior Vice President, Wellington Management Company            |
| <b>Peter L. Rhein</b>                                  | ■ ■ Partner, Sarlot & Rhein  |
| <b>Joseph P. Sullivan</b>                              | ■ ■ Chairman Emeritus of the Board of Advisors, RAND Health                          |
| <b>A</b> Audit Committee                               | <b>C</b> Compensation Committee  |
| <b>N</b> Nominating and Corporate Governance Committee | ★ Chair  |

\* Chairman of the Board

### HCP EXECUTIVE MANAGEMENT TEAM

|                                  |   |
|----------------------------------|---|
| <b>LAURALEE E. MARTIN</b>        | President and Chief Executive Officer   |
| <b>JONATHAN M. BERGSCHNEIDER</b> | Executive Vice President - Life Science Estates   |
| <b>PAUL F. GALLAGHER</b>         | Executive Vice President and Chief Investment Officer   |
| <b>THOMAS D. KIRBY</b>           | Executive Vice President - Acquisitions and Valuations  |
| <b>THOMAS M. KLARITCH</b>        | Executive Vice President - Medical Office Properties  |
| <b>JAMES W. MERCER</b>           | Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary |
| <b>TIMOTHY M. SCHOEN</b>         | Executive Vice President and Chief Financial Officer  |
| <b>SUSAN M. TATE</b>             | Executive Vice President (retired March 6, 2015)  |
| <b>KENDALL K. YOUNG</b>          | Executive Vice President - Senior Housing   |
| <b>DARREN A. KOWALSKE</b>        | Senior Vice President - Strategy and Hospitals/Post-Acute                                       |

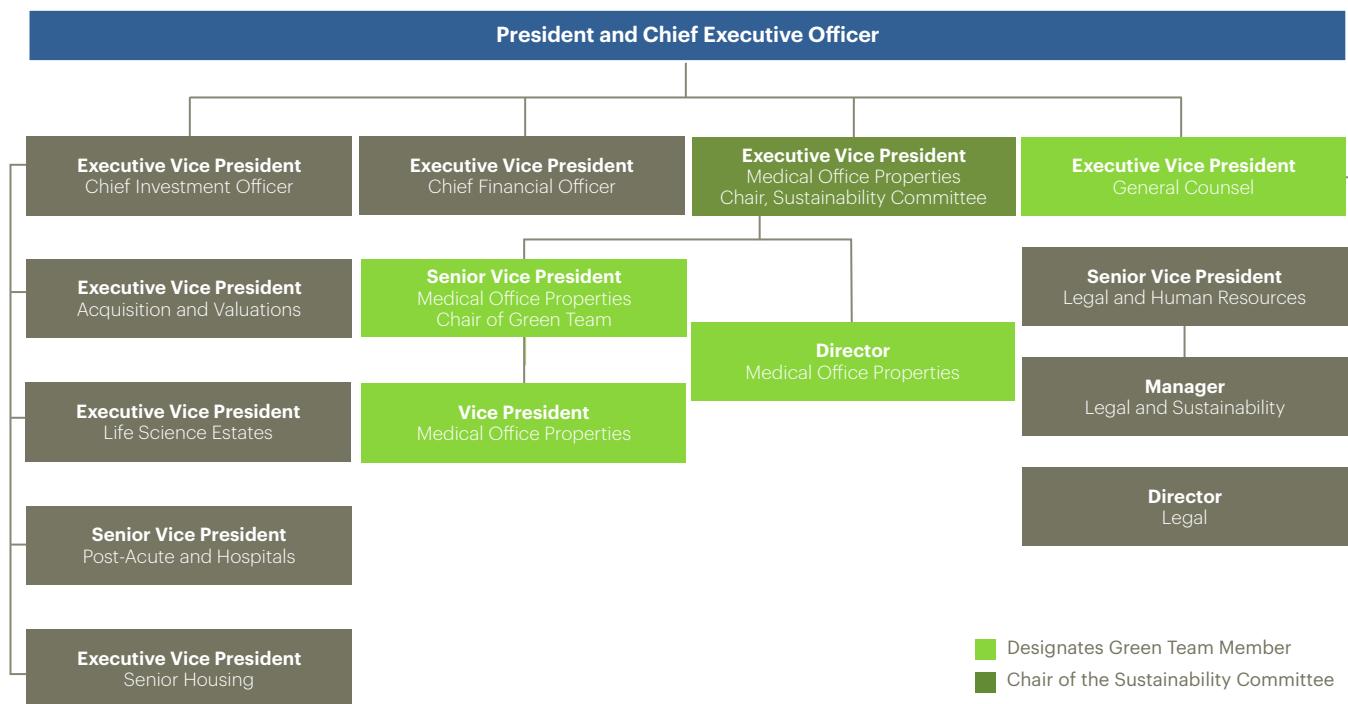
## OUR SUSTAINABILITY COMMITTEE

As a company with a strong culture of corporate governance, we believe it is necessary to establish a sound organizational structure to guide and implement our evolving sustainability strategy. As indicated in the organizational structure set forth below, our Sustainability Committee is comprised of senior executive officers, corporate officers, and other professional employees. Committee meetings are routinely held to discuss opportunities and to identify risks and related mitigating options.

Direcives for the strategic development of our environmental, social, and governance goals are then conveyed to our Chief Executive Officer and ultimately our Board. Our Executive Vice Presidents offer specialized support by obtaining external input and providing feedback on best-practices, monitoring impacts, and the implementation of our annual strategic agenda.

Finally, HCP's Board receives quarterly reports on sustainability regarding strategy, goals, performance metrics, green project updates, initiatives, and related results. This information aids in formulating HCP's overall climate change and risk assessment.

We believe that effective corporate governance incorporates sustainability as a critical component to achieving business objectives and properly managing risks.



## INSTITUTIONALIZING SUSTAINABILITY

Since publishing our first sustainability report in 2011, we have made great strides towards further incorporating sustainability into our business practices and influencing others in the process.

As a public company listed on the New York Stock Exchange, we are subject to reporting requirements from the Securities and Exchange Commission (SEC). Additionally, we use reporting initiatives such as GRI G4, CDP, and GRESB to communicate the results of our business practices to our shareholders, stakeholders, and the general public. By regularly communicating our progress, we have not only endeavored to affirm long-term value for our shareholders, but we have motivated our employees and prompted our partners to adjust their business practices.

Sustainability is a core value at HCP, and improving it is a key objective. Our values guide the way we do business and influence the way we think and act. It is by putting these shared values into everyday practice that we can collectively facilitate success. Through a dedicated workforce, we seek to advance our organizational mission

of creating shareholder value. This mission is further solidified through transparent communication in all aspects of our business, including corporate citizenship.

HCP strives to conduct business honestly, fairly, and with integrity. We have implemented best practices to address governance initiatives that are important to our shareholders, employees, and other stakeholders.

We also endorse a business environment consistent with the highest standards of business ethics, and we promote these standards through the implementation of cohesive policies that include consistent and transparent corporate governance practices.

Our Corporate Governance Guidelines establish a common set of expectations of how we conduct business, while our Code of Business Conduct and Ethics establishes obligations for ethical conduct. Last

**Our Corporate Governance Guidelines** promote the functioning of the Board and its committees and set forth a common set of expectations as to how the Board should perform its functions.

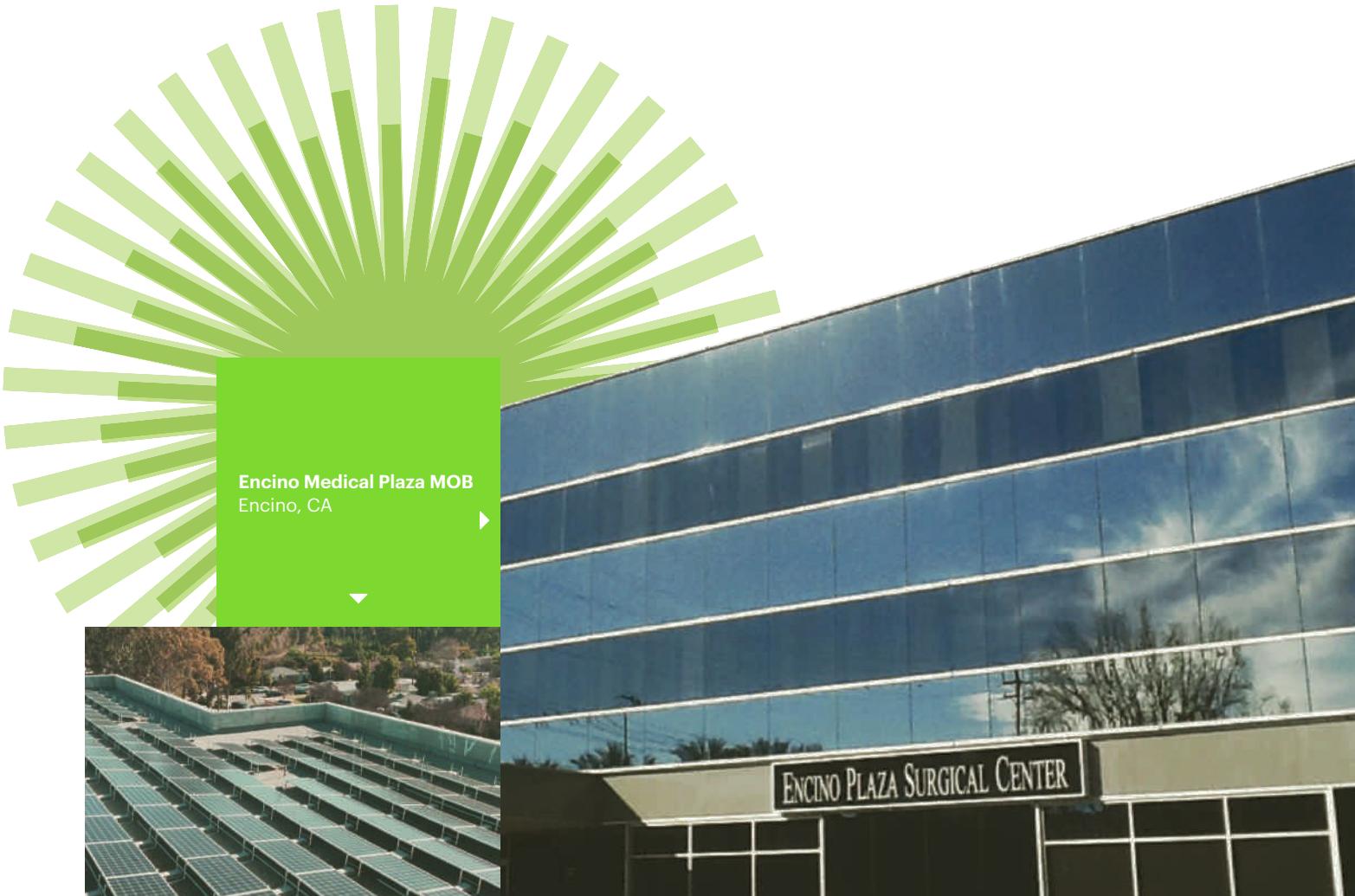
**Our Code of Business Conduct and Ethics** establishes obligations for ethical conduct and regulator compliance practices for employees, officers, and directors.

**Our Vendor Code of Business Conduct and Ethics** establishes expectations for ethical business practices and regulatory compliance in our value chain.

year we expanded our commitment to minimizing potential risks outside our core operations by implementing a Vendor Code of Business Conduct and Ethics.

# Solar Energy Shines at Our Encino MOB

HCP constantly focuses on improving building operations and energy efficiency. For the past five years, this focus has included research and cost-benefit analyses of solar panel installation and use at one or more of our MOBs and/or senior housing facilities. In 2014, we installed our first solar photovoltaic panel (solar PV) at our MOB in Encino, California. This solar PV project will allow us to reduce our electrical consumption from public utilities (i.e. taking consumption "off the grid") by approximately fifteen percent (15%). We plan to install at least two additional solar projects in 2015.



**15%** projected reduction of  
electrical consumption  
from public utilities

# Environmental Stewardship

## Disclosure on Management Approach

To identify relevant environmental issues and determine areas of immediate action, HCP employs a multi-stakeholder approach. We stay up to date with climate change risks, best practices, and innovations so that our team may quickly assess opportunities and costs. Integrated environmental management systems that track effectiveness and savings over time, as well as regular dialogue with our partners assist in informing our business decisions.

Determining the feasibility of an investment and the related projected cost-savings requires an innovative management approach. When climate mitigation projects are identified, we calculate financial metrics including return on investment, payback period, and net present value. Further, dedicated green budget categories are assessed each year to accommodate energy, water, and waste efficient products.

Environmental data for our properties is collected using our environmental management system through collaboration with our tenants and partners, as well as face-to-face conversations with internal and external stakeholders. At HCP we know we are in a position to listen, learn, and effectively implement our sustainability plans that can make a positive difference. By increasing the energy, water, and waste efficiency of our buildings and training our staff, we can make our buildings more attractive to tenants.

With this in mind, it is important for us to identify our material environmental aspects, associated impacts, our level of control over outcomes, our management approach, and avenues for communicating performance as depicted in the chart below.

|  | INSIDE BOUNDARY | OUTSIDE BOUNDARY |
|--|-----------------|------------------|
| <b>IDENTIFIED MATERIAL ASPECTS</b>   |                 |                  |
| Energy   | ■               | ■                |
| Water  | ■               | ■                |
| Emissions, Effluents and Waste   | ■               | ■                |
| Products and Services  |                 | ■                |
| <b>ORGANIZATIONAL RESPONSIBILITY</b>   |                 |                  |
| Sustainability Committee, Green Team   | ■               |                  |
| <b>POLICIES</b>  |                 |                  |
| Environmental Policy, Code of Business Conduct and Ethics (Business Code of Conduct) | ■               |                  |
| Vendor Code of Conduct   | ■               | ■                |
| <b>MONITORING AND FOLLOW UP</b>  |                 |                  |
| CDP Report, GRESB Report, DJSI Report, FTSE4Good, GRI G4                             | ■               |                  |

## ENVIRONMENTAL PROGRESS + PRIORITIES

We do not believe that developing environmentally sustainable practices is just a quick trending phase. We have developed proactive and long-term green strategies that include ambitious energy reduction goals and best practice sharing across our portfolio to make meaningful and lasting changes in the areas in which we operate.

We work closely with our operating partners to ensure that all facilities run with excellence through sustainable business practices. We believe that building and operating in an environmentally conscious manner mitigates environmental impact, lowers costs, increases property value, is good for current and future generations, and provides a better living environment for our employees and tenants. future generations, and provides a better living environment for our employees and tenants.

### Where We Are Headed

While we have made significant progress, we strive to do more. One of our biggest challenges is influencing best practices at properties falling outside of our operational control. To address this, a major goal for 2015 is to continue expanding our initiatives to our third party operators.

We will continue to position ourselves as a prevalent sustainability leader in our industry, by openly communicating the benefits and best practices in sustainability projects.

Accordingly, we are transparent about our current and future annual environmental goals, as reflected in the chart below.

|                               | PRESENT<br>PROGRESS THIS YEAR   | FUTURE<br>PRIORITIES FOR THE COMING YEARS   |
|-------------------------------|---|---|
| <b>WASTE TARGET</b>           | Reduced our landfill waste by 5.7%  | To reduce our total waste by 1%-2% annually   |
| <b>WATER TARGET</b>           | Reduced our water withdrawal by 0.3 %   | To reduce our potable supply water usage by 1%-2% annually  |
| <b>GHG EMISSIONS TARGET</b>   | Reduced our 2014 GHG emissions by 0.2%  | To reduce our total CO2e emissions by 1%-2% annually  |
| <b>ENERGY USE TARGET</b>      | Reduced our energy use by 1.2%  | To reduce our total energy consumption by 1%-2% annually  |
| <b>ENERGY STAR</b>            | Achieved 8 ENERGY STAR certifications   | Our goal is to achieve 10 ENERGY STAR certifications in 2015, as ENERGY STAR certification was suspended for medical office buildings in 2014 and the foreseeable future  |
| <b>GRESB</b>                  | Named Healthcare Sector Leader by GRESB and received a Green Star designation for our integrated approach to management of key environmental performance indicators   | To maintain our Healthcare Sector leadership status with GRESB and to continue to earn the Green Star designation   |
| <b>CDP</b>                    | Named to the Climate Disclosure Leadership Index (CDLI)   | To be named to the Performance Band A list and to retain our constituency on the CDLI   |
| <b>TENANTS AND OPERATORS</b>  | Continued to work with one of our largest operators in monitoring utility usage. Operators now providing utility usage data monthly for a select number of buildings, which is analysed to identify areas of improvement. Also, expanded the tenant involvement with recycling programs from 60% to 73% building participation (MOB Boundary) | To increase the number of buildings where monthly utility data is provided by operators, and to continue to expand the recycling program with our tenants to eventually achieve 100% for our in boundary buildings. |
| <b>GREENING OUR PORTFOLIO</b> | Continued to invest in new innovative technology, retrofit buildings and equipment, monitor and remediate energy waste, and implement best practices across our entire portfolio. During 2014, HCP installed smart building technology at several properties, a solar panel system and charging stations for electric vehicles                | To install solar panels, smart HVAC monitoring systems, and smart water irrigation systems  |

## ENERGY USE + GREENHOUSE GAS EMISSIONS

This year, the square footage of our boundary area was increased due to changes in the percentage of our operational control and the addition of acquired properties. The adjusted boundary was increased by 13,461,977 square feet (due to the acquisition of 64 properties that were added to our senior housing portfolio and 8 properties added to our MOB portfolio) representing a 66.7% increase from 2013.

HCP completed 303 emissions reduction projects with an estimated 5,658 metric tonnes of CO<sub>2</sub>e (approximately 2% of our boundary properties) in savings this year. Our Capital Asset Management group, along with third party engineering staff, developed a plan to repair, rebuild, or replace inefficient HVACs with high efficiency systems that reduce kilowatt per hour consumption. Less efficient HVAC equipment, such as package water source heat pumps, split system units, and rooftop package systems were replaced with newer and more efficient equipment. The new HVAC systems are typically 30% more energy efficient than the old equipment and use R-410A refrigerant, which is a much more environmentally friendly product. The protocol for identifying replacement systems will continue over the next several years and is projected to generate a total operational cost savings of approximately \$300,000 to \$400,000.

### Other efforts to reduce emissions include:

- Lighting retrofits
- De-lamping in areas that receive natural light
- Calibrating thermostats so that proper temperature settings are maintained, including after hour temperature setbacks

- Installing power correction devices
- Adjusting and calibrating fresh air dampers to eliminate unnecessary HVAC cooling
- Installing solar window film to reduce the amount of heat load that enters through windows
- Utilizing timer controls and occupancy sensors for lighting fixtures
- Retrofitting roofs with reflective/white roof membrane material or coating materials to reduce the heat effect of the sun
- Implementing hot water reset devices
- Applying smart building technology
- Installing solar PV panel devices

Moreover, HCP has been able to drive value financially and environmentally through improved and expanded monitoring and energy efficient upgrades. Specific examples of such projects and the related emissions avoided over the 2014 calendar year include:

- Installation of 28 lighting motion sensor projects that reduced annual CO<sub>2</sub>e by 422 metric tonnes
- Installation and upgrades of 22 Energy Management Systems, which reduced annual CO<sub>2</sub>e by 1,771 metric tonnes
- Installation of 123 HVAC replacement projects, which reduced annual CO<sub>2</sub>e by 1,078 metric tonnes
- Installation of 69 lighting retrofit projects that reduced annual CO<sub>2</sub>e by 875 metric tonnes



### Electric Vehicle Charging Stations

Electric vehicle (EV) usage has been on the rise in the United States in recent years. HCP supports this usage as part of its sustainability efforts and provides EV owners with the ability to charge their vehicles at several of its California properties, including our corporate office in Irvine, California. HCP currently has a total of 23 EV charging stations in service throughout our properties. All charging stations are available for the use of our tenants as well as the general public. We plan to install an additional 15 to 20 EV charging stations in early 2015, primarily in the San Francisco Bay Area of California.

## WATER

HCP is conscious of the fact that many of the areas in which we operate are drought-susceptible regions of the country, including California, the home of our corporate headquarters and two other office locations. As such, issues surrounding water use and management are especially important to us.

All of the water consumed by HCP's properties is taken from local municipal water supply systems. We are dedicated to a program of equipping our buildings with smart water systems, while also influencing others to help protect this precious resource.

Some of the water efficient installations we have implemented include:

- Motion sensor and aerator faucets
- Low flow toilets
- Retention ponds
- Recycled materials for landscaping, such as recycled roof rock ballast or recycled tire material
- Turf block
- Rain sensors
- Drought resistant plants in site landscaping on our properties

In California, we installed a xeriscape project, which converted the turf to drought-tolerant landscaping at our Point Eden campus in Hayward, California with an annual estimated savings of 450,000 gallons (1,698 m<sup>3</sup>). We evaluate site water runoff conditions where applicable or required, and we may use turf block or similar products to help with wastewater management.

Additionally, this year we installed 147 low flow bathroom fixtures, which have an annual estimated savings of 460,000 gallons of water.

Drought-tolerant landscaping at our Innovation Point MOB in San Diego, California.



**Innovation Point MOB**  
San Diego, California

## WASTE

HCP's standard position regarding waste is to only manage non-hazardous waste removal. However, there are a few exceptions where HCP manages hazardous waste. Generally, hazardous waste removal is the responsibility of our tenants and is therefore outside of our boundary.

The percentage of hazardous waste removal is estimated to be less than 0.3%, and therefore is not included in our reporting. Non-hazardous waste removal is managed through recycling and landfill disposal. For most properties, waste is not actually weighed on site, rather it is estimated based on the assumed mix of waste and a corresponding density factor to convert the waste into weight for reporting purposes. Third party vendors and waste consultants are our sources for estimated weight of waste. Vendors and consultants use the standard measurement equivalent provided by the transporter to determine the weight.

Landfill waste can leak into soil and water supplies, and can also generate methane gas, which is explosive and contributes to greenhouse gases. Therefore, HCP encourages office recycling as well as the recycling of demolition waste from construction on redevelopment and tenant improvement projects. Over the past year, we have included recycling as a point of discussion during our staff training sessions and we increased the number of large outside recycling containers as well as interior containers for single stream recycling on our building sites. We had a significant increase in total recycled waste of 34.9% in 2014.

While property waste disposal is typically the responsibility of third party contractors, we actively encourage contractors to recycle waste on all projects. For example, the total diverted construction waste amount at our Sky Ridge III MOB property in 2014 was approximately 52.1 metric tonnes.

The total diverted construction waste amount at our Sky Ridge III MOB property in 2014 was approximately 52.1 metric tonnes.

In addition to recycling at our property sites, we have worked to reduce landfill waste linked to our own administrative activities by utilizing electronic reports where feasible to reduce paper consumption. Additionally, we provide each employee with a bin designated specifically for paper recycling.

### Waste and Recycling Improvements

HCP consistently works to improve operational efficiencies and to reduce waste at every property under our control. Accordingly, we focused on increasing recycling activity within our MOB portfolio in 2014 to achieve the following goals:

- recycle more and dispose of less;
- reduce our impact; and
- improve building operations.

To achieve these goals, we met with a waste hauling negotiation partner, waste and recycling vendors, and our property management companies to set a clear objective: improving the percentage of our MOBs that recycle.

These efforts resulted in the increase of boundary MOB property recycling rates. Seventy-three percent (73%) of boundary MOB properties were recycling by the end of 2014, as compared to sixty percent (60%) in 2013. In 2015 and beyond, we will continue to diversify and expand our recycling efforts - not only to improve the operations of our properties but, just as importantly, to do our part to reduce the waste we generate and the impact we have on the Earth's valuable resources.



Sky Ridge III MOB Development  
Lone Tree, CO

## SUSTAINABLE ASSETS

**We believe that it is imperative to evaluate and implement new technologies associated with alternative energy sourcing.**

### Environmental Compliance

At HCP, we carefully monitor our facilities to ensure we are in compliance with all environmental laws and regulations. Policy related compliance installations made in 2014 include:

- Bathrooms were redesigned and upgraded to be compliant with current ADA requirements in California, Virginia, Missouri, Florida, Texas, and Nevada
- Sidewalk and paths of entry were installed, upgraded or redesigned to meet ADA requirements in California, and South Carolina
- Parking lots, parking spaces and walkways were redesigned to make them ADA compliant in Florida, Colorado, California, Texas, and South Carolina
- Elevator cab interior and call buttons were modified to meet ADA requirements in Illinois and Tennessee

To date, HCP has not received any administrative or judicial sanctions or fines for failure to abide by environmental regulations.

By continuing to explore solar cell applications, as evidenced by the four existing installations at our buildings located in San Diego and Mountain View, California, we find that solar cell panels are currently the best alternative energy option from a performance and business perspective. We have evaluated several projects that have an average cost of \$550,000 with an average payback of 6.5 years. In 2014, we installed our first MOB application of a solar PV panel at our MOB in Encino, California. The project cost was \$274,405 with a payback of just over six years.

Smart building technology is another area we have researched, and in 2014, we implemented five systems that provide real-time energy monitoring. Using monitoring and higher technical level of controls, we are confident that energy consumption reductions can be obtained.

We are committed to staying current on technological advances in this area and finding the best solutions for our buildings and the people that experience them on a daily basis.



TACE MOB  
Nashville, Tennessee

## LEED AND ENERGY STAR CERTIFIED PROPERTIES

We have successfully maintained our status as the cumulative leader in ENERGY STAR certifications within the MOB category. Our 2014 goal was to obtain ten new and renewed ENERGY STAR certifications. We achieved eight, as ENERGY STAR suspended its certification in the MOB category in 2014 for the foreseeable future. However, we will continue to benchmark our MOBs in the ENERGY STAR Portfolio Manager, which will provide us with the continued ability to monitor and compare our energy performance progress.

Because ENERGY STAR certified buildings are verified to use 35% less energy on average than similar buildings, they can also be verified to contribute 35% fewer greenhouse gas emissions to our atmosphere (source: [www.energystar.gov](http://www.energystar.gov)).

Our ENERGY STAR certifications continue to grow.



We currently have ten LEED certified buildings in our portfolio. We continue to assess the feasibility of bringing other properties in our current portfolio up to LEED standards.



Hoag Hospital (LEED Silver Certified)  
Irvine, California



## SMART BUILDING TECHNOLOGY

HCP implemented “smart” building technology programs at five properties to monitor energy characteristics and consumption data.

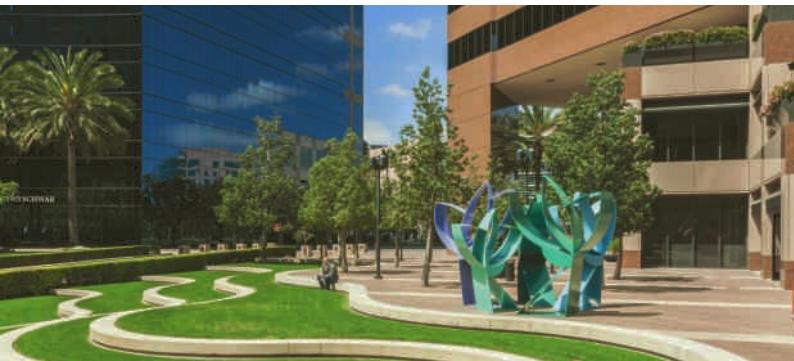


The data generated allows us to identify opportunities to reduce usage, provides confirmation that system controls are performing as designed, and enables implementation of immediate response measures when consumption fluctuations are detected. We estimate energy consumption by the properties to be reduced by 5%-8%, with payback in two to three years.

# HCP's New Headquarters

In 2014, HCP's corporate headquarters made the short move from Long Beach to Irvine. Much of our staff resides nearer in proximity to Irvine, so the move not only lessened the commute for most of our employees, it reduced our environmental impact. We also instituted a vanpool-commuting program to aid in the reduction of our impact on the environment, and to provide an alternative commuting option for our employees.

In preparation for and during the move, we made sustainability a priority. We held an office clean up and recycle day to reduce paper and e-waste. Our employees



and movers used reusable sustainable boxes instead of disposable one-use cardboard boxes.

We also used our corporate office move as an opportunity to make sustainable updates to our current procedures and practices. We implemented a new Document Retention Policy, outlining required procedures for document retention and disposal. We purchased water filtration systems to reduce the amount of bottled water we provide to our employees, and for the six months ended December 31, 2014, we were able to cut

our water bottle usage and costs approximately in half as compared to the same time the previous year. We also enhanced and implemented a multifaceted recycling program, and all new computer equipment we purchased was ENERGY STAR labeled. Even our new office plants were planted in pots made of recycled materials, with the decorative rocks made of recycled plastic bags.

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**Sustainable practices at the corporate level result in sustainable practices at the employee level as well, and our employees have joined our efforts. A battery recycling program was implemented by one of our employees, as was the saving of coffee grounds for use in garden or compost areas of our employees' homes.**

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Shorenstein Realty Services, L.P. manages our building, and their commitment to sustainable business practices was instrumental in our decision to lease our new space. The building is LEED Gold certified and ENERGY STAR certified.

Shorenstein also uses LEED-compliant cleaning procedures and cleaning supplies, and has a building-wide recycling and e-waste collection program. Additionally, as part of our agreement to lease our new space, Shorenstein installed motor vehicle electric chargers for our employees and other tenants that are actively

**Some of the sustainable features of our new home include:**

- Energy Management System/Building Automated System for energy savings
- Retrofit of lighting throughout building with energy-efficient fixtures
- Variable frequency drives (“VFDs”) on all mechanical equipment
- Low flow fixtures in restroom sinks and urinals for water savings
- Motion sensors in common areas and tenant spaces for energy savings
- Photo sensor controls on garage perimeter lighting for energy savings

working to reduce their carbon footprint. Further, ample and free parking for bicycles is provided. The relocation of our Corporate headquarters is a great example of how incorporating sustainable operating procedures and partnering with our building management can help to reduce our environmental impact.



ENERGY STAR



HCP Headquarters  
Irvine, California

# Social Responsibility

## Disclosure on Management Approach

We have integrated sustainable efforts in all aspects of our business over many years.

Our social responsibility efforts begin with our employees. We strive to attract and attain the best possible employees, treat and compensate them fairly, develop opportunities for them to reach their full potential, and provide them with a safe and happy work environment. With a relatively small employee base of 170 people, we carefully seek out individuals who are competent leaders, experienced in our industry, and dedicated to our mission and vision. We encourage our employees to act with a team mentality and in the best interest of all of our stakeholders. Upholding ethical conduct at all times is essential to how we operate.

Our social engagement extends beyond our offices to groups that advance healthcare for the elderly. Our giving, sponsorship, and volunteer activities increase as our employees gain momentum from this type of external engagement.

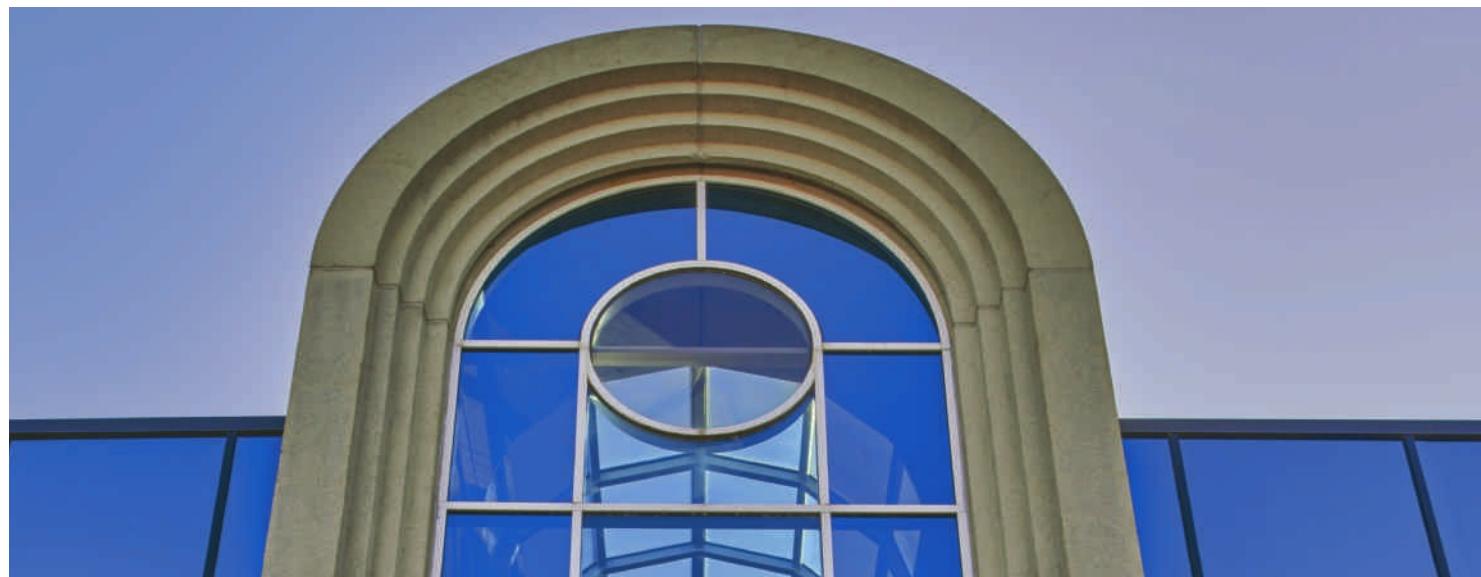
Our employees and business partners take great pride in working for and with a company with a deep commitment to being a diverse, socially concerned and stakeholder responsive organization.

With this in mind, it is important for us to identify our material social aspects, associated impacts, our level of control over outcomes, our management approach, and avenues for communicating performance as depicted in the chart below.

|   | INSIDE BOUNDARY | OUTSIDE BOUNDARY |
|---|-----------------|------------------|
| <b>IDENTIFIED MATERIAL ASPECTS</b>                              |                 |                  |
| Employment  | ■               |                  |
| Training and Education  | ■               |                  |
| Diversity and Equal Opportunity                                 | ■               | ■                |
| Compliance  | ■               | ■                |
| Product and Service Labelling                                   | ■               | ■                |
| <b>ORGANIZATIONAL RESPONSIBILITY</b>                            |                 |                  |
| Sustainability Committee,<br>Social Responsibility Subcommittee | ■               |                  |
| <b>POLICIES</b>   |                 |                  |
| Business Code of Conduct  | ■               |                  |
| Vendor Code of Conduct  | ■               | ■                |
| <b>MONITORING AND FOLLOW UP</b>                                 |                 |                  |
| CDP Report, GRESB Report, DJSI Report,<br>FTSE4Good, GRI G4     | ■               |                  |

## SOCIAL PROGRESS + PRIORITIES

|   | <b>PRESENT</b><br>PROGRESS THIS YEAR  | <b>FUTURE</b><br>PRIORITIES FOR THE COMING YEARS  |
|---|---|---|
| <b>EMPLOYEE ENGAGEMENT</b>                | Employee health and wellness programs play an important role in our company culture. This year we conducted a Wellness Day for all our employees, offering various services such as: spinal screenings, fitness consultation, and flu shots | To form a Culture Definition Committee, to define the culture of HCP today and identify, based on employee input, what part of our culture if changed would make us even stronger and more successful |
| <b>LEARNING AND DEVELOPMENT</b>           | Presented training presentations on Insider Trading and the FCPA in our HCP University employee educational program, as well as provided training on our Business Code of Conduct   | To include a Sustainability presentation covering ESG initiatives in our HCP University employee educational program  |
| <b>COMMUNITY INVOLVEMENT</b>              | Sponsored and participated in The Walk to End Alzheimer's and Senior's Day at the Aquarium of the Pacific   | To expand our volunteering efforts in our local community through our Social Sustainability Subcommittee  |
| <b>DRIVING VALUE CHAIN SUSTAINABILITY</b> | HCP has deployed a tenant web portal system to engage tenant awareness of our sustainability initiatives and to provide contact information of management   | To add maintenance related and additional sustainability information to our tenant web portals  |
| <b>TENANT AND OPERATOR SATISFACTION</b>   | Each year we conduct a tenant satisfaction survey of MOB tenants. We had a 89.1% tenant survey response rate, an industry high, and our overall satisfaction rate was 83.8%   | To continue to increase our tenants' overall satisfaction   |



The Atrium MOB  
Nashville, Tennessee

## OUR EMPLOYEES

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### Competitive Benefits

HCP extends competitive salary and benefit packages to all permanent full-time employees including paid vacation and time-off for illness, as well as life, accidental death, and dismemberment insurance. We also extend our benefit plan to the immediate families and domestic partners of our employees, including comprehensive medical, dental, and vision insurance. Our employees benefit from the peace of mind of knowing that paid time-off is available during illness or disability, when medical attention is needed, or for the arrival of a child. We offer a 401(k) plan with a generous company match for retirement planning.

### Empowering Our People: Diversity and Inclusion

We value and embrace the diversity of our workforce and promote a work environment that emphasizes respect for the dignity of all of our employees. Accordingly, we fundamentally support the protection of human rights and are committed to providing equal opportunity and fair treatment to all individuals on the basis of merit, without discrimination because of race, color, religion, national origin, sex (including gestation), sexual orientation, age, disability, veteran status, or other characteristics. We pledge to provide equal opportunity and fair treatment. Our efforts to promote ethical practices in the workplace have resulted in zero reported incidents of discrimination in 2014. Employee salary and remuneration is based on the position, and determined by merit, skill set, education and years with HCP.

### Required Training

Our employees are briefed on our corporate policies that enable them to guide daily work activities according to our highest standards. Employees are required to complete approximately two hours of training per year. One hundred percent (100%) of our employees completed our Code of Business Conduct and Ethics training in 2014. The training explicitly instructs individuals on their obligations to comply with all laws, rules, and regulations applicable to HCP. These include, without limitation, laws concerning bribery and kickbacks, copyrights, trademarks and trade secrets, information privacy, insider trading, illegal political contribution, antitrust prohibitions, foreign corrupt practices, offering or receiving gratuities, environmental hazards, employment discrimination or

harassment, occupational health and safety, false or misleading financial information, or misuse of corporate assets. Additionally, each of our employees receives harassment training every two years. In accordance with our Business Code of Conduct, HCP experienced no incidents of non-compliance with regulations or voluntary codes concerning the health and safety impacts of our real estate that serves the healthcare industry and none that resulted in fines or non-monetary sanctions during the 2014 reporting period.

### Skills Development and Life Long Learning

We are not only interested in investing in real estate; one of our priorities is investing in the development of our people. HCP has created a learning culture that enables each employee to maximize his or her individual potential, helping them develop in ways that are meaningful and create long-term value for the individual. HCP reimburses employees for education that takes place outside our hallways such as specialized certificate courses, conferences, and continuing educational trainings. Additionally, HCP pays up to \$5,000 per year - per person - for higher education that is related to our company and individual professional development. HCP also holds internal educational courses for our employees through our HCP University. HCP University is a program designed to educate our employees on current issues that could affect our company. Some of the courses we offered in 2014 to our employees included:

- Insider Trading and the FPCA presented by our legal team; and
- REIT 101 - Navigating Healthcare Real Estate presented by our tax team.

### Employee Performance Reviews

We believe that performance evaluations encourage communication regarding job performance, feedback, and expectations. All of our full-time employees receive biannual full performance reviews. Our executive management team is reviewed by one another as well as the Board. Sustainability objectives have been built into the performance goals of our sustainability team members along with prescriptive measures suggested for meeting the company's overall strategic sustainability priorities. Performance is incentivized accordingly.

# Best Workplaces for Commuters

## Meeting the National Standard of Excellence

For the second year in a row, our Life Science building at Oyster Point in South San Francisco was recognized by Best Workplaces for Commuters, for our efforts to promote greener commutes through energy conservation, traffic reduction and less air pollution.

- Reserved parking spaces for carpoolers and vanpoolers
- Local public transportation maps and schedules
- Recognized for offering tenants a variety of commuting options and exceeding the national standard of excellence in commuter benefits
- Secure bicycle parking with lockers, racks or cages
- A website that has links to regional and real-time travel information



**Britannia Oyster Point Life Science Building**  
South San Francisco, CA

## SUPPORTING OUR COMMUNITIES

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### Formalizing our commitment to the community

In 2012, we established a Social Responsibility Subcommittee within our Sustainability Committee, as a corporate-wide initiative aimed at expanding the level of our philanthropic community outreach projects. As a formal committee, we have initiated discussions with a select group of charitable, education and research organizations that share our goals. The establishment of this committee has not only signified our presence outside of our core business activities, but it has motivated the individuals that we depend on - our employees.

One of our first accomplishments was the establishment of a charitable fund to support research, education, public policy and other activities focused on improving the health and well being of HCP's core constituency, the elderly. Funds are utilized for direct grants and employee matching gifts directed at organizations designed to support the advancement of healthcare in general, as well as organizations that address the key challenges for elderly:

- isolation;
- proper nutrition; and
- cognitive functioning.

### COMMUNITY ENGAGEMENT

| ORGANIZATION   | FUNDRAISING | SPONSORSHIP | VOLUNTEERISM |
|--|-------------|-------------|--------------|
| UCI MIND   | ■           |             |              |
| UCLA JULES STEIN EYE INSTITUTE                             | ■           |             |              |
| ALZHEIMER WALKS IN IRVINE AND NASHVILLE                    | ■           | ■           | ■            |
| THE AQUARIUM OF THE PACIFIC (SENIOR DAY)                   | ■           | ■           | ■            |
| HARVARD/BROOKDALE RESEARCH PROJECT<br>AGING 2.0 INNOVATION | ■           |             |              |
| GOLF TO END ALZHEIMER'S EVENT<br>(SPONSORED BY BROOKDALE)  | ■           | ■           | ■            |
| THE LEUKEMIA AND LYMPHOMA SOCIETY                          | ■           |             |              |
| GO RED FOR CANCER  | ■           | ■           |              |
| ROCKY MOUNTAIN<br>CHILDREN'S HEALTH KALEIDOSCOPE           | ■           |             |              |
| CHILDREN'S HEART FOUNDATION FUND                           | ■           |             |              |
| KOSAIR CHILDREN'S HOSPITAL                                 | ■           |             |              |

In addition to expanding our gift-matching program, our Irvine and Nashville offices continued our annual tradition of holding Thanksgiving food drives, and holiday toy drives to benefit Ronald McDonald House.

## OUR TENANTS, OPERATORS, + PROPERTY MANAGERS

Many of our substantial business decisions are influenced by best operating practices tied to innovative environmental management policies. By contracting with experienced third party property management companies and operators that can help us identify and address potential risks, we are able to feed these best practices through the value chain.

### Driving Value Chain Excellence

HCP realizes that by encouraging effective management we can attempt to mitigate negative environmental impacts in partnership with our operators and tenants. In order to galvanize leadership and leverage internal and external participation for effective application, HCP developed its own Sustainability Committee and Green Team in 2011, which provides updates to our partners regarding environmental governance, policy development and implementation.



Utah II ARUP Life Science Building  
Salt Lake City, Utah

Internal focus groups meet regularly to review HCP's environmental procedures and construct educational tools for implementation on the ground. Using step-by-step guides, we are able to translate our expectations into advisable actions that our partners can take so that we may achieve our collective objectives.

In 2014, we completed Property Condition Assessment (PCA) reports on 42% of our properties. We strive to conduct PCAs for all of our properties on a two-year cycle. As part of the assessment process, we look at potential safety issues related to the building including stairways, storage in electrical rooms, and fire code requirements for properties both inside and outside of our boundary.

Additionally, we engage with architects, surveyors, and other licensed, reputable professionals to obtain requisite approvals and ensure compliance with set standards. We conduct regular rotational property visits and engage in constructive dialogue with our operators and property management companies to identify strengths and weaknesses within the facilities. HCP also completes insurance reviews annually, which include safety assessments. In addition, we have developed a company-wide business continuity plan that outlines the procedures to be taken in the event of a disaster in order to ensure the safety of employees and the continuity of our business.

### Incentivizing Better Management Practices

There are several initiatives we employ to expand the engagement of the property management companies and the tenants across our MOB and Life Science portfolios. The HCP Green Challenge, the tenant portal website program, and our annual property management conference, all encourage participation in HCP's sustainable efforts.

Our tenant web portal program is our newest initiative and engagement tool. In 2013 we deployed multiple property-specific web portals to disseminate sustainability best practices and energy saving tips to our tenant base. By incentivizing action, our goal is to influence others by creating a replicable model for best practices.

### Each web portal offers, among other things:

- Leasing and management information
- Property policies and procedures
- Sustainability initiatives and green tips
- Emergency protocol
- Links to traffic and weather data

Proactive tenant engagement represents a cost-effective and expeditious way to mitigate property energy consumption, drive sustainability goals, bolster preparedness, and deliver real financial benefit. Further, proactive engagement delivers benefits that can have a positive effect on tenant attraction, satisfaction, and retention.

## OUR TENANTS, OPERATORS, + PROPERTY MANAGERS

HCP conducts an annual property management conference in May, and training is conducted by HCP Capital Asset Management on topics such as sustainability best practices, preventative maintenance, sustainability reporting, alternative energy sources, customer satisfaction, ENERGY STAR certifications, and tenant improvement project procedures.

**HCP also conducted training that included the following:**

| TRAINING TYPE          | KEY TOPICS   |
|------------------------|--|
| OPERATIONAL EXCELLENCE | <ul style="list-style-type: none"> <li>• Customer service and retention</li> <li>• Creating a customer experience</li> <li>• Property management</li> </ul>                                      |
| INSURANCE              | <ul style="list-style-type: none"> <li>• Requirements</li> <li>• Incident reporting</li> <li>• Insurance certifications</li> </ul>   |
| LEGAL                  | <ul style="list-style-type: none"> <li>• Contracts and agreements</li> <li>• Lease enforcement and collection</li> <li>• Tenant bankruptcies</li> <li>• Lawsuits and insurance claims</li> </ul> |

HCP Capital Asset Management conducts in-house training on regular basis where topics such as alternative energy sources, electrical circuitry, HVAC operation, and energy management systems are covered. In 2014, two specific training sessions were held:

- Updates of our Lease IQ workflow management system
- Training on changes to HCP budget process

### Maintaining Tenant Satisfaction

We realize that tenant satisfaction is critical to sustaining and growing our business. Since 2001, we have partnered with a research and consulting firm to implement a tenant feedback system. The overall tenant survey response rate was an industry

high of 89.1% in 2014. The survey revealed the following key results regarding tenant satisfaction:

- Overall Satisfaction: 83.8% (remains above the benchmark for the third consecutive year)
- Property Recommendation: 83.2%
- Management Overall Satisfaction: 87.8%
- Maintenance/Engineering Overall Satisfaction: 85.8%
- Management Communication: 87.2%
- Leasing Process Overall Satisfaction: 81.2%
- Satisfaction with HCP's commitment to "green" practices: increase 7% to 61% (recycling program remains top "green" priority).

These results serve as a means for identifying opportunities for growth and areas where additional business investments are warranted. We have identified the following areas of most importance to our tenants' overall satisfaction in the MOB sector: problem resolution, accommodation of special requests, responsiveness, communication, accessibility, and professionalism/courtesy. Improvements to satisfaction in these areas will lead to higher likelihood of renewal, increased referral, and greater rental rate tolerance. We consider tenant needs and desires a priority in all development and redevelopment projects, including during annual maintenance and investments in our existing facilities. In promoting safe working and living conditions in some instances, we evaluate health and safety impacts using environmental impact assessments, property review assessments, and insurance review assessments.

By providing sustainable buildings for our customers, we help them achieve their mission of delivering the highest quality healthcare to the communities they serve. We pride ourselves on doing things right and for the right reasons.

Over the years, we have realized that we are more than just a healthcare real estate provider; we have the ability and reach to make positive environmental, health, social, and economic changes in the areas in which we operate. At HCP we are honored and humbled by this fact and it has motivated us to increase our investment in sustainability.

# 2014 HCP Green Challenge

This year, we evaluated sustainable projects submitted by our tenants for co-investment by HCP. Below are two of the projects we participated in with our tenants:



University Center East Life Science Building  
San Diego, CA

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## FIRST PROJECT

### An air optimization project was installed in a lab for a tenant in San Diego, California.

By programming the variable air volume boxes and adding occupancy sensors, we expect to reduce annual utility costs by approximately

**\$75,000**

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## SECOND PROJECT

### A dedicated HVAC unit was installed for a tenant server room at University Center East in San Diego, California.

The separate unit allowed the primary air-handling units to be completely shut down on nights and weekends, saving energy and costs. Annual savings are expected to be approximately

**\$9,000**

**2014 WAS A GREAT YEAR FOR HCP AND SUSTAINABILITY**

We achieved international recognition for our leadership in sustainable management, received many accolades and awards, and were named as constituents of prestigious indices. We will continue to accelerate our sustainability-related efforts and are motivated by what we have accomplished!



FTSE4Good



MEMBER OF  
**Dow Jones**  
Sustainability Indices  
In Collaboration with RobecoSAM



# Our Environmental Performance

## ENERGY CONSUMPTION WITHIN THE ORGANIZATION

G4-EN3: Direct energy consumption by primary energy source.

| SOURCE                      | 2013                         |                              | 2014            |                 |
|-----------------------------|------------------------------|------------------------------|-----------------|-----------------|
|                             | AMOUNT (MWh)                 | AMOUNT (GJ)                  | AMOUNT (MWh)    | AMOUNT (GJ)     |
| Natural Gas- metered        | 161,154                      | 580,153                      | 153,488         | 552,558         |
| Motor Gasoline- non-metered | 2,667                        | 9,602                        | 2,763           | 9,947           |
| Diesel/Gas Oil- non-metered | 377                          | 1,357                        | 559             | 2,011           |
| Propane non-metered         | 0                            | 0                            | 0               | 1               |
| <b>TOTAL</b>                | <b>164,198<sup>(1)</sup></b> | <b>591,112<sup>(1)</sup></b> | <b>156,810*</b> | <b>564,517*</b> |

<sup>(1)</sup> The total direct energy consumption previously calculated in 2013 was 141,002 MWh, which covered our portfolio boundary of 339 properties. As such, our 2013 amounts were adjusted by 72 properties to reflect a rolling baseline year.

G4-EN3.b: Total fuel consumption from renewable sources in joules or multiples, including fuel types used.

We do not currently use significant amounts of renewable fuel. Some of our electricity consumption is sourced from regional grids which are partially based on renewable energy sources, but we do not calculate this separately.

G4-EN3.c: Total electricity, heating, cooling and steam consumption in joules, watt-hours or multiples

| SOURCE                  | 2013                         |                                | 2014            |                   |
|-------------------------|------------------------------|--------------------------------|-----------------|-------------------|
|                         | AMOUNT (MWh)                 | AMOUNT (GJ)                    | AMOUNT (MWh)    | AMOUNT (GJ)       |
| Electricity Consumption | 457,129                      | 1,645,664                      | 457,337         | 1,646,414         |
| Steam Consumption       | 4,914                        | 17,689                         | 4,403           | 15,851            |
| Cooling Consumption     | 908                          | 3,270                          | 1,085           | 3,907             |
| <b>TOTAL</b>            | <b>462,951<sup>(1)</sup></b> | <b>1,666,623<sup>(1)</sup></b> | <b>462,825*</b> | <b>1,666,172*</b> |

<sup>(1)</sup> The total indirect energy consumption previously calculated in 2013 was 412,671 MWh, which covered our portfolio boundary of 339 properties. As such, our 2013 amounts were adjusted by 72 properties to reflect a rolling baseline year.

Standards, methodologies, and assumptions used. All of our data is collected through an environmental database system. Calculations are made using USEPA e-GRID factors for electricity and factors from USEPA and the GHG Protocol for other carbon emission sources.

## ENERGY INTENSITY

G4-EN5: Our energy intensity ratio is calculated per thousand square feet of space in all our properties under our operational control. It includes all fuel, electricity, heating, cooling, steam as indicated. In our total energy consumption figures reported in G4-EN3 consumed within our organization.

|   | 2013          | 2014         |
|---|---------------|--------------|
| <b>PROPERTY TYPE: LIFE SCIENCE</b>          |               |              |
| Total Energy Consumption                    | MWh 47,110.6  | GJ 169,598   |
| Corresponding Floor Area (1,000s)           | Ft2 1,248.4   | M2 115.98    |
| Building Energy Intensity                   | MWh/ft2 37.7  | GJ/m2 1,462  |
| <b>PROPERTY TYPE: MEDICAL OFFICES (MOB)</b> |               |              |
| Total Energy Consumption                    | MWh 433,315.6 | GJ 1,559,936 |
| Corresponding Floor Area (1,000s)           | Ft2 14,716.4  | M2 1,367     |
| Building Energy Intensity                   | MWh/ft2 29.4  | GJ/m2 1,140  |
| <b>PROPERTY TYPE: SENIOR HOUSING</b>        |               |              |
| Total Energy Consumption                    | MWh 146,722   | GJ 528,200   |
| Corresponding Floor Area (1,000s)           | Ft2 17,813.3  | M2 1,654.9   |
| Building Energy Intensity                   | MWh/ft2 8.2   | GJ/m2 319.1  |

### DIRECT (SCOPE 1) AND INDIRECT (SCOPE 2) GHG EMISSIONS BY TYPE

G4-EN15 AND G4-EN16: Total direct and indirect greenhouse gas emissions by type.

| MEASUREMENT                                | 2013 AMOUNT (t CO <sub>2</sub> e) | 2014 AMOUNT (t CO <sub>2</sub> e) |
|--|-----------------------------------|-----------------------------------|
| Direct Emissions                           | 34,277                            | 33,152*                           |
| Indirect Emissions                         | 253,776                           | 254,310*                          |
| <b>TOTAL DIRECT AND INDIRECT EMISSIONS</b> | <b>288,053<sup>(1)</sup></b>      | <b>287,462</b>                    |

<sup>(1)</sup> The total GHG emissions previously calculated for Scope 1 and Scope 2 emissions in 2013 was 252,461 tonnes CO<sub>2</sub>e, which covered our portfolio boundary of 339 properties. As such, our 2013 amounts were adjusted by 72 properties to reflect a rolling baseline year.

### Basis for Reporting on Greenhouse Gas Emissions

All greenhouse gases are included in our calculation of CO<sub>2</sub>e. Our base year is 2012 and our emissions calculations including GWP rates are based on the U.S. Environmental Protection Agency methodology for calculation of emissions from buildings based on air conditioned square footage and engineering estimates related to equipment leaks. All properties under our operational control in the U.S. are the basis for our calculations.

## GHG EMISSIONS INTENSITY

G4-EN18: Our GHG emissions intensity ratio is calculated per thousand square feet of space in all of our properties under our operational control. It includes Scope 1 and Scope 2 emissions as reported in G4-EN15 and G4-EN16 and includes all GHG gases.

|   | 2013                    | 2014                    |                                    |
|---|-------------------------|-------------------------|------------------------------------|
| <b>PROPERTY TYPE: LIFE SCIENCE</b>          |                         |                         |                                    |
| Total Direct and Indirect Emissions         | Amount (t CO2e) 10,729  | Amount (t CO2e) 9,780   |                                    |
| Corresponding Floor Area (1,000s)           | Ft2 1,248.4             | M2 115.98               | Ft2 1,162.2 M2 107.97              |
| Building Energy Intensity                   | t CO2e /ft2 8.6         | t CO2e /m2 92.5         | t CO2e /ft2 8.4 t CO2e /m2 90.6    |
| <b>PROPERTY TYPE: MEDICAL OFFICES (MOB)</b> |                         |                         |                                    |
| Total Direct and Indirect Emissions         | Amount (t CO2e) 214,538 | Amount (t CO2e) 215,241 |                                    |
| Corresponding Floor Area (1,000s)           | Ft2 14,716.4            | M2 1,367                | Ft2 14,684.7 M2 1,364.2            |
| Building Energy Intensity                   | t CO2e /ft2 14.57       | t CO2e /m2 156.9        | t CO2e /ft2 14.65 t CO2e /m2 157.8 |
| <b>PROPERTY TYPE: SENIOR HOUSING</b>        |                         |                         |                                    |
| Total Direct and Indirect Emissions         | Amount (t CO2e) 61,343  | Amount (t CO2e) 60,977  |                                    |
| Corresponding Floor Area (1,000s)           | Ft2 17,813.3            | M2 1,654.9              | Ft2 17,813.3 M2 1,654.9            |
| Building Energy Intensity                   | t CO2e /ft2 3.4         | t CO2e /m2 37.0         | t CO2e /ft2 3.4 t CO2e /m2 36.8    |

### TOTAL WATER WITHDRAWAL BY SOURCE

G4-EN8: Total water withdrawal by source.

| MEASUREMENT                                   | 2013 AMOUNT (GALLONS)      | 2014 AMOUNT (GALLONS) |
|---|----------------------------|-----------------------|
| Water withdrawal for shared landlord services | 908,234,645 <sup>(1)</sup> | 905,364,220*          |

<sup>(1)</sup> The total water withdrawal previously calculated in 2013 was 747,878,876 gallons, which covered our portfolio boundary of 339 properties. As such, our 2013 amounts were adjusted by 72 properties to reflect a rolling baseline year.

### TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD

G4-EN23: Total weight of hazardous and non-hazardous waste by type and disposal method.

| MEASUREMENT                         | 2013 AMOUNT (TONNES)  | 2014 AMOUNT (TONNES) |
|-------------------------------------|-----------------------|----------------------|
| Total Weight of Non-Hazardous Waste | 21,292 <sup>(1)</sup> | 20,669*              |

### TOTAL WEIGHT OF WASTE

|            |    |     |
|------------|----|-----|
| % Recycled | 7  | 9*  |
| % Landfill | 93 | 91* |

<sup>(1)</sup> The total weight of non-hazardous waste previously calculated in 2013 was 17,757 metric tonnes, which covered our portfolio boundaries of 339 properties. As such, our 2013 amounts were adjusted by 72 properties to reflect a rolling baseline year.

# Social Performance Indicators

## GENERAL STANDARD DISCLOSURES / ORGANIZATIONAL PROFILE

G4-10: Total number of employees by employment contract and gender.

| CATEGORY     | FEMALE     |            | MALE       |            | TOTAL       |            |
|--------------|------------|------------|------------|------------|-------------|------------|
|              | COUNT      | %          | COUNT      | %          | COUNT       | %          |
| Hourly       | 31         | 39*        | 12         | 13*        | 43          | 25*        |
| Salary       | 48         | 61*        | 79         | 87*        | 127         | 75*        |
| <b>TOTAL</b> | <b>79*</b> | <b>100</b> | <b>91*</b> | <b>100</b> | <b>170*</b> | <b>100</b> |

## EMPLOYMENT

G4-LA1: Total number and rates of new employee hires and employee turnover by age group, gender and region.

### NEW HIRES BY AGE CATEGORY AND GENDER

| CATEGORY     | FEMALE    |            | MALE      |            | TOTAL     |            |
|--------------|-----------|------------|-----------|------------|-----------|------------|
|              | COUNT     | %          | COUNT     | %          | COUNT     | %          |
| <30          | 5*        | 38         | 2*        | 15         | 7*        | 27         |
| 30-50        | 7*        | 54         | 5*        | 39         | 12*       | 46         |
| >50          | 1*        | 8          | 6*        | 46         | 7*        | 27         |
| <b>TOTAL</b> | <b>13</b> | <b>100</b> | <b>13</b> | <b>100</b> | <b>26</b> | <b>100</b> |

### EMPLOYEE TURNOVER BY AGE CATEGORY AND GENDER

| CATEGORY     | FEMALE   |            | MALE     |            | TOTAL     |            |
|--------------|----------|------------|----------|------------|-----------|------------|
|              | COUNT    | %          | COUNT    | %          | COUNT     | %          |
| <30          | 3*       | 43         | 1*       | 33         | 4*        | 40         |
| 30-50        | 3*       | 43         | 2*       | 67         | 5*        | 50         |
| >50          | 1*       | 14         | 0*       | 0          | 1*        | 10         |
| <b>TOTAL</b> | <b>7</b> | <b>100</b> | <b>3</b> | <b>100</b> | <b>10</b> | <b>100</b> |

## DIVERSITY AND EQUAL OPPORTUNITY

G4-LA12: Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.

### EMPLOYEES BY AGE CATEGORY AND GENDER

| CATEGORY     | FEMALE    |            | MALE      |            | TOTAL      |            |
|--------------|-----------|------------|-----------|------------|------------|------------|
|              | COUNT     | %          | COUNT     | %          | COUNT      | %          |
| <30          | 7         | 9*         | 7         | 8*         | 14         | 8*         |
| 30-50        | 53        | 67*        | 54        | 59*        | 107        | 63*        |
| >50          | 19        | 24*        | 30        | 33*        | 49         | 29*        |
| <b>TOTAL</b> | <b>79</b> | <b>100</b> | <b>91</b> | <b>100</b> | <b>170</b> | <b>100</b> |

### ETHNICITY GROUP BY GENDER

| CATEGORY                | FEMALE    |            | MALE      |            | TOTAL      |            |
|-------------------------|-----------|------------|-----------|------------|------------|------------|
|                         | COUNT     | %          | COUNT     | %          | COUNT      | %          |
| Asian                   | 22        | 28*        | 19        | 21*        | 41         | 24*        |
| Black/African American  | 2         | 3*         | 1         | 1*         | 3          | 2*         |
| Hispanic or Latino      | 10        | 12*        | 6         | 7*         | 16         | 9*         |
| Hawaiian/Pacific Island | 0         | 0*         | 1         | 1*         | 1          | 1*         |
| White                   | 43        | 54*        | 62        | 68*        | 105        | 62*        |
| Two or More Races       | 2         | 3*         | 2         | 2*         | 4          | 2*         |
| <b>TOTAL</b>            | <b>79</b> | <b>100</b> | <b>91</b> | <b>100</b> | <b>170</b> | <b>100</b> |

### EQUAL REMUNERATION FOR MEN AND WOMEN <sup>(1)</sup>

G4-LA13: Ratio of base salary of men to women by employee category.

| CATEGORY       | MALE/ FEMALE |                    |
|----------------|--------------|--------------------|
|                | BASE SALARY  | TOTAL REMUNERATION |
| EVP            | 112%*        | 520%*              |
| SVP/VP         | 123%*        | 133%*              |
| Non-Management | 118%*        | 120%*              |

<sup>(1)</sup> We believe that our compensation practices are applied to each employee based on their position, experience and roles and responsibilities in the company, regardless of race, gender, sex and/or sexual orientation. We believe that by providing such compensation in this type of simplified group fails to correctly compare the data because it does not consider position, experience and roles and responsibilities which vary greatly among employees of similar titles.

<sup>(2)</sup> In early 2014, a female EVP became a part-time employee and was not eligible for cash incentive and equity awards, both of which make-up a significant majority of compensation for our EVPs.



### **Report of Independent Accountants**

To the Board of Directors of HCP, Inc.

We have reviewed management's assertion, included in the accompanying "Appendix A, Management Assertion and Measurement Techniques", that the selected sustainability metrics identified below and denoted by an asterisk (\*) within HCP, Inc.'s Sustainability section of the 2014 Combined Report as of, and for the year ended December 31, 2014 are presented in conformity with the assessment criteria set forth in management's assertion (the "assessment criteria").

- Direct energy consumption
- Indirect energy consumption
- Direct and indirect greenhouse gas ("GHG") emissions
- Total water withdrawal
- Total weight of waste and percentage by disposal method
- Percentage of workforce by employment type
- New hire by age category and gender
- Terms by age category and gender
- Percentage of employees by age category and gender
- Percentage of ethnicity group by gender
- Ratio of salary and remuneration by category and gender

HCP, Inc. management is responsible for management's assertion and for the assessment criteria which it has identified as an objective basis against which it assesses and reports on the selected sustainability metrics. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of selected data that is free from material misstatement, whether due to fraud or error.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is designed to provide limited assurance, and as such is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion.

Greenhouse gas ("GHG") quantification is subject to inherent uncertainty because of such things as emission factors that are used in mathematical models to calculate emissions and the inability of those models, due to incomplete scientific knowledge and other factors, to precisely characterize under all circumstances the relationship between various inputs and the resultant emissions. Environmental and energy use data used in GHG emissions calculations are subject to inherent limitations, given the nature and the methods used for determining such data. The selection of different but acceptable measurement techniques may result in materially different measurements.

Data related to waste metrics is subject to inherent limitations given the nature and the methods used for determining such data. The selection of different but acceptable measurement techniques can result in materially different measurements.

Based on our review, nothing came to our attention that caused us to believe that the selected sustainability metrics referred to above are not fairly stated, in all material respects, based on the corresponding assessment criteria set forth in Appendix A.

*PricewaterhouseCoopers LLP*

March 04, 2015

## APPENDIX A

### MANAGEMENT ASSERTIONS AND MEASUREMENT TECHNIQUES

HCP, Inc. ("HCP") is responsible for the completeness, accuracy and validity of the sustainability metrics contained in this assertion and in the Sustainability section of the 2014 Combined Report as of, and for the year ended December 31, 2014. Unless otherwise stated in this Appendix, our sustainability boundary for the metric presented includes HCP's corporate and operational activities across all business units. Data was collected for properties where HCP determines having operational control, in alignment with the GHG protocol and based on the building (or portion of the building) that we maintained, provided service to and/or had the authority to implement operating policies with respect to energy usage, water usage and/or waste disposal. With regard to external boundaries, unless otherwise stated we do not include data for entities outside the organization.

With respect to the sustainability metrics in the following table and in the Sustainability section of the 2014 Combined Report identified and denoted by an asterisk (\*), Management of HCP asserts that such sustainability metrics are presented in conformity with the assessment criteria set forth below.

| Metric Description   | Definition of Metric   | Metric Quantity  |
|--|--|--|
| <b>Direct energy consumption</b>                               | Total gigajoules ("GJ") and Megawatt hours ("MWh") of direct energy purchased, including natural gas, diesel, gasoline and liquid propane for year ended December 31, 2014, as either (1) third-party invoices recorded in environmental/utilities management systems or (2) based upon estimation methodology. See Estimation methodology for direct and indirect energy consumption section below for additional information.  | 564,517 GJ<br>156,810 MWh  |
| <b>Indirect energy consumption</b>                             | Total GJ and MWh of indirect energy purchased, including electricity, steam and chilled water for the year ended December 31, 2014, as either (1) third-party invoices recorded in environmental/utilities management systems or (2) based upon estimation methodology. See Estimation methodology for direct and indirect energy consumption section below for additional information.  | 1,666,172 GJ<br>462,825 MWh  |
| <b>Direct and indirect greenhouse gas ("GHG") emissions</b>    | The quantity of greenhouse gas ("GHG") emissions in metric tonnes of carbon dioxide equivalent ("CO2e") for the year ended December 31, 2014, based on direct (Scope 1) and indirect (Scope 2) energy consumption. Scope 1 emissions are based on direct energy consumption multiplied by their associated emission factor as well as refrigerants emissions. Scope 2 emissions are based on indirect energy consumption multiplied by their associated emission factor. See Uncertainty, GHG Emission Factors and Estimation Methodology for Refrigerant Emissions sections below for additional information on GHG emission factors and estimates. | Scope 1 – 33,152 metric tonnes CO2e<br>Scope 2 – 254,310 metric tonnes CO2e  |
| <b>Total water withdrawal</b>                                  | The quantity in gallons of potable water withdrawal by HCP related operations for the year ended December 31, 2014 as either (1) third-party invoices recorded in environmental/utilities management systems or (2) based upon estimation methodology. See Estimation Methodology for Water Withdrawal section below for additional information.   | 905,364,220 gallons  |
| <b>Total weight of waste and percentage by disposal method</b> | Waste disposed of in metric tonnes as well as the percentage of waste going to landfill or being recycled, for the year ended December 31, 2014, as either (1) third-party invoices recorded in environmental/utilities management systems or (2) based upon estimation methodology. See Estimation Methodology for Waste section below for additional information.  | Total: 20,669 metric tonnes<br>Percent of waste sent to landfill: 91%<br>Percent of waste sent to recycling: 9%  |
| <b>Percentage of workforce by employment type</b>              | Diversity of HCP employees according to gender and employment type as recorded in ADP based on employees file as of December 31, 2014.   | Total employees<br>Number: 170<br>Salary: 75%<br>Hourly: 25%<br>Men<br>Number: 91<br>Salary: 87%<br>Hourly: 13%<br>Women<br>Number: 79<br>Salary: 61%<br>Hourly: 39% |

| Metric Description   | Definition of Metric  | Metric Quantity  |
|--|---|--|
| <b>New hire by age category and gender</b>                     | Diversity of 2014 new hires according to gender and date of birth as recorded in ADP based on employees file as of December 31, 2014.   | Total new hires<br>Below 30: 7<br>30-50: 12<br>Above 50: 7<br>Men new hires<br>Below 30: 2<br>30-50: 5<br>Above 50: 6<br>Women new hires<br>Below 30: 5<br>30-50: 7<br>Above 50: 1   |
| <b>Terms by age category and gender</b>                        | Diversity of 2014 turnover, including voluntary and involuntary departures, according to gender and age as recorded in ADP based on employees file as of December 31, 2014.                                   | Total turnover<br>Below 30: 4<br>30-50: 5<br>Above 50: 1<br>Men turnover<br>Below 30: 1<br>30-50: 2<br>Above 50: 0<br>Women turnover<br>Below 30: 3<br>30-50: 3<br>Above 50: 1   |
| <b>Percentage of employees by age category and gender</b>      | Diversity, in percentage, of employees according to gender and age as recorded in ADP based on employees file as of December 31, 2014.  | Total employees<br>Below 30: 8%<br>30-50: 63%<br>Above 50: 29%<br>Men<br>Below 30: 8%<br>30-50: 59%<br>Above 50: 33%<br>Women<br>Below 30: 9%<br>30-50: 67%<br>Above 50: 24%   |
| <b>Percentage of ethnicity group by gender</b>                 | Diversity, in percentage, of employees according to gender and ethnicity group as recorded in ADP based on employees file as of December 31, 2014.  | Total employees<br>White: 62%<br>Hawaiian/Pacific Island: 1%<br>Hispanic or Latino: 9%<br>Black/African American: 2%<br>Asian: 24%<br>Two or more races: 2%<br>Men<br>White: 68%<br>Hawaiian/Pacific Island: 1%<br>Hispanic or Latino: 7%<br>Black/African American: 1%<br>Asian: 21%<br>Two or more races: 2%<br>Women<br>White: 54%<br>Hawaiian/Pacific Island: 0%<br>Hispanic or Latino: 12%<br>Black/African American: 3%<br>Asian: 28%<br>Two or more races: 3% |
| <b>Ratio of salary and remuneration by category and gender</b> | Ratio of base salary and total remuneration, including base, bonus and equity, of employees according to category and gender as recorded in ADP based on employees file for the year ended December 31, 2014. | Executive Vice Presidents:<br>Ratio of base salary men/women: 112%<br>Ratio of total remuneration men/women: 520%<br>Management:<br>Ratio of base salary men/women: 123%<br>Ratio of total remuneration men/women: 133%<br>Non-Management:<br>Ratio of base salary men/women: 118%<br>Ratio of total remuneration men/women: 120%  |

## ORGANIZATIONAL BOUNDARY

HCP is using the operational control approach, in conformance with the GHG protocol, to report its direct and indirect energy consumption as well as its GHG emissions. HCP's complete portfolio was analyzed to determine whether HCP has operational control. As a result, 411 properties out of the 1,108 properties in HCP portfolio (assets under management) were identified as being controlled by HCP. The increase in the number of properties in our boundaries since 2013 is mostly due to our large acquisition of 64 senior housing properties conducted in August 2014. For those properties where HCP retains operational control but only over a limited space of the property, the proportion of the consumption controlled by HCP has been reported. See estimation methodology section below for more details.

In order to promote consistency, the same boundaries have been applied to all environmental metrics.

For labor related metrics, HCP is reporting on persons employed by HCP, excluding contractors.

## UNCERTAINTY

GHG quantification is subject to inherent uncertainty because of such things as emissions factors that are used in mathematical models to calculate emissions and the inability of those models, due to incomplete scientific knowledge and other factors, to precisely characterize under all circumstances the relationship between various inputs and the resultant emissions. Environmental and energy use data used in GHG emissions calculations are subject to inherent limitations, given the nature and the methods used for determining such data. The selection of different but acceptable measurement techniques may result in materially different measurements.

## GHG EMISSION FACTORS

The GHG emissions associated with the activities noted above have been determined on the basis of measured or estimated energy and fuel use, multiplied by relevant carbon emission factors. Published emission factors were used to calculate emissions from operations.

| Emission Source | Emission Source Type             | Emission Factor Employed  |
|-----------------|----------------------------------|---|
| Scope 1         | Natural gas                      | GHG emissions for natural gas are calculated using the GHG Protocol -GHG from Stationary Combustion Tool (version 4.0, October 2010).   |
| Scope 1         | Diesel, gasoline, liquid propane | GHG emissions for diesel, gasoline and liquid propane are calculated using factors from WRI Emission Factors Compilation from Cross-Sector Tools (August 2012).   |
| Scope 1         | Refrigerants                     | Global warming potentials used to convert refrigerant emissions into CO <sub>2</sub> e are from IPCC Second Assessment Report (1995) and ASHRAE Standard 34.  |
| Scope 2         | Electricity                      | US EPA eGRID sub-regional emission factors are used for electricity purchased and updated annually based on the latest edition released. The eGRID factors used for electricity were released in February 2014. |
| Scope 2         | Steam                            | GHG emissions from purchased steam are calculating using the US EPA emission factors from Energy Information Administration (2010); Voluntary Reporting of Greenhouse Gases, 1605(b) Program.                   |
| Scope 2         | Chilled water                    | GHG emissions for chilled water are calculated using the US EPA emission factor from ENERGY STAR Portfolio Manager - Methodology for Greenhouse Gas Inventory and Tracking Calculations (November 2011).        |

## Base Data for 2014

Base data utilized in the calculation of consolidated energy purchased, Scope 1 and Scope 2 GHG emissions, water withdrawal and waste disposal is obtained from third-party invoices or estimates. HCP estimates are used where measurement data is not readily available.

For the properties that were acquired after July 2014, actual consumption data was not available. An estimation based on the average consumption per square foot for similar properties was calculated and applied to the actual square footage controlled by HCP for the newly acquired properties. The result was reported as HCP's consumption for the period those properties were under HCP's control.

## Estimation Methodology for Direct and Indirect Energy Consumption

For the properties where HCP retains operational control over a limited amount of space and where there are no dedicated meter to obtain actual consumption, estimation of area based upon square footage controlled as a percentage of total square feet was determined based on occupancy. This estimate percentage was then used to determine HCP's portion of consumption against total property consumption.

For properties where there is a vehicle fleet but no fuel tracking system in place, diesel and gasoline consumption was estimated based on the type of vehicle and the annual mileage.

Approximately 17% of the direct energy consumption and approximately 12% of indirect energy consumption have been estimated by HCP for the year ended December 31, 2014.

## Estimation Methodology for Refrigerant Emissions

For the properties where HVAC units are controlled by HCP, emissions were estimated based on each unit capacity of refrigerant and a common percentage of loss. The percentage of loss used by HCP is 5%, as per US EPA guidance, consistent with IPCC Good Practice Guidance and Uncertainty Management in National Greenhouse Gas inventories.

## Estimation Methodology for Water Withdrawal

For the properties where HCP retains operational control over a limited amount of space and where there are no dedicated meters to obtain actual consumption, estimation of area based upon square footage controlled as a percentage of total square feet was determined based on occupancy. This estimate percentage was then used to determine HCP's portion of consumption against total property consumption.

Approximately 22% of the water withdrawal has been estimated by HCP for the calendar year 2014.

## Estimation Methodology for Waste

For the properties where no actual or estimated weight is provided by the waste management company, HCP has estimated the weight of waste disposed of based on the following:

- For containers/bins: The (1) number of containers/bins, (2) size of the container/bin (in yards), (3) number of pick-ups per week and (4) an average weight per yard for trash and for recycled. For almost all properties, the number of containers/bins, size (in yards) of the container/bin and number of pick-ups per week were provided by the waste management company, provided on waste invoices or provided on service contracts.
- For compactors: The (1) number of compactors, (2) size of compactors (in yards), (3) the number of pick-ups per week, (4) a 3:1 compaction ratio and (5) an average weight per yard for trash and for recycled.
- For totes: The (1) number of totes, (2) size of the tote in US gallons (dry) converted to cubic yards, (3) number of pick-ups per week and (4) an average weight per yard for trash and for recycled.

In addition, in the case where there is no means to estimate waste through waste management companies or environmental waste management consultants in collaboration with the property manager, lb/square foot factors for trash and recycling waste are used to estimate the annual average usage.

HCP recognizes that the level of estimation uncertainty for the waste metric is higher than for the other environmental metrics, primarily because of the estimation methodology that is based on an average weight per yard that does not take into account the actual density of the waste, as well as the measurement technique that assumes waste containers are fully loaded for each pick up.

Data related to waste metrics is subject to inherent limitations given the nature and the methods used for determining such data. The selection of different but acceptable measurement techniques can result in materially different measurements.

Approximately 87% of the waste disposal reported by HCP for the calendar year 2014 included the use of the weight estimation methodology described above.

# GRI Content Index

## GENERAL STANDARD DISCLOSURES "In accordance" - Core

### STANDARD ANALYSIS

|      |               | PAGE NUMBER | SUPPLEMENTAL INFORMATION AND/OR OMISSION | EXTERNAL ASSURANCE |
|------|---------------|-------------|--|--------------------|
| G4-1 | CEO Statement | 12          |  |                    |

### ORGANIZATIONAL PROFILE

|       |   | PAGE NUMBER        | SUPPLEMENTAL INFORMATION AND/OR OMISSION  | EXTERNAL ASSURANCE |
|-------|---|--------------------|---|--------------------|
| G4-3  | Name of the organization  | 11                 | HCP, Inc. (NYSE:HCP)  |                    |
| G4-4  | Primary brands, products, services  | 9, 11              |   |                    |
| G4-5  | Location of headquarters  | 11                 | Irvine, California  |                    |
| G4-6  | Number and name of countries where the organization operates  | 11                 | HCP operates in the U.S.A. and U.K. from its headquarters in Irvine, California and offices in Nashville, Tennessee and San Francisco, California.  |                    |
| G4-7  | Nature of ownership and legal form  | 11                 | Incorporation   |                    |
| G4-8  | Nature of markets served (including geographic breakdown, sectors served, and types of beneficiaries)                 | 11, 17             | Full integrated real estate investment trust (REIT) serving the healthcare industry.  |                    |
| G4-9  | Scale of the reporting organization (employees, operations, net sales, capitalization, quantity of products/services) | 9-11, 15, 38       |   |                    |
| G4-10 | Total workforce by employment type, employment contract, and region, broken down by gender                            | 38, 48-49          |   | X                  |
| G4-11 | Percentage of employees covered by collective bargaining agreements   | Content Index      | HCP complies with the National Labor Relations Act, which makes discrimination, harassment, unlawful termination and/or retaliation, illegal.   |                    |
| G4-12 | Describe supply chain   | 17 + Content Index | Our reporting boundary is determined through the value chain approach, which allows HCP to better understand how we can manage our impacts and maximize results by working with our business partners. As a real estate investment trust, we have environmental, social and economic impacts at each stage of our properties' lifecycle- from acquisition, new construction and re-development, through leasing and sales, and property management. In particular, we have direct control over our own occupied offices, our voluntary community giving and the services that we provide to our tenants at our managed assets. Additionally we exercise significant influence over our development, through procurement standards -our supply base is almost entirely local to each specific state in the U.S. We have limited or no influence over the behavior of our visitors to our health-care real estate assets. |                    |

### ORGANIZATIONAL PROFILE

|       |   | PAGE NUMBER   | SUPPLEMENTAL INFORMATION AND/OR OMISSION | EXTERNAL ASSURANCE |
|-------|---|---------------|--|--------------------|
| G4-13 | Significant changes from previous report regarding size, structure, and ownership                       | 10 (10-K), 15 |  |                    |
| G4-14 | Explanation of whether and how the precautionary approach or principle is addressed by the organization | 15            |  |                    |
| G4-15 | External charters, principles, initiatives  | 44            |  |                    |

### IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES

|       |  | PAGE NUMBER | SUPPLEMENTAL INFORMATION AND/OR OMISSION                             | EXTERNAL ASSURANCE |
|-------|--|-------------|--|--------------------|
| G4-17 | Entities included in financial statements, and specify which are included/excluded from this report.                     | 10 (10-K)   |  |                    |
| G4-18 | Process for defining report content and aspect boundaries  | 18-20       | All financial performance can be found within the 2014 Annual Report |                    |
| G4-19 | List all material Aspects identified in the process for defining report content  | 19          |  |                    |
| G4-20 | Boundary of the report within the organization   | 15, 26, 36  |  |                    |
| G4-21 | Boundary of the report outside the organization  | 15, 26, 36  |  |                    |
| G4-22 | Explanation of the effect of any re-statements of information provided in earlier reports                                | 45-47       |  |                    |
| G4-23 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report | 15, 45-47   |  |                    |

### STAKEHOLDER ENGAGEMENT

|       |   | PAGE NUMBER | SUPPLEMENTAL INFORMATION AND/OR OMISSION | EXTERNAL ASSURANCE |
|-------|---|-------------|--|--------------------|
| G4-24 | List of stakeholder groups engaged by the organization  | 20          |  |                    |
| G4-25 | Basis for identification and selection of stakeholders with whom to engage  | 18-20       |  |                    |
| G4-26 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group  | 20          |  |                    |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns | 18-20       |  |                    |

**REPORT PROFILE**

|       |  | PAGE NUMBER | SUPPLEMENTAL INFORMATION AND/OR OMISSION | EXTERNAL ASSURANCE |
|-------|--|-------------|--|--------------------|
| G4-28 | Reporting Period   | 13          | 2014 Calendar Year                       |                    |
| G4-29 | Date of most recent previous report                          | 13          | 2013 Calendar Year                       |                    |
| G4-30 | Reporting Cycle  | 13          | Calendar Year                            |                    |
| G4-31 | Contact information  | 13          | sustainability@hcpi.com                  |                    |
| G4-32 | "In accordance" option and location of the GRI content index | 13          | Core "in accordance"                     |                    |
| G4-33 | Assurance  | 13, 50      |  |                    |

**ETHICS AND INTEGRITY**

|       |  | PAGE NUMBER | SUPPLEMENTAL INFORMATION AND/OR OMISSION | EXTERNAL ASSURANCE |
|-------|--|-------------|--|--------------------|
| G4-56 | Internally developed statements of mission or values, codes of conduct, and principles relevant to sustainable development | 24          |  |                    |

**SPECIFIC STANDARD DISCLOSURES: ENVIRONMENTAL DMA**

|                          |  | PAGE NUMBER   | SUPPLEMENTAL INFORMATION AND/OR OMISSION  | EXTERNAL ASSURANCE |
|--------------------------|--|---------------|---|--------------------|
| <b>Environmental DMA</b> |  | 26            |   |                    |
| <b>Energy</b>            |  |               |   |                    |
| G4-EN3                   | Energy consumption within the organization                 | 28, 45        | Significant amounts of renewable fuel is not used nor is energy sold by HCP. Though energy mix purchased from providers may contain renewables, HCP does not track separately.  | X                  |
| G4-EN5                   | Energy intensity   | 28, 46        | 2014 Calendar Year  |                    |
| G4-EN6                   | Reduction of energy consumption                            | 27-28, 33-35  | 2014 Calendar Year  |                    |
| G4-EN7                   | Reductions in energy requirements of products and services | 27-28         | sustainability@hcpi.com   |                    |
| <b>Water</b>             |  |               |   |                    |
| G4-EN8                   |  | 29, 47        | All water is purchased directly from local utilities, therefore detail for sources of water throughout our portfolio is unknown. Alternative applications and associated savings are highlighted. As we scale water savings models, we will continue to build out our data tracking mechanisms. | X                  |
| <b>Emissions</b>         |  |               |   |                    |
| G4-EN15                  | Direct greenhouse gas (GHG) emissions (Scope 1)            | 28, 46        |   | X                  |
| G4-EN16                  | Energy indirect greenhouse gas (GHG) emissions (Scope 2)   | 28, 46        |   | X                  |
| G4-EN18                  | Greenhouse gas (GHG) emissions intensity                   | 28, 47        |   |                    |
| G4-EN19                  | Reduction of greenhouse gas (GHG) emissions                | 28, 33-35, 47 |   |                    |

**SPECIFIC STANDARD DISCLOSURES: ENVIRONMENTAL DMA**

|  | PAGE NUMBER   | SUPPLEMENTAL INFORMATION AND/OR OMISSION | EXTERNAL ASSURANCE |
|--|---|--|--------------------|
| <b>Effluents &amp; Waste</b>             |   |  |                    |
| G4-EN23                                  | Total weight of waste by type and disposal method                           | 30, 47                                   | X                  |
| <b>Supplier Environmental Assessment</b> |   |  |                    |
| G4-EN32                                  | Percentage of new suppliers that were screened using environmental criteria | 41                                       |                    |

**SPECIFIC STANDARD DISCLOSURES: LABOR PRACTICES & DECENT WORK DMA**

|   | PAGE NUMBER  | SUPPLEMENTAL INFORMATION AND/OR OMISSION | EXTERNAL ASSURANCE  |
|---|--|--|---|
| <b>Labor Practices &amp; Decent Work DMA</b>  |  |  |   |
| G4-LA1  | Total number and rates of new employee hires and employee turnover by age group, gender and region   | 38, 48                                   | X   |
| <b>Training &amp; Education</b>               |  |  |   |
| G4-LA9  | Average hours of training per year per employee by gender, and by employee category  | 38 (Partial)                             | Exact hours and breakdown by gender is not included as annual training requirements apply to all personnel regardless of gender or employment category. |
| G4-LA10                                       | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings                          | 38 (Partial)                             | Career endings programs have not been instituted at HCP.  |
| G4-LA11                                       | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category   | 38                                       |   |
| <b>Diversity &amp; Equal Opportunity</b>      |  |  |   |
| G4-LA12                                       | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity | 22, 48-49                                | X   |
| <b>Equal Remuneration for Women &amp; Men</b> |  |  |   |
| G4-LA13                                       | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation   | 38, 49                                   | X   |

**SPECIFIC STANDARD DISCLOSURES: PRODUCT RESPONSIBILITY DMA**

|   | PAGE NUMBER | SUPPLEMENTAL INFORMATION AND/OR OMISSION | EXTERNAL ASSURANCE |
|---|-------------|--|--------------------|
| <b>Product Responsibility DMA</b>                         | 36          |  |                    |
| <b>Product &amp; Service Labeling</b>                     |             |  |                    |
| G4-PR5 Results of surveys measuring customer satisfaction | 42          |  |                    |

**SPECIFIC STANDARD DISCLOSURES: SOCIETY DMA**

|   | PAGE NUMBER | SUPPLEMENTAL INFORMATION AND/OR OMISSION | EXTERNAL ASSURANCE |
|---|-------------|--|--------------------|
| <b>Society DMA</b>  | 36          |  |                    |
| <b>Local Communities</b>  |             |  |                    |
| G4-SO1 Percentage of operations with implemented local community engagement, impact assessments, and development programs | 40-41       |  |                    |

\*\* From page 14: We present reconciliations of certain non-GAAP financial measures to their most directly comparable GAAP measures as presented in our 2014 Annual Report on Form 10-K.

**BOARD OF**  
**Directors**

|                            |   |
|----------------------------|---|
| <b>Michael D. McKee</b>    | Chairman of the Board, HCP, Inc. and<br>Chief Executive Officer, Bentall Kennedy U.S., L.P. |
| <b>Lauralee E. Martin</b>  | President and Chief Executive Officer, HCP, Inc.  |
| <b>Brian G. Cartwright</b> | Senior Advisor at Patomak Global Partners, LLC  |
| <b>Christine N. Garvey</b> | Former Global Head of Corporate<br>Real Estate Services, Deutsche Bank AG                   |
| <b>David B. Henry</b>      | Vice Chairman, President and Chief Executive Officer, Kimco<br>Realty Corporation           |
| <b>James P. Hoffmann</b>   | Former Partner and Senior Vice President, Wellington<br>Management Company                  |
| <b>Peter L. Rhein</b>      | General Partner, Sarlot & Rhein   |
| <b>Joseph P. Sullivan</b>  | Chairman Emeritus of the Board of Advisors, RAND Health                                     |

**EXECUTIVE**  
**Management**

|                                      |  |
|--------------------------------------|--|
| <b>Lauralee E. Martin</b>            | President and Chief Executive Officer  |
| <b>Jonathan M.<br/>Bergschneider</b> | Executive Vice President — Life Science Estates  |
| <b>Paul F. Gallagher</b>             | Executive Vice President and Chief Investment Officer  |
| <b>Thomas D. Kirby</b>               | Executive Vice President — Acquisitions and Valuations   |
| <b>Thomas M. Klaritch</b>            | Executive Vice President — Medical Office Properties   |
| <b>James W. Mercer</b>               | Executive Vice President, Chief Administrative Officer,<br>General Counsel and Corporate Secretary |
| <b>Timothy M. Schoen</b>             | Executive Vice President and Chief Financial Officer   |
| <b>Susan M. Tate</b>                 | Executive Vice President (retired March 6, 2015)   |
| <b>Kendall K. Young</b>              | Executive Vice President — Senior Housing  |
| <b>Darren A. Kowalske</b>            | Senior Vice President — Strategy and Hospitals/Post-Acute  |

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**Nashville Office**  
3000 Meridian Boulevard  
Suite 200  
Franklin, TN 37067

**San Francisco Office**  
400 Oyster Point Boulevard  
Suite 409  
South San Francisco, CA  
94080

# our commitment



**STRATEGY**



**EXECUTION**



**RESULTS**

HCP



45 TREES  
PRESERVED FOR  
THE FUTURE



31,701,600  
BTUs ENERGY  
NOT CONSUMED



129 LBS  
WATER-BORNE WASTE  
NOT CREATED



4,142 LBS NET  
GREENHOUSE  
GASES PREVENTED



19,012 GAL  
WASTEWATER  
FLOW SAVED



2,103 LBS  
SOLID WASTE  
NOT GENERATED

This is a greener combined report. By producing our report in this manner, HCP reduces its impact on the environment in the ways listed above.