HCP, INC.
Form 10-K
February 27, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

or

o **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.)
3760 Kilroy Airport Way, Suite 300 **Long Beach, California** (Address of principal executive offices)	**90806** (Zip Code)

Registrant's telephone number, including area code **(562) 733-5100**

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
7.25% Series E Cumulative Redeemable Preferred Stock	New York Stock Exchange
7.10% Series F Cumulative Redeemable Preferred 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 ý No o

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 o No ý

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 ý No o

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. o

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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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: $7.5 billion.

As of February 17, 2009 there were 253,929,108 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's 2009 Annual Meeting of Stockholders have been incorporated by reference into Part III of this Report.

Table of Contents

Table of Contents

PART I

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.

ITEM 1. Business

Business Overview

HCP, an S&P 500 company, invests primarily in real estate serving the healthcare industry in the United States. We are a self-administered, Maryland real estate investment trust ("REIT") organized in 1985. We are headquartered in Long Beach, California, with offices in Chicago, Illinois; Nashville, Tennessee; and San Francisco, California. We acquire, develop, lease, manage and dispose of healthcare real estate and provide financing to healthcare providers. Our portfolio is comprised of investments in the following five healthcare segments: (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital, and (v) skilled nursing. We make investments within our five healthcare segments using the following five investment products: (i) properties under lease, (ii) investment management, (iii) developments, (iv) mezzanine loans, and (v) non-managing member LLCs ("DownREITs").

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:

- Compelling demographics driving the demand for healthcare services;
- Specialized nature of healthcare real estate investing; and
- Ongoing consolidation of the fragmented healthcare real estate sector.

Our website address is *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 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 United States ("U.S.") Securities and Exchange Commission ("SEC").

Healthcare Industry

Healthcare is the single largest industry in the U.S. based on Gross Domestic Product ("GDP"). According to the National Health Expenditures report dated January 2009 by the Centers for Medicare and Medicaid Services ("CMS"), the healthcare industry was projected to represent 17.6% of U.S. GDP in 2009.

Healthcare Expenditures Rising as a Percentage of GDP

(1) Compound Annual Growth Rate ("CAGR").

Table of Contents

Senior citizens are the largest consumers of healthcare services. According to CMS, on a per capita basis, the 75-year and older segment of the population spends 76% more on healthcare than the 65 to 74-year-old segment and over 200% more than the population average.

U.S. Population Over 65 Years Old

Source: U.S. Census Bureau, the Statistical Abstract of the United States.

Business Strategy

Our primary goal is to increase shareholder value through profitable growth. Our investment strategy to achieve this goal is based on three principles opportunistic investing, portfolio diversification and conservative financing.

Opportunistic Investing

We make investment decisions that are expected to drive profitable growth and create shareholder value. We attempt to position ourselves to create and take advantage of situations to meet our goals and investment criteria.

Portfolio Diversification

We believe in maintaining a portfolio of healthcare investments diversified by segment, geography, operator, tenant and investment product. Diversification reduces the likelihood that a single event would materially harm our business and allows us to take advantage of opportunities in different markets based on individual market dynamics. While pursuing our strategy of diversification, 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 product, geographic location, the number of properties which we may lease to a single operator or tenant, or loans we may make to a single borrower. With investments in multiple segments and investment products, we can focus on opportunities with the best risk/reward profile for the portfolio as a whole.

Conservative Financing

We believe a conservative balance sheet is important to our ability to execute our opportunistic investing approach. We strive to maintain a conservative balance sheet by actively managing our debt-to-equity levels and maintaining multiple sources of liquidity, such as our revolving line of credit, access to capital markets and secured debt lenders and our ability to divest of assets. Our debt is primarily

Table of Contents

fixed rate, which reduces the impact of rising interest rates on our operations. Generally, we attempt to match the duration of our investments with fixed-rate financing.

We may structure transactions as master leases, require operator or tenant insurance and indemnifications, obtain enhancements in the form of guarantees, letters of credit or security deposits, and take other measures to mitigate risk. 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 or arrange for other short-term borrowings from banks or other sources. We arrange for longer-term financing through offerings of securities, placement of mortgage debt and capital from other institutional lenders and equity investors.

We specifically incorporate by reference into this section the information set forth in Item 7, "2008 Transaction Overview," included elsewhere in this report.

Competition

Investing in real estate is highly competitive. We face 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 have greater resources and lower costs of capital than us. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. Our ability to compete is also impacted by 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.

Rental income from our facilities is dependent on the ability of our operators and tenants to compete with other operators and tenants on a number of different levels, including: the quality of care provided, reputation, 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 the surrounding area, and the financial condition of our tenants and operators. Private, federal and state payment programs and 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 "Risk Factors" in Item 1A.

Healthcare Property Types

Senior housing. At December 31, 2008, we had interests in 264 senior housing facilities, including 25 facilities owned by our Investment Management Platform[1]. Senior housing facilities include independent living facilities ("ILFs"), assisted living facilities ("ALFs") and continuing care retirement communities ("CCRCs"), which cater to different segments of the elderly population based upon their needs. Services provided by our operators or tenants 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 Medicaid and Medicare. 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 by their peers with services such as housekeeping, meals and activities. These residents generally do not need assistance with activities of daily living ("ADL"), such as bathing, eating and dressing. However, residents have the option to contract for these services. At December 31, 2008, we had interests in 49 ILFs.

> *Assisted Living Facilities.* ALFs are licensed care facilities that provide personal care services, support and housing for those who need help with ADL yet require limited medical care. The programs and services may include transportation, social activities, exercise and fitness programs,

Table of Contents

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 offer higher levels of personal assistance for residents with Alzheimer's disease or other forms of dementia. Levels of personal assistance are based in part on local regulations. At December 31, 2008, we had interests in 200 ALFs.

Continuing Care Retirement Communities. CCRCs provide housing and health-related services under long-term contracts. This alternative is appealing to residents as it eliminates the need for relocating when health and medical needs change, thus allowing residents to "age in place." Some CCRCs require a substantial entry or buy-in fee and most also charge monthly maintenance fees in exchange for a living unit, meals and some health services. CCRCs typically require the individual to be in relatively good health and independent upon entry. At December 31, 2008, we had interests in 15 CCRCs.

Our senior housing segment accounted for approximately 34%, 40% and 38% of total revenues for the years ended December 31, 2008, 2007 and 2006, respectively. The following table provides information about our senior housing operator concentration for the year ended December 31, 2008:

Operators	**Percentage of Segment Revenues**	**Percentage of Total Revenues**
Sunrise Senior Living, Inc. ("Sunrise")[2]	44%	15%
Brookdale Senior Living Inc. ("Brookdale")	19%	7%

(1) Investment Management Platform represents the following joint ventures: (i) HCP Ventures II, (ii) HCP Ventures III, LLC, (iii) HCP Ventures IV, LLC, and (iv) the HCP Life Science ventures.

(2) Certain of our properties are leased to tenants who have entered into management contracts with Sunrise to operate the respective property on their behalf. To determine our concentration of revenues generated from properties operated by Sunrise, we aggregate revenue from these tenants with revenue generated from the two properties that are leased directly to Sunrise. On December 1, 2008, we transitioned an 11-property portfolio to Emeritus Corporation that was previously operated by Sunrise. The percentage of segment revenues and total revenues for Sunrise includes revenues from the transferred properties for the 11-month period preceding the transfer date.

In addition to the operator concentration above, HCP Ventures II, a 35% owned joint venture, leases 25 senior housing facilities to Horizon Bay Retirement Living. During the year ended December 31, 2008, HCP Ventures II's rental and related revenues were $83.4 million.

Life science. At December 31, 2008, we had interests in 104 life science properties, including eight facilities owned by our Investment Management Platform. These properties contain laboratory and office space primarily for biotechnology and pharmaceutical companies, scientific research institutions, government agencies and other organizations involved in the life science industry. While these properties contain similar characteristics to commercial office buildings, they generally contain more advanced electrical, mechanical and HVAC systems. The facilities generally have equipment including emergency generators, fume hoods, lab bench tops, and related amenities. In many instances life science tenants make significant investments to improve the space in addition to a landlord's improvement allowance to accommodate biology or chemistry research initiatives. Life science properties are primarily configured in business park or campus settings and include multiple facilities and buildings. The business park and campus settings allow us the opportunity to provide flexible, contiguous/adjacent expansion that accommodates the growth of existing tenants in place. Our properties are located in well established geographical markets known for scientific research, including San Francisco, San Diego and Salt Lake City.

Table of Contents

Our life science segment accounted for approximately 24%, 11% and 4% of total revenues for the years ended December 31, 2008, 2007 and 2006, respectively. The following table provides information about our life science tenant concentration for the year ended December 31, 2008:

Tenants	Percentage of Segment Revenues	Percentage of Total Revenues
Genentech, Inc. ("Genentech")	17%	4%
Amgen, Inc.	13%	3%

Medical office. At December 31, 2008, we had interests in 251 medical office buildings ("MOBs"), including 63 facilities owned by our Investment Management Platform. These facilities 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 more 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. Our MOBs are typically multi-tenant properties leased to multiple healthcare providers (hospitals and physician practices) and are primarily located on hospital campuses. Approximately 83% of our MOBs, based on square feet, are located on hospital campuses.

Our medical office segment accounted for approximately 30%, 36% and 40% of total revenues for the years ended December 31, 2008, 2007 and 2006, respectively. During the year ended December 31, 2008, HCA, Inc. ("HCA"), as our tenant, contributed 15% of our medical office segment revenues.

Hospital. At December 31, 2008, we had interests in 24 hospitals, including four facilities owned by our Investment Management Platform. Services provided by our operators and tenants in these facilities are paid for by private sources, third-party payors (e.g., insurance and Health Maintenance Organizations ("HMOs")), or through the Medicare and Medicaid programs. Our hospital property types include acute care, long-term acute care, specialty and rehabilitation hospitals. Our hospitals are all leased to single tenants or operators under triple-net lease structures.

Our hospital segment accounted for approximately 8%, 9% and 11% of total revenues for the years ended December 31, 2008, 2007 and 2006, respectively. The following table provides information about our hospital operator/tenant concentration for the year ended December 31, 2008:

Operators/Tenants	Percentage of Segment Revenues	Percentage of Total Revenues
Tenet Healthcare Corporation ("Tenet").	46%	4%
HCA	26%	7%(1)

(1) Percentage of total revenues from HCA includes revenues earned from both our medical office and hospital segments. In addition to lease-related revenues, we earned $24 million of interest income during the year ended December 31, 2008 from marketable debt securities issued by HCA. Including interest earned from marketable debt securities, we recognized income of $95 million from HCA during the year ended December 31, 2008.

Skilled nursing. At December 31, 2008, we had interests in 51 skilled nursing facilities ("SNFs"). SNFs offer restorative, rehabilitative and custodial nursing care for people not requiring the more extensive and sophisticated 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 skilled nursing facilities provide some of the foregoing services on an out-patient basis. Skilled nursing services provided by our operators and tenants in these facilities are primarily paid for either

Table of Contents

by private sources or through the Medicare and Medicaid programs. All of our SNFs are leased to single tenants under triple-net lease structures.

Our skilled nursing segment accounted for approximately 4%, 4% and 7% of total revenues for the years ended December 31, 2008, 2007 and 2006, respectively. The following table provides information about our skilled nursing operator/tenant concentration for the year ended December 31, 2008:

Operators/Tenants	**Percentage of Segment Revenues**	**Percentage of Total Revenues**
Covenant Care	25%	1%
Kindred Healthcare, Inc.	22%	1%
Formation Capital	19%	1%

In addition to our investments in assets under leases, our skilled nursing segment also includes an investment in mezzanine loans to HCR ManorCare. These loans have an aggregate face value of $1.0 billion, which we purchased, at a discount of approximately $100 million, as part of the financing for The Carlyle Group's $6.3 billion purchase of HCR ManorCare. These loans bear interest on their face amounts at a floating rate of one-month LIBOR plus 4.0%, and mature in January 2013. For the year ended December 31, 2008, we earned approximately $84 million of interest income from these mezzanine loans.

Investment Products

Properties under lease. At December 31, 2008, our investment in properties leased to third parties aggregated approximately $10 billion representing 586 properties, including 30 properties accounted for as direct financing leases ("DFLs"). We primarily generate revenue by leasing properties under long-term leases. Most of our rents and other earned income from leases are received under triple-net leases or leases that provide for substantial recovery of operating expenses. However, some of our medical office building ("MOBs") and life science facility rents are structured under gross or modified gross leases. Accordingly, for such gross or modified gross leases, we incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance.

Our ability to grow rental income from properties under lease depends, in part, on our ability to (i) increase rental income and other earned income from leases by increasing rental rates and occupancy levels, (ii) maximize tenant recoveries and (iii) control non-recoverable operating expenses. Most of our leases include annual base rent escalation clauses that are either predetermined fixed increases or are a function of an inflation index.

Investment Management. At December 31, 2008, our Investment Management Platform aggregated $2.0 billion in investments, representing 100 properties. We co-invest in real estate properties with institutional investors through joint ventures structured as partnerships or limited liability companies. We target institutional investors with long-term investment horizons who seek to benefit from our expertise in healthcare real estate. Predominantly, we retain minority interests in the joint ventures ranging from 20% to 63% and serve as the managing member. These ventures generally allow us to earn acquisition and asset management fees, and have the potential for promoted interests or incentive distributions based on performance of the joint venture.

Developments. At December 31, 2008, our investment in properties under development, including redevelopment, or land held for future development, aggregated $577 million. We generally commit to development projects that are at least 50% pre-leased or when we believe that market conditions will support speculative construction. We work closely with our local real estate service providers, including brokerage, property management, project management and construction management companies to

Table of Contents

assist us in evaluating development proposals and completing developments. Our development investments are primarily in our life science and medical office segments.

Mezzanine loans. At December 31, 2008, our mezzanine loans and other debt investments aggregated $1.3 billion. Our mezzanine loans are generally secured by a pledge of ownership interests of an entity or entities, which directly or indirectly own properties, and are subordinate to more senior debt, including mortgages and more senior mezzanine loans. Our other debt investments consist primarily of marketable debt securities issued by healthcare providers and mortgages secured by healthcare real estate or real estate interests.

DownREITs. Our DownREIT partnership structure enables us to acquire and hold real estate properties in an operating partnership. In connection with the formation of certain DownREIT partnerships, many partners contribute appreciated real estate to the DownREIT in exchange for DownREIT units that can be redeemed, or, at our election, exchanged at some future date for shares of our stock. These contributions are generally tax-deferred, so that the pre-contribution gain related to the property is not taxed to the contributing partner. However, if the contributed property is later sold by the partnership, the unamortized pre-contribution gain that exists at the date of sale is specially allocated and taxed to the contributing partners. Since the formation of our first DownREIT partnership, we have acquired more than $1.0 billion of properties through DownREIT structures.

Portfolio Summary

At December 31, 2008, we managed $13.2 billion of investments owned in our Owned Portfolio and Investment Management Platform. At December 31, 2008, we also owned $577 million of assets under development, including redevelopment, or land held for future development.

Owned Portfolio

As of December 31, 2008, our properties under lease and debt investments in our Owned Portfolio consisted of the following (square feet and dollars in thousands):

				2008	
Segment	**Number of Properties**	**Capacity(1)**	**Investment(2)**	**NOI(3)**	**Interest Income(4)**
Senior housing	239	25,822 Units	$ 4,145,965	$ 337,533	$ 1,184
Life science	96	6,126 Sq. ft.	2,810,577	198,788	
Medical office	188	12,952 Sq. ft.	2,125,280	173,442	
Hospital	20	2,620 Beds	1,008,506	81,518	44,515
Skilled nursing	51	6,123 Beds	1,172,212	35,982	85,858
Total	594		$ 11,262,540	$ 827,263	$ 131,557

See Note 16 to the Consolidated Financial Statements in this report for additional information on our business segments.

(1) Senior housing facilities are measured in units (e.g., studio, one or two bedroom units). Life science facilities and medical office buildings are measured in square feet. Hospitals and skilled nursing facilities are measured in licensed bed count.

(2) Investment represents (i) the carrying amount of real estate assets, including intangibles, after adding back accumulated depreciation and amortization, excluding assets held for sale and classified as discontinued operations and (ii) the carrying amount of direct financing leases and debt investments, excluding interest accretion.

(3) 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 the reconciliation of NOI to net income for 2008, refer to Note 16 in our Consolidated Financial Statements.

(4)

Interest income represents income earned from our mezzanine loans and other debt investments, which is included in interest and other income, net in our consolidated statements of income.

Table of Contents

At December 31, 2008, in addition to our investments in properties under lease and debt investments, we own $577 million in assets under development, including redevelopment, and land held for future development.

Investment Management Platform

As of December 31, 2008, our Investment Management Platform consisted of the following properties under lease (square feet and dollars in thousands):

Segment	Number of Properties	Capacity[1]	HCP's Ownership Interest	Joint Venture Investment[2]	Total Revenues	Total Operating Expenses
Senior housing	25	5,629 Units	35%	$ 1,100,085	$ 83,421	$ 4
Life science	8	389 Sq. ft.	20 - 63%	104,182	12,022	1,993
Medical office	63	3,369 Sq. ft.	20 - 30%	690,652	78,226	32,189
Hospital	4	N/A[3]	20%	81,373	7,920	862
Total	100			$ 1,976,292	$ 181,589	$ 35,048

(1) Senior housing facilities are measured in units (e.g., studio, one or two bedroom units), life science facilities and medical office buildings are measured in square feet and hospitals are measured in licensed bed count.

(2) Represents the joint ventures' carrying amount of real estate assets, including intangibles, after adding back accumulated depreciation and amortization.

(3) Information not provided by the respective operator or tenant.

Employees of HCP

At December 31, 2008, we had 144 full-time employees, none of whom are subject to a collective bargaining agreement.

Taxation of HCP, Inc.

HCP, Inc. believes that it has operated in such a manner as to qualify for taxation as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended (the "Code"), commencing with its taxable year ended December 31, 1985, and it intends to continue to operate in such a manner. No assurance can be given that HCP, Inc. has operated or will be able to continue to operate in a manner so as to qualify or to remain so qualified. For a description of the risks associated with HCP, Inc.'s REIT structure and the related tax provisions governing HCP, Inc., see "Risk Factors Tax and REIT-Related Risks" in Item 1A. of this report. This summary is qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretations thereof.

If HCP, Inc. qualifies for taxation as a REIT, it will generally not be required to pay federal corporate income taxes on the portion of its net income that is currently distributed to stockholders. This treatment substantially eliminates the "double taxation" (i.e., taxation at the corporate and stockholder levels) that generally results from investment in a corporation. However, HCP, Inc. will be required to pay federal income tax under certain circumstances.

The Code defines a REIT as a corporation, trust or association which meets the following statutory requirements: (i) it is managed by one or more trustees or directors; (ii) its beneficial ownership is evidenced by transferable shares, or by transferable certificates of beneficial interest; (iii) it would be taxable as a domestic corporation, but for Sections 856 through 860 of the Code; (iv) it is neither a financial institution nor an insurance company subject to certain provisions of the Code; (v) its beneficial ownership is held by 100 or more persons; (vi) during the last half of each taxable year

Table of Contents

not more than 50% in value of its outstanding stock is owned, actually or constructively, by five or fewer individuals; and (vii) it meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets. The Code provides that conditions (i) to (iv), inclusive, must be met during the entire taxable year and that condition (v) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. In addition, conditions (v) and (vi) do not apply in the first taxable year for which an election to be treated as a REIT is effective.

At the close of each taxable year, HCP, Inc. must meet two gross income requirements. First, for each taxable year, at least 75% of HCP, Inc.'s gross income (excluding gross income from "prohibited transactions" (as defined below), certain hedging transactions entered into after July 30, 2008, and certain foreign currency gains recognized after July 30, 2008) must be derived directly or indirectly from investments relating to real property, including rents from real property, or mortgages, certain mezzanine loans or from certain types of temporary investment income. Second, at least 95% of HCP, Inc.'s gross income for each taxable year (excluding gross income from prohibited transactions, certain hedging transactions, and certain foreign currency gains recognized after July 30, 2008) must be derived from income that qualifies under the 75% test and other dividends, interest and gain from the sale or other disposition of stock or securities. A "prohibited transaction" is a sale or other disposition of property (other than foreclosure property) held for sale to customers in the ordinary course of business. Under newly enacted legislation, after January 1, 2009, rents received by HCP, Inc. from the lease of certain healthcare properties to its taxable REIT subsidiaries (each a "TRS" and collectively, "TRSs") may qualify as rents for purposes of the gross income requirements if the property is operated on behalf of the TRS by a person that is an independent contractor and certain other requirements are met.

At the close of each quarter of HCP, Inc.'s taxable year, it must also satisfy four tests relating to the nature of its assets. First, at least 75% of the value of HCP, Inc.'s total assets must be represented by real estate assets (including shares of stock of other REITs), cash, cash items, or government securities. For purposes of this test, the term "real estate assets" generally means real property (including interests in real property and mortgages, and certain mezzanine loans) and shares in other REITs, as well as any stock or debt instrument attributable to the investment of the proceeds of a stock offering or a public debt offering with a term of at least five years, but only for the one-year period beginning on the date the proceeds are received. Second, not more than 25% of HCP, Inc.'s total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class and except for certain investments in other REITs, "qualified REIT subsidiaries" and TRSs, the value of any one issuer's securities owned by HCP, Inc. may not exceed 5% of the value of HCP, Inc.'s total assets, and HCP, Inc. may not own more than 10% of the vote or value of the securities of any one issuer. Solely for purposes of the 10% value test, however, certain securities including, but not limited to, securities having specified characteristics ("straight debt"), loans to an individual or an estate, obligations to pay rents from real property and securities issued by a REIT, are disregarded as securities. Fourth, not more than 20% (25% for taxable years beginning on or after January 1, 2009) of the value of HCP, Inc.'s total assets may be represented by securities of one or more TRSs.

HCP, Inc., directly and indirectly, owns interests in various partnerships and limited liability companies. In the case of a REIT that is a partner in a partnership or a member of a limited liability company that is treated as a partnership under the Code, for purposes of the REIT asset and income tests, the REIT will be deemed to own its proportionate share of the assets of the partnership or limited liability company and will be deemed to be entitled to its proportionate share of gross income of the partnership or limited liability company, in each case, determined in accordance with the REIT's capital interest in the entity (subject to special rules related to the 10% asset test). The ownership of an interest in a partnership or limited liability company by a REIT may involve special tax risks,

Table of Contents

including the challenge by the Internal Revenue Service of the allocations of income and expense items of the partnership or limited liability company, which would affect the computation of taxable income of the REIT, and the status of the partnership or limited liability company as a partnership (as opposed to an association taxable as a corporation) for federal income tax purposes**.**

HCP, Inc. also owns interests in a number of subsidiaries which are intended to be treated as qualified REIT subsidiaries ("QRS"). A corporation will qualify as a qualified REIT subsidiary of HCP, Inc. if HCP, Inc. owns 100% of the outstanding stock of the corporation directly or through other disregarded entities, and HCP, Inc. does not elect with the subsidiary to treat it as a "taxable REIT subsidiary," (or "TRS"), as described below. A QRS is not treated as a separate corporation for federal income tax purposes and all assets, liabilities and items of income, deduction and credit of such subsidiaries will be treated as the assets, liabilities and such items of HCP, Inc. for purposes of the REIT income and asset tests. If any partnership, limited liability company or QRS in which HCP, Inc. owns an interest were treated as a corporation (other than a TRS or a REIT) for federal income tax purposes, HCP, Inc. could fail to satisfy the REIT income and asset tests described above and could therefore fail to qualify as a REIT, unless certain relief provisions apply. Except with respect to certain entities in which HCP, Inc. owns less than a 10% interest, HCP, Inc. believes that each of the partnerships, limited liability companies and subsidiaries (other than TRSs), in which it owns an interest will be treated for tax purposes as a partnership, disregarded entity (in the case of a 100% owned partnership or limited liability company), REIT or QRS, as applicable, although no assurance can be given that the Internal Revenue Service will not successfully challenge the status of any such entity.

As of December 31, 2008, HCP, Inc. and HCP Life Science REIT, Inc. ("HCP Life Science REIT") owned interests in 13 subsidiaries which have elected to be TRSs. A REIT may own any percentage of the voting stock and value of the securities of a corporation which jointly elects with the REIT to be a TRS, provided certain requirements are met. A TRS generally may engage in any business, including the provision of customary or noncustomary services to tenants of its parent REIT and of others, except a TRS may not directly or indirectly manage or operate a lodging or healthcare facility or directly or indirectly provide to any other person (under a franchise, license or otherwise) rights to any brand name under which any lodging or health care facility is operated. A TRS is treated as a regular corporation and is subject to federal income tax and applicable state income taxes at regular corporate rates. In addition, a 100% tax may be imposed on a REIT if the arrangement between the REIT or its tenants and its TRS are not on arm's length terms and, as a result, the REIT's rents or other income or the TRS's deductions are overstated.

In order to qualify as a REIT, HCP, Inc. is required to distribute dividends (other than capital gain dividends) to its stockholders in an amount at least equal to (A) the sum of (i) 90% of its "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and its net capital gain) and (ii) 90% of the net income, if any (after tax), from foreclosure property, minus (B) the sum of certain items of non-cash income. Such distributions must be paid, or treated as paid, in the taxable year to which they relate. At HCP, Inc.'s election, a distribution will be treated as paid in a taxable year if it is declared before HCP, Inc. timely files its tax return for such year and is paid on or before the first regular dividend payment after such declaration, provided such payment is made during the twelve-month period following the close of such year. To the extent that HCP, Inc. does not distribute all of its net capital gain or distributes at least 90%, but less than 100%, of its "real estate investment trust taxable income," as adjusted, HCP, Inc. will be required to pay tax on the undistributed amount at regular corporate tax rates. Furthermore, if HCP, Inc. fails to distribute during each calendar year at least the sum of (i) 85% of its ordinary income for such year, (ii) 95% of its capital gain net income for such year and (iii) any undistributed taxable income from prior periods, HCP, Inc. would be required to pay a 4% excise tax on the excess of such required distributions over the amounts actually distributed. While historically HCP, Inc. has satisfied the distribution requirements discussed above by making cash distributions to its shareholders, a REIT is permitted to satisfy these requirements by making distributions of cash or other property, including, in limited circumstances, its own stock. For distributions with respect to taxable years ending on or before December 31, 2009, recent Internal Revenue Service guidance allows us to satisfy up to 90% of the distribution requirements discussed above through the distribution of shares of HCP, Inc. common stock, if certain conditions are met.

On July 27, 2007, we formed HCP Life Science REIT, Inc. ("HCP Life Science REIT") which elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with its initial taxable year ended December 31, 2007. We believe that HCP Life Science REIT has operated in such a manner so as to qualify for taxation as a REIT under the Code commencing with its initial taxable year and HCP Life Science REIT intends to continue to operate in such a manner. Provided that HCP Life Science REIT qualifies as a REIT, HCP, Inc.'s interest in HCP Life Science REIT is treated as a qualifying real estate asset for purposes of the REIT asset requirements and any dividend income or gains derived by HCP, Inc. from the stock of HCP Life Science REIT is generally treated as income that qualifies for purposes of the REIT income requirements. To qualify as a REIT, HCP Life Science REIT must independently satisfy the various REIT qualification requirements, including distributions of REIT taxable income. If HCP Life Science REIT were to fail to qualify as a REIT, it would be treated as a regular taxable corporation and its income would be subject to federal income tax. In addition, a failure of HCP Life Science REIT to qualify as a REIT could have an adverse effect on HCP, Inc.'s ability to comply with the REIT asset and income requirements described above, and thus its ability to qualify as a REIT.

If HCP, Inc. or HCP Life Science REIT fail to qualify for taxation as a REIT in any taxable year and certain relief provisions do not apply, the applicable REIT will be required to pay tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Dividend distributions to stockholders in any year in which it fails to qualify will not be deductible by the applicable REIT nor will such distributions be required to be made. Unless entitled to relief under specific statutory provisions, the applicable REIT will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. Failure to qualify for even one year could substantially reduce distributions to stockholders and could result in us incurring substantial indebtedness (to the extent borrowings are feasible) or liquidating substantial investments in order to pay the resulting taxes.

In addition to federal income taxes, HCP, Inc. and HCP Life Science REIT may be required to pay state and local taxes in various jurisdictions.

HCP, Inc. and HCP Life Science REIT may also be subject to certain other taxes applicable to REITs, including taxes in lieu of disqualification as a REIT, on undistributed income, on income from prohibited transactions, on net income from foreclosure property and on built-in gains from the sale of certain assets acquired from C corporations in tax-free transactions (including the assets of Slough Estates USA Inc. ("SEUSA") held by HCP Life Science REIT) during a specified time period.

Government Regulation, Licensing and Enforcement

Overview

Our tenants and operators are typically subject to extensive and complex federal, state and local healthcare laws and regulations relating to fraud and abuse practices, government reimbursement, licensure and certificate of need and similar laws governing the operation of healthcare facilities. 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 regime 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

Table of Contents

laws may vary from one jurisdiction to another. Changes in laws and regulations and 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 "Risk Factors" in Item 1A.

We seek to mitigate the risk to us resulting from the significant healthcare regulatory risks faced by our tenants and operators by diversifying our portfolio among property types and geographical areas, diversifying our tenant and operator base to limit our exposure to any single entity, and seeking tenants and operators who are not primarily dependent on Medicare or Medicaid reimbursement for their revenues. As of December 31, 2008, our investments in the senior housing, life science, medical office, skilled nursing and hospital segments represented approximately 36%, 28%, 18%, 10% and 8% of our portfolio, respectively, based on investment amount. For the year ended December 31, 2008, we estimate that approximately 8% and 24% of our tenants' and operators' revenues were derived from Medicare and Medicaid, respectively, based on information provided by our tenants and operators.

The following is a discussion of certain laws and regulations generally applicable to our operators and in certain cases, to us, as well as descriptions of some of the specific risks to which different types of our tenants and operators are subject.

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 claims 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 1997, 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 operators and tenants are subject to these laws, and some of them may in the future become the subject of governmental enforcement actions if they fail to comply with applicable laws. A violation of any of these federal and state fraud and abuse laws and regulations could negatively impact our tenants' and operators' liquidity, financial condition and results of operations, which could negatively impact their ability to make payments under their agreements with us, or otherwise comply with the terms of such agreements.

Reimbursement

Sources of revenue for many of our tenants and operators include, among other sources, governmental healthcare programs, such as the federal Medicare program and state Medicaid programs, and non-governmental payors, such as insurance carriers and health maintenance organizations. As federal and state governments focus on healthcare reform initiatives, and as many states face significant 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. In addition, the failure of any of our tenants or operators to comply with various laws and regulations could jeopardize their certification and ability to continue to participate in federal and state healthcare programs, including the Medicare and Medicaid programs.

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. Many states require certain healthcare providers to obtain a "certificate of need," which requires prior approval for the construction, expansion and closure of certain healthcare facilities. Further, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials and operate equipment. Failure to comply with any of these laws could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from federal and state healthcare programs, loss of license or closure of the facility. 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. Failure to comply with these laws or to obtain required certificates of need may have an adverse effect on the operations and financial condition of the tenants and operators of properties owned by or mortgaged to us, and therefore may adversely impact us.

Life Science Facilities

While certain of our life science tenants include some well-established companies, other such 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 requires significant investments of time and money, 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. Further, even after a life science company has gained regulatory approval to market a product, the product still presents regulatory risks. Such risks may include, among others, the possible later discovery of safety concerns, changes in reimbursement policies for the product, competition from new products, litigation over the validity or infringement of the underlying intellectual property, and ultimately the expiration of patent protection for the product. All these factors may have an adverse effect on the operations and financial condition of our life science tenants and therefore may adversely impact us.

Senior Housing Entrance Fee Communities

Certain of the senior housing facilities mortgaged to or owned by us 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. Such oversight and the rights of residents within these entrance fee communities may have an adverse effect on the operations and financial condition of our tenants and operators and therefore may adversely impact us.

Table of Contents

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 myriad 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 the owner's or secured lender's liability therefore could exceed or impair the value of the property, and/or the assets of the owner or secured lender. 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 revenues. For a description of the risks associated with environmental matters, see "Risk Factors" in Item 1A of this report.

ITEM 1A. Risk Factors

Before deciding whether to invest in HCP, you should carefully consider the risks described below as well as the risks described elsewhere in this report, which risks are incorporated by reference into this section. The risks and uncertainties described herein are not the only ones facing us and there may be additional risks that we do not presently know of or that we currently consider not likely to have a significant impact on us. All of these risks could adversely affect our business, results of operations and financial condition.

As the owner of healthcare and other real estate facilities, we are subject to a number of risks and uncertainties. Certain of these risks and uncertainties are associated directly with the business of owning and leasing real estate generally, but others are associated with our specific business model or other attributes of HCP. For example, as described elsewhere in this report, most of our properties are operated by and/or leased to third parties. Accordingly, adverse developments with respect to these third parties may materially adversely affect us. In addition, we operate in a manner intended to allow us to qualify as a REIT, which involves the application of highly technical and complex laws and regulations. We believe that the risks facing our company generally fall into the following four categories:

- Risks related to HCP

- Risks related to our operators and tenants

Risks related to tax matters including REIT-related risks

Risks related to our organizational structure

Risks Related to HCP

The recent market disruptions may materially adversely affect our operating results and financial condition.

The global financial markets are currently undergoing pervasive and fundamental disruptions. The continuation or intensification of any such volatility may have a material adverse effect on our financial condition or results of operations. Among other things, the capital markets have recently experienced extreme pricing volatility, dislocations and liquidity disruptions, all of which have exerted downward pressure on stock prices, widened credit spreads on prospective debt financing and led to unprecedented declines in the market values of U.S. and foreign stock exchanges. The recent dislocations in the debt markets have reduced the amount of capital that is available to finance real estate, which, in turn, has led to reduced property values and caused an overall slowdown of real estate transaction activity, all of which could negatively impact our operating results and financial condition.

The current U.S. and global economic and financial crisis has also severely strained the credit markets resulting in the bankruptcies and mergers of large financial institutions and significant investment in and control by government bodies of financial institutions to avoid further illiquidity and bank failures. At times, certain segments of the credit market have frozen with banks no longer willing to make loans. The continuation or intensification of current levels of market disruption and volatility could impact our ability to obtain new financing or refinance our existing debt as it becomes due.

The recent volatility may also lead to significant uncertainty in the valuation, or in the stability of the value, of our investments and those of our joint ventures, that could 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 an impairment charge in earnings. Additionally, certain fees we generate from our joint ventures are dependent upon the value of the investments held by such joint ventures or the level of contributions we make to the property fund. If property values or our level of contributions decrease, certain fees generated by our joint ventures may also decrease.

We rely on external sources of capital to fund future capital needs and if our access to such capital is limited or on unfavorable terms, we may not be able to meet commitments as they become due or make future investments necessary to grow our business.

In order to qualify as a REIT under the Code and to avoid the nondeductible excise tax, we are generally required, among other things, to distribute to our stockholders each year at least 90% of our "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and net capital gains). For distributions with respect to the taxable years ending on or before December 31, 2009, recent Internal Revenue Service guidance allows us to satisfy up to 90% of this requirement through the distribution of shares of HCP, Inc. common stock, if certain conditions are met. We may not be able to fund, from cash retained from operations, all future capital needs, including capital needs in connection with acquisitions and development activities. If we are unable to obtain needed capital at all or only on unfavorable terms from these sources, we might not be able to make the investments needed to grow our business and to meet our obligations and commitments as they mature. As a result, we 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:

further weakening of the U.S. and global economies and the possibility of a prolonged recession;

Table of Contents

- 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;
- the market's perception of our growth potential and our current and potential future earnings and cash distributions;
- the ratings of our debt and preferred securities;
- our degree of financial leverage and operational flexibility;
- financial deterioration of our lenders that 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 in the market value of our properties;
- the value of our mezzanine loans and other debt investments;
- the financial performance of our operators, tenants and borrowers;
- issues facing the healthcare industry, including regulations and government reimbursement policies;
- changes in rules or practices governing our financial and SEC reporting; and
- civil disturbances, natural disasters or acts of war.

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

We currently have a credit rating of Baa3 (stable) from Moody's Investors Service ("Moody's"), BBB (stable) from Standard & Poor's Ratings Service ("S&P") and BBB (positive) from Fitch Ratings ("Fitch") on our senior unsecured debt securities, and Ba1 (stable) from Moody's, BB+ (stable) from S&P and BBB- (positive) from Fitch on our preferred equity securities. The credit ratings of our senior unsecured debt and preferred equity securities are based on our operating performance, liquidity and leverage ratios, overall financial position and other factors employed by the credit rating agencies in their rating analyses of us. 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. Because we depend on external sources of capital to fund our acquisition and development activities, adverse changes to our credit ratings could negatively impact our acquisition and development activities, future growth opportunities, financial condition and the market price of our securities.

Our level of indebtedness could materially adversely affect us in many ways, including reducing funds available for other business purposes and reducing our operational flexibility.

Our indebtedness as of December 31, 2008 was approximately $5.9 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 preferred equity securities and require a substantial portion of our cash flow to make 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 limit our ability to adjust rapidly to changing market conditions, 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. Further, if we are unable to meet our mortgage payments, then the encumbered properties could be foreclosed upon or transferred to the mortgagee with a consequent loss of income and asset value. A foreclosure on one or more of our properties could materially adversely affect our business, results of operations, financial condition and ability to pay dividends on our common and preferred equity securities.

Covenants in our existing and future credit agreements and other debt instruments limit our operational flexibility, and a covenant breach or a default could materially adversely affect our business, results of operations and financial condition.

The terms of our credit agreements and other indebtedness, including additional credit agreements or amendments we may enter into and other indebtedness 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 debt service coverage, leverage ratios and tangible net worth requirements. Our continued ability to incur indebtedness and operate 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 such covenants may result in defaults under certain mortgages on our properties, even if we satisfy our payment obligations to the respective lender. Defaults under the mortgages, including certain tenant or operator bankruptcies and other lease defaults may result in cross-defaults under and acceleration of certain of our other indebtedness. Covenants that limit our operational flexibility as well as defaults under our debt instruments could materially adversely affect our business, results of operations and financial condition.

An increase in interest rates would increase our interest costs on existing variable rate debt and new debt, and could adversely impact our ability to refinance existing debt, sell assets and limit our acquisition and development activities.

At December 31, 2008, we had approximately $892 million of variable interest rate indebtedness, which constitutes 15% of our overall indebtedness. This variable rate debt had a weighted average interest rate of approximately 2.57% per annum. We may incur more variable interest rate indebtedness in the future. If interest rates increase, so will our interest costs for our existing variable interest rate debt and any new debt. This increased cost could have a material adverse effect on our results of operations, decrease our ability to pay principal and interest on our debt, decrease our ability to make distributions to our security holders and make the financing of any acquisition and development activity more costly. Further, 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. At December 31, 2008, our exposure to variable rate indebtedness is mitigated by $1.1 billion of variable rate investments.

Table of Contents

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

From time to time, we may be directly involved in a number of legal proceedings, lawsuits and other claims. See "Legal Proceedings" in Part I, Item 3 in this report for a discussion of certain legal proceedings in which we are involved. We may also be named as defendants in lawsuits allegedly arising out of actions of our operators and tenants in which such operators and tenants have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses. See "Risks Related to Our Operators and Tenants *Our operators and tenants are faced with litigation and rising liability and insurance costs that may affect their ability to make their lease or mortgage payments*." An unfavorable resolution of pending or future litigation may have a material adverse effect on our financial condition and operations. Regardless of its outcome, litigation may result in substantial costs and expenses and significantly divert the attention of management. There can be no assurance that we will be able to prevail in, or achieve a favorable settlement of, pending or future litigation. In addition, pending litigation or future litigation, government proceedings or environmental matters could lead to increased costs or interruption of our normal business operations.

A small number of operators and tenants, some of whom are experiencing significant legal, financial and regulatory difficulties, account for a large percentage of our revenues.

During the year ended December 31, 2008, approximately 37% of our portfolio, based on our total revenues, was operated or leased by five companies, consisting of Sunrise (15%), HCA (7%), Brookdale (7%), Genentech (4%) and Tenet (4%). In addition, during the year ended December 31, 2008, we earned interest of $84 million and $24 million in connection with mezzanine loans to HCR ManorCare and marketable debt securities issued by HCA, respectively. Certain of these companies are experiencing significant legal, financial and regulatory difficulties. Among other things, Sunrise has disclosed that it does not anticipate being in compliance with certain financial covenants in its bank credit facility as of March 31, 2009, which could result in an acceleration of the debt under that facility. In addition, several of these major operators and tenants have significant debt and lease obligations and have been affected by the recent economic downturn, which has led to, in some instances, a precipitous decline in their stock price. The failure or inability of any of these operators or tenants 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 material adverse effects. See "Risks Related to Our Operators and Tenants *The bankruptcy, insolvency or financial deterioration of one or more of our major operators or tenants may materially adversely affect our business, results of operations and financial condition.*" for additional information on the risks we face from a failure of one or more of our operators or tenants.

We have investments in mezzanine loans, which are subject to a greater risk of loss than loans secured by the underlying real estate.

At December 31, 2008, we had mezzanine loan investments with a carrying value of $918 million. Our mezzanine loans generally take the form of subordinated loans secured by a pledge of ownership interests in either the entity owning the property or a pledge of the ownership interests in the entity that owns, directly or through other entities, the interest in the entities owning the properties. These types of investments involve a higher degree of risk than long-term senior mortgage loans secured by income producing real property because the investment may have a lesser likelihood of being repaid in full as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to fully repay our mezzanine loans. If a borrower defaults on our mezzanine loans or debt senior to our loans, or in the event of a borrower

Table of Contents

bankruptcy, our mezzanine loans will be satisfied only after the senior debt is paid and consistent with bankruptcy rules. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. If our mezzanine loans are not repaid, or are only partially repaid, our business, results of operations and financial condition may be materially adversely affected.

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 or occupy the underlying real estate, which may adversely affect our ability to recover our investments.

If an operator or tenant 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. In some cases, as noted above, the collateral consists of the equity interests in an entity that directly or indirectly owns the applicable real property and, accordingly, we may not have full recourse to assets of that entity. In addition, if we acquire real estate as a result of a foreclosure, we may be required to make substantial improvements or repairs in order to maximize the facility's investment potential. Operators, tenants 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. Even if we are able to successfully foreclose on the collateral securing our real estate-related loans, we may inherit properties for which we are unable to expeditiously seek tenants or operators, if at all, which would adversely affect our ability to fully recover our investment.

Credit enhancements to our leases may terminate or be inadequate, or the provider of a credit enhancement may be unable to fulfill its payment obligations to us, any of which may have a material adverse effect on our results of operations.

Some of our leases have credit enhancement provisions in the form of guarantees or security deposits, for minimum rent payments payable to us. These credit enhancement provisions may terminate at either a specific time during the lease term or once the property satisfies defined operating hurdles like net operating income. These provisions may also have limits on the overall amount of the credit enhancement. After the termination of a credit enhancement, or in the event that the maximum limit of a credit enhancement is reached, we may only look to the tenant or operator to make lease payments. Some of our tenants are thinly capitalized entities that rely on the results of operations generated by the properties to fund rent obligations under their lease. In the event that a credit enhancement has expired or the maximum limit has been reached, or in the event that a provider of a credit enhancement is unable to meet its payment obligations, our results of operations and cash available for distribution could be materially adversely affected if our properties are unable to generate sufficient funds from operations to meet minimum rent payments and the tenants or operators do not otherwise have the resources to make those rent payments.

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, including 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

Table of Contents

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 or require us to indemnify subsequent operators to whom we might transfer the operating rights and licenses, all of which may adversely affect our revenues and operations.

We may not be able to sell properties when we desire because real estate investments are relatively illiquid.

Real estate investments generally cannot be sold quickly. In addition, some of our properties serve as collateral for our secured debt obligations and cannot be readily sold. We may not be able to vary our portfolio promptly in response to changes in the real estate market. This inability to respond to changes in the performance of our investments could adversely affect our business, results of operations and financial condition, and in particular our ability to service our debt and pay dividends on our common and preferred stock. The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in national and local economic and market conditions;
- changes in interest rates and in the availability, costs and terms of financing;
- leases or management agreements which are not renewed or are renewed at lower payment amounts at expiration;
- the exercise of purchase options by operators or tenants resulting in a reduction of our revenues;
- changes in laws, regulations, fiscal policies, zoning and other ordinances;
- the costs of complying with existing and new laws and regulations;
- the ongoing need for capital improvements, particularly in older structures and the need to make expenditures due to changes in governmental regulations, including the ADA;
- environmental hazards created by prior owners or occupants, existing operators or tenants, borrowers or other persons for which we may be liable;
- changes in operating expenses; and
- acts of terrorism, civil unrest, acts of war and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property or portfolio of properties. In addition, there are provisions under the federal income tax laws applicable to REITs that may limit our ability to recognize the full economic benefit from a sale of our assets. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could have a material adverse effect on our business, results of operations and financial condition.

Real estate is a competitive business and this competition may make it difficult to identify and purchase, or develop, suitable healthcare and other facilities, to grow our operations through these activities or to successfully reinvest proceeds.

We operate in a highly competitive industry. Part of our business strategy is growing through acquisitions, which requires us to identify suitable candidates that meet our acquisition criteria. However, when we attempt to develop, finance or acquire properties, we face 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 have greater resources

Table of Contents

and lower costs of capital than us. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business goals. Among other things, from time to time, we have cash proceeds available to us from securities offerings, asset sales, joint venture or other activities, in which competition can negatively affect our ability to reinvest these proceeds on a timely basis. If we cannot capitalize on our development pipeline, identify and purchase a sufficient quantity of healthcare facilities at favorable prices, or reinvest proceeds on a timely basis, or if we are unable to finance acquisitions on commercially favorable terms, our business, results of operations and financial condition may be materially adversely affected.

Because of the unique and specific improvements required for healthcare facilities, we may be required to incur substantial development and renovation costs to make certain of our properties suitable for other operators and tenants, which could materially adversely affect our business, results of operations and financial condition.

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 often times tenant-specific. A new or replacement operator or tenant may require different features in a property, depending on that operator's or tenant's particular operations. If a current operator or tenant is unable to pay rent and vacates a property, we may incur substantial expenditures to modify a property before we are able to secure another operator or tenant. Also, if the property needs to be renovated to accommodate multiple operators or tenants, we may incur substantial expenditures before we are able to re-lease the space. 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 at all and, under certain circumstances, prevent completion of development activities once undertaken, all of which could have a material adverse effect on our business, results of operations and financial condition.

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, which can result in increases in construction costs and debt service expenses 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; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to make the property profitable.

Properties developed or acquired for development likely generate little or no cash flow from the date of acquisition through the date of completion of development. In addition, new development activities, regardless of whether or not they are ultimately successful, may require a substantial portion of our management's time and attention.

Table of Contents

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have a material adverse effect on our business, results of operations and financial condition, and thus our ability to satisfy our debt service obligations and to pay dividends to stockholders.

Our use of joint ventures may limit our flexibility with jointly owned investments and could adversely affect our business, results of operations and financial condition.

We intend 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:

- 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;
- 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 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 need to integrate them into our existing business. If we are unable to successfully integrate the operations of acquired companies or they fail to perform as expected, 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 cannot assure you that we will be able to integrate the operations of the companies that we have acquired, or may acquire in the future, without encountering difficulties. 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. Estimated cost savings in connection with acquisitions are typically projected to come from various areas that our management identifies through the due diligence and integration planning process; yet, our target companies and their properties may fail to perform as expected. 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 or market position. 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.

Failure to maintain effective internal control over financial reporting could have a material adverse effect on our business, results of operations, financial condition and stock price.

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to provide a report by management on internal control over financial reporting, including management's assessment of the effectiveness of such control. Changes to our business will necessitate ongoing changes to our internal control systems and processes. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, results of operations and financial condition could be materially adversely harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on our stock price.

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

We are dependent on the efforts of our executive officers. Although our chief executive officer has an employment agreement with us, we cannot assure you that he will remain employed with us. The loss or limited availability of the services of our chief executive officer or any of our executive officers, or our inability to recruit and retain qualified personnel in the future, could, at least temporarily, have a material adverse effect on our business and results of operations and be negatively perceived in the capital markets.

We may experience uninsured or underinsured losses, which could result in the loss of all or a portion of the capital we have invested in a property or decrease anticipated future revenues.

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. However, a large number of our properties are located in areas exposed to earthquake, windstorm and flood 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 for earthquake, windstorm and flood that we believe is adequate in light of current industry practice and analysis prepared by outside consultants, there is no assurance that such insurance will fully cover such losses. These losses can decrease our anticipated revenues from a property and result in the loss of all or a portion of the capital we have invested in a 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 where insurance is not purchased as we do not believe it is economically feasible to do so.

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

Under various federal, state and local laws, ordinances and regulations, as a current or previous owner of real estate, we may be required to investigate and clean up certain hazardous substances released at a property, and 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. 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 (i) currently carry environmental insurance on our properties in an amount and subject to deductibles that we believe are commercially reasonable, and (ii) generally require our operators and tenants to undertake 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. The presence of contamination or the failure to remediate contamination may adversely affect our ability to sell or lease real estate or to borrow using the real estate as collateral. As the owner of a site, we may also be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from the site. We may also experience environmental liabilities arising from conditions not known to us.

Risks Related to Our Operators and Tenants

The bankruptcy, insolvency or financial deterioration of one or more of our major operators or tenants 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 an operator or tenant, or demand immediate repayment of certain obligations to us, the bankruptcy 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 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, the 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 the mortgages on the properties leased or managed by such tenants and operators. Moreover, certain tenant or operator bankruptcies or other lease defaults may result in defaults under the mortgages on the relevant properties and cross-defaults under and acceleration of our other indebtedness. Although we believe that we would be able to secure amendments under the applicable agreements if a default as described above occurs, such default may potentially result in less favorable borrowing terms than currently available, delays in the availability of funding or other material adverse consequences.

Many of our operating leases also contain non-contingent rent escalators for which we recognize income on a straight-line basis over the lease term. This method results in rental income in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset included in the caption "Other assets, net" on our consolidated balance sheets. At some point during the lease, depending on its terms, the cash rent payments eventually exceed the straight-line rent which results in the straight-line rent receivable asset decreasing to zero over the remainder of the lease term. We assess the collectibility of the straight-line rent that is expected to be collected in a future period, and, depending on circumstances, we may provide a reserve against the previously recognized straight-line rent receivable asset for a portion, up to its full value, that we estimate may not be recoverable. In addition, upon acquisition of a leased property that we account for as an operating lease, we may record lease-related intangible assets, to the extent the purchase price for the asset exceeds its fair market value. The balance of straight-line rent receivable at December 31, 2008, net of allowances was $112 million. We had approximately $465 million of lease-related intangible assets, net of amortization, and $231 million of lease-related intangible liabilities, net of amortization, associated with our operating leases at December 31, 2008. To the extent any of the operators or tenants for our properties, for the reasons discussed above, become unable to pay amounts due, we may be required to write down the straight-line rents receivable or lease intangibles or may impair the related carrying value of leased properties.

The current U.S. housing and strained credit markets may adversely affect our operators' and tenants' ability to increase or maintain occupancy levels at, and rental income from, our senior housing facilities.

Our tenants and operators may have relatively flat or declining occupancy levels in the near-term due to falling home prices, declining incomes, stagnant home sales and other economic factors. Seniors may choose to postpone their plans to move into senior housing facilities rather than sell their homes at a loss, or for a profit below their expectations. Moreover, tightening lending standards and the strained credit market have made it more difficult for potential buyers to obtain mortgage financing, all of which have contributed to the declining home sales. In addition, the senior housing segment may experience a decline in occupancy associated with private pay residents choosing to move out of the facilities to be cared for at home by relatives due to the weakening economy. A material decline in our tenants' and operators' occupancy levels and revenues may make it more difficult for them to meet their financial obligations to us, which could materially adversely affect our business, results of operations and financial condition.

Operators and tenants that fail to comply with the requirements of governmental reimbursement programs such as Medicare or Medicaid, licensing and certification requirements, fraud and abuse regulations or new legislative developments may cease to operate or be unable to meet their financial and contractual obligations to us.

Our operators and tenants are subject to numerous federal, state and local laws and regulations that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. The ultimate timing or effect of these changes cannot be predicted. These changes may have a dramatic effect on our operators' and tenants' costs of doing business and on the amount of reimbursement by both government and other third-party payors. The failure of any of our operators or tenants to comply with these laws, requirements and regulations could adversely affect their ability to meet their financial and contractual obligations to us. Regulations that affect our operators and tenants include the following:

Fraud and Abuse Laws and Regulations. 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, including 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 claims 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 1997, which provide for the privacy and security of personal health information.

Furthermore, violations of healthcare fraud and abuse laws can carry substantial civil, criminal, or administrative sanctions, including potential exclusion or debarment from Medicare, Medicaid or other federal or state health care 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.

Medicare and Medicaid. During 2008, our skilled nursing segment accounted for approximately 4% of our revenues. A portion of our skilled nursing operators' revenues is derived from governmentally-funded reimbursement programs, primarily Medicare and Medicaid, and are consequently subject to the potential adverse effects of decreased reimbursement rates in these programs. As federal and state governments focus on healthcare reform initiatives, and as many

Table of Contents

states face significant 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. In addition, the failure of any of our tenants or operators to comply with various laws and regulations could jeopardize their certification and ability to continue to participate in federal and state healthcare programs, including the Medicare and Medicaid programs. Exclusion from the Medicare and Medicaid programs could cause the revenues of our operators and borrowers to decline, potentially jeopardizing their ability to meet their obligations to us causing the value of our affected properties or investments to decline.

State licensing and Medicare and Medicaid laws also require operators of nursing homes and ALFs to comply with extensive standards governing operations. Federal and state agencies administering those laws regularly inspect such facilities and investigate complaints. Our operators, borrowers and their managers receive notices of potential sanctions and remedies from time to time, and such sanctions have been imposed from time to time on facilities operated by them. If they are unable to cure deficiencies, sanctions may be imposed that reduce our operators' and borrowers' revenues or cause them to cease operations, thereby potentially jeopardizing their ability to meet their obligations to us.

Licensing and Certification. Certain healthcare facilities in our portfolio are subject to extensive federal, state, and local licensure, certification, and inspection laws and regulations. These facilities are audited periodically by federal, state, and local authorities to confirm compliance. Further, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials, and operate equipment. Finally, many states require certain healthcare providers to obtain a "certificate of need" prior to the construction, expansion, or closure of certain healthcare facilities. Our skilled nursing facilities in particular tend to require certificates of need prior to the addition or construction of new beds, the addition of services, or certain capital expenditures. Some of our facilities may be unable to satisfy current and future certificate of need requirements and may for this reason be unable to continue operating in the future. In such event, our revenues from those facilities could be reduced or eliminated for an extended period of time or permanently. Furthermore, failure to comply with any of these laws could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from federal and state healthcare programs, loss of license or closure of the facility.

Legislative and Regulatory Developments. Each year, legislative proposals are introduced or proposed in Congress and in some state legislatures that would affect major changes in the healthcare system, either nationally or at the state level. We cannot accurately predict whether any proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our operators and tenants and, thus, our business.

Increased competition as well as increased operating costs have resulted in lower net revenues for some of our operators and tenants and may affect their ability to meet their financial and other contractual obligations to us.

The healthcare industry is highly competitive and can become more competitive in the future. The occupancy levels at, and rental income from, our facilities is dependent on the ability of our operators and tenants to compete with entities that have substantial capital resources. These entities compete with other operators and tenants 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. Private, federal and state payment programs and the effect of laws and regulations may also have a significant influence on the profitability of our tenants and operators. Our operators and tenants also

Table of Contents

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 has intensified due to overbuilding in some segments in which we invest, has caused the fill-up 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 operators and tenants 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 operators and tenants. Thus, our operators and tenants may encounter increased competition in the future that could limit their ability to attract residents or expand their businesses which could materially adversely affect their ability meet their financial and other contractual obligation to us, potentially decreasing our revenues and increasing our collection and dispute costs.

Our operators and tenants 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. Some types of losses may not be adequately insured by our tenants and operators. 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. However, we cannot assure you that material uninsured losses, or losses in excess of insurance proceeds, will not occur in the future.

Our operators and tenants are faced with litigation and rising liability and insurance costs that may affect their ability to make their lease or mortgage payments.

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 operators and tenants of such facilities. Also, in several instances, private litigation by patients has succeeded in winning very large damage awards for alleged abuses. The effect of this litigation and potential litigation has been to materially increase the costs incurred by our operators and tenants for monitoring and reporting quality of care compliance. In addition, their cost of liability and medical malpractice insurance can be very significant and may increase 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. Moreover, to the extent we are required to take back the affected facilities from our operators and tenants, our revenues from those facilities could be reduced or eliminated for an extended period of time. 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 operators or tenants, which may require unanticipated expenditures on our part.

Our tenants in the life science industry face high levels of regulation, expense and uncertainty that may adversely affect their ability to make payments to us and, consequently, materially adversely affect our business, results of operations and financial condition.

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

- 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

Table of Contents

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. The approval process is typically long, expensive and uncertain. Even if our tenants have sufficient funds to seek approvals, one or all of their products may fail to obtain the required regulatory approvals on a timely basis or at all. Furthermore, some tenants may only have a small number of products under development. If one product fails to receive the required approvals at any stage of development, it could significantly adversely affect our tenant's entire business and its ability to make payments to us.

even after a life science tenant gains regulatory approval and market acceptance, the product still presents regulatory and liability risks. Such risks may include, among others, the possible later discovery of safety concerns, competition from new products, and ultimately the expiration of patent protection for the product. These factors may have an adverse effect on the operations and financial condition of our life science tenants and therefore may adversely impact us.

our tenants with marketable products may be adversely affected by healthcare reform efforts and the reimbursement policies of government or private healthcare payors.

our tenants may be unable to adequately protect their intellectual property under patent, copyright or trade secret laws. Failure to do so could jeopardize their ability to profit from their efforts and to protect their products from competition.

We cannot assure you that our life science tenants will be successful in their businesses. 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.

Tax and REIT-Related Risks

Loss of HCP, Inc.'s tax status as a REIT would substantially reduce our available funds and would have material adverse consequences to us.

HCP, Inc. currently operates and has operated commencing with its taxable year ended December 31, 1985 in a manner that is intended to allow it to qualify as a REIT for federal income tax purposes under the Code. In addition, as described below, we own the stock of HCP Life Science REIT which elected to be treated as a REIT commencing with its initial taxable year ended December 31, 2007.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect the ability of HCP, Inc. and HCP Life Science REIT to qualify as REITs. If HCP Life Science REIT were to fail to qualify as a REIT, HCP, Inc. also would fail to qualify as a REIT unless HCP, Inc. (or HCP Life Science REIT) could make use of certain relief provisions provided under the Code. To qualify as REITs, HCP, Inc. and HCP Life Science REIT must each satisfy a number of organizational, operational, stockholder ownership, dividend distribution, asset, income and other requirements. For example, to qualify as a REIT, at least 95% of HCP, Inc.'s gross income in any year must be derived from qualifying sources, and HCP, Inc. must make distributions to its stockholders aggregating annually at least 90% of its REIT taxable income, excluding net capital gains. In addition, new legislation, treasury regulations, administrative interpretations or court decisions may adversely affect our investors if such future events affected HCP, Inc.'s ability to qualify as a REIT for tax purposes. Although we believe that HCP, Inc. and HCP Life Science REIT have been organized and have operated in such manner, we can give no assurance that HCP, Inc. or HCP Life Science REIT have qualified or will continue to qualify as a REIT for tax purposes.

Table of Contents

If HCP, Inc. loses its 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 HCP, Inc. fails to qualify as a REIT:

- it would not be allowed an income tax deduction for dividends distributed to stockholders and would be subject to federal and state income tax at regular corporate rates or alternative minimum tax rates;

- it could also be subject to increased local income taxes; and

- unless HCP, Inc. is entitled to relief under statutory provisions, it could not elect to be subject to tax as a REIT for four taxable years following the year for which it was disqualified.

In addition, if HCP, Inc. fails to qualify as a REIT, it would not be required to make distributions to stockholders; however, all distributions to stockholders would be subject to tax as qualifying corporate dividends to the extent of HCP, Inc.'s current and accumulated earnings and profits.

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

Certain property transfers may generate prohibited transaction income, resulting in a penalty tax on gain attributable to the transaction.

From time to time, we may transfer or otherwise dispose of some of our properties. Under the Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property are properly treated as prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. While we believe that the Internal Revenue Service would not prevail in any such dispute, if the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain from the prohibited transaction. In addition, income from a prohibited transaction might adversely affect our ability to satisfy the income tests for qualification as a REIT for federal income tax purposes.

To maintain our REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.

To qualify as a REIT, each year we must distribute to our stockholders at least 90% of our "real estate investment trust taxable income" (computed without regard to our dividends paid deduction and our net capital gain). If we distribute less than 100% of our REIT taxable income in any year, we will be subject to regular corporate income taxes. In addition, we will be subject to a 4% excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. For distributions with respect to taxable years ending on or before December 31, 2009, recent Internal Revenue Service guidance allows us to satisfy up to 90% of these requirements through the distribution of shares of HCP, Inc. common stock, if certain conditions are met. To maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis to meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of cash and inclusion of income for federal income tax

Table of Contents

purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt principal payments.

As a result of the acquisition of SEUSA, HCP Life Science REIT may have inherited tax liabilities and attributes from SEUSA.

HCP Life Science REIT is the successor to the tax attributes, including tax basis, and earnings and profits, if any, of SEUSA. If HCP Life Science REIT recognizes gain on the disposition of any properties formerly owned by SEUSA during the ten-year period beginning on the date on which it acquired the SEUSA stock, it will be required to pay tax at the highest regular corporate tax rate on such gain to the extent of the excess of (a) the fair market value of the asset over (b) its adjusted basis in the asset, in each case determined as of the date on which it acquired the SEUSA stock. Any taxes paid by HCP Life Science REIT would reduce the amount available for distribution by HCP Life Science REIT to us.

As a result of the CRP merger and the CRC merger, we may have inherited tax liabilities and attributes from CRP and CRC.

In connection with the CRP merger, CRP's REIT counsel rendered an opinion to us, dated as of the closing date of the merger, substantially to the effect that on the basis of the facts, representations and assumptions set forth or referred to in such opinions, CRP qualified as a REIT under the Code for the taxable years ending December 31, 1999 through the closing date of the merger. If, however, contrary to the opinion of CRP's REIT counsel, CRP failed to qualify as a REIT for any of its taxable years, it would be required to pay federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. Because the CRP merger was treated for income tax purposes as if CRP sold all of its assets in a taxable transaction to HCP, Inc., if CRP did not qualify as a REIT for the taxable year of the merger, it would be subject to tax on the excess of the fair market value of its assets over their adjusted tax basis. As a successor in interest to CRP, HCP, Inc. would be required to pay this tax.

As a result of the CRC merger, HCP, Inc. succeeded to the assets and the liabilities of CRC, including any liabilities for unpaid taxes and any tax liabilities created in connection with the CRC merger. At the closing of the CRC merger, we received an opinion of our counsel substantially to the effect that on the basis of the facts, representations and assumptions set forth or referred to in such opinions, for federal income tax purposes the CRC merger qualified as a reorganization within the meaning of Section 368(a) of the Code. If, however, contrary to the opinion of our counsel, the CRC merger did not qualify as a reorganization within the meaning of Section 368(a) of the Code, the CRC merger would have been treated as a sale of CRC's assets to HCP, Inc. in a taxable transaction, and CRC would have recognized taxable gain. In such a case, as CRC's successor-in-interest, HCP, Inc. would be required to pay the tax on any such gain.

As a result of the CRC merger and the acquisition of SEUSA, HCP, Inc. and/or our subsidiary, HCP Life Science REIT, may be required to distribute earnings and profits.

HCP, Inc. succeeded to the tax attributes, including the earnings and profits of CRC (assuming the CRC merger qualified as reorganizations under the Code). Similarly, HCP Life Science REIT succeeded to the tax attributes, including the earnings and profits of SEUSA. To qualify as a REIT, HCP, Inc. and HCP Life Science REIT must have distributed any non-REIT earnings and profits by the close of the taxable year in which each of these transactions occurred. Any adjustments to the income of CRC or SEUSA for taxable years ending on or before the closing date of the applicable transactions, including as a result of an examination of the tax returns of either company by the Internal Revenue Service, could affect the calculation of such company's earnings and profits. If the Internal Revenue Service were to determine that HCP, Inc. or HCP Life Science REIT acquired

Table of Contents

non-REIT earnings and profits from one or more of these predecessor entities that HCP, Inc. or HCP Life Science REIT failed to distribute prior to the end of the taxable year in which the applicable transaction occurred, HCP, Inc. and HCP Life Science REIT could avoid disqualification as a REIT by paying a "deficiency dividend." Under these procedures, HCP, Inc. or HCP Life Science REIT generally would be required to distribute any such non-REIT earnings and profits to its respective stockholders within 90 days of the determination and pay a statutory interest charge at a specified rate to the Internal Revenue Service. Such a distribution would be in addition to the distribution of REIT taxable income necessary to satisfy the REIT distribution requirement and may require that HCP, Inc. or HCP Life Science REIT, as applicable, borrow funds to make the distribution even if the then-prevailing market conditions are not favorable for borrowings. In addition, payment of the statutory interest charge could materially adversely affect the cash flow of the applicable REIT.

Risks Related to our Organizational Structure

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

Our charter, subject to certain exceptions, 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 or preferred stock.

Additionally, our charter has a 9.9% ownership limitation on the company's 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.

Certain provisions of Maryland law and our charter and bylaws could hinder, delay or prevent a change in control transaction, even if the transaction involves a premium price for our common stock or our stockholders believe such transaction to be otherwise in their best interests.

Certain provisions of Maryland law, our charter and our bylaws have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control, even if these transactions involve a premium price for our common stock or our stockholders believe such transaction to be otherwise in their best interests. These provisions include the following:

Removal of Directors. Subject to the rights of one or more classes or series of preferred stock to elect one or more directors, our charter provides that a director may only be removed by the affirmative vote or written consent of the holders of at least two-thirds of the outstanding shares or by a unanimous vote of all other members of the board of directors.

Stockholder Requested Special Meetings. Our bylaws only permit our stockholders to call a special meeting upon the written request of the stockholders holding, in the aggregate, not less than 50% of the outstanding shares entitled to vote on the business proposed to be transacted at such meeting.

Advance Notice Provisions for Stockholder Nominations and Proposals. Our bylaws do not permit stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of stockholders unless we are notified in a timely manner, in writing, prior to the meeting.

Preferred Stock. Under our charter, our board of directors has authority to issue preferred stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without the approval of our stockholders.

Table of Contents

Duties of Directors with Respect to Unsolicited Takeovers. Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to (a) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (b) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act, or (c) act or fail to act solely because of the effect that the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, an act of a director of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

Unsolicited Takeovers. Under Maryland law, a Maryland corporation with a class of equity securities registered under the Securities Exchange Act of 1934, as amended, and at least three independent directors may elect to be subject to certain statutory provisions relating to unsolicited takeovers which, among other things, would automatically classify the board of directors into three classes with staggered terms of three years each and vest in the board of directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining directors, to fill vacancies on the board of directors, even if the remaining directors do not constitute a quorum. These statutory provisions relating to unsolicited takeovers also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of directors as would otherwise be the case, and until the director's successor is elected and qualified.

An election to be subject to any or all of the foregoing statutory provisions may be made in our charter or bylaws, or by resolution of our board of directors without stockholder approval. Any such statutory provision to which we elect to be subject will apply even if other provisions of Maryland law or our charter or bylaws provide to the contrary. Neither our charter nor our bylaws provides that we are subject to any of the foregoing statutory provisions relating to unsolicited takeovers. However, our board of directors could adopt a resolution, without stockholder approval, to elect to become subject to some or all of these statutory provisions.

If we made an election to be subject to such statutory provisions and our board of directors was divided into three classes with staggered terms of office of three years each, the classification and staggered terms of office of our directors would make it more difficult for a third party to gain control of our board of directors since at least two annual meetings of stockholders, instead of one, generally would be required to effect a change in the majority of our board of directors.

Maryland Business Combination Act. The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares of stock and other specified transactions, 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 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 provided under Maryland law, our charter also contains restrictions on business combinations. Our charter requires that, except in some circumstances, "business combinations" between us and a "related person," including a beneficial holder of 10% or more of our outstanding voting stock, be approved by the affirmative vote of at least 90% of our outstanding voting shares.

Maryland Control Share Acquisition Act. Maryland law provides that "control shares" of a corporation acquired in a "control share acquisition" shall have no voting rights except to the extent approved by a vote of two-thirds of the votes eligible to be cast on the matter under the Maryland Control Share Acquisition Act. "Control shares" means shares of stock that, if aggregated with all other shares of stock previously acquired by the acquiror, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of the voting power: one-tenth or more but less than one-third, one-third or more but less than a majority, or a majority or more of all voting power. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

If voting rights or control shares acquired in a control share acquisition are not approved at a stockholder's meeting, then subject to certain conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholder's meeting and the acquiror becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights. If any of our shares are control shares acquired in a control share acquisition, they will be subject to the Maryland Control Share Acquisition Act unless our bylaws are amended in the future to exempt the acquisition of control shares generally or with respect to certain transactions.

Our issuance of additional shares of common or preferred stock, warrants or debt securities may dilute the ownership interests of existing stockholders and reduce the market price for our shares.

As of December 31, 2008, we had 253.6 million shares of common stock issued and outstanding. We cannot predict the effect, if any, that potential future sales of our common or preferred stock, warrants or debt securities, or the availability of our securities for future sale, will have on the market price of our outstanding securities, including our common stock. Sales of substantial amounts of our common or preferred stock, warrants or debt securities convertible into, or exercisable or exchangeable for, common stock in the public market or the perception that such sales might occur could reduce the market price of our common stock. The sales of any such securities could also dilute the interests of existing common stockholders and may cause a decrease in the market price of our common stock. Additionally, we maintain equity incentive plans for our employees. We have historically made grants of stock options, restricted stock and restricted stock units to our employees under such plans, and we expect to continue to do so. As of December 31, 2008, there were options to purchase approximately 5.1 million shares of our common stock outstanding of which 2.0 million shares are exercisable, approximately 380,000 unvested shares of restricted stock issued and outstanding and approximately 864,000 unvested restricted stock units issued and outstanding under our equity incentive plans.

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;

Table of Contents

Geographic area, proximity to other healthcare facilities, type of property and demographic profile;

Whether the rent provides a competitive market return to our investors;

Duration, rental rates, operator and tenant quality and other attributes of in-place leases;

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 operator or tenant;

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;

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.

The following summarizes our property investments as of and for the year ended December 31, 2008 (square feet and dollars in thousands).

				2008	
Facility Location	**Number of Facilities**	**Capacity(1)**	**Gross Real Estate(2)**	**Rental Revenues(3)**	**Operating Expenses**
Senior housing:		*(Units)*			
California	28	3,178	$ 577,882	$ 44,691	$ 466
Florida	27	3,391	442,755	40,885	2,752
Texas	29	3,256	340,083	33,349	
Virginia	10	1,336	271,480	19,254	1

Colorado	5	893	175,060	13,464	
New Jersey	9	771	153,103	10,829	
Alabama	3	626	142,743	12,137	
Illinois	9	687	135,639	10,668	
Washington	8	573	127,659	8,081	1
Other (25 States)	77	7,747	1,071,846	96,518	7,272
Total senior housing	205	22,458	$3,438,250	$289,876	$ 10,492
Life science:		*(Sq. Ft.)*			
California	87	5,542	$2,498,874	$230,344	$ 42,201
Utah	9	584	90,110	11,985	1,340
	96	6,126	2,588,984	242,329	43,541
California Development			546,865		
Total life science	96	6,126	$3,135,849	$242,329	$ 43,541

Table of Contents

			2008		
Facility Location	**Number of Facilities**	**Capacity[1]**	**Gross Real Estate[2]**	**Rental Revenues[3]**	**Operating Expenses**
Medical office:		*(Sq. Ft.)*			
Texas	45	4,074	$ 597,983	$ 87,672	$ 45,572
California	14	780	193,671	27,194	16,311
Colorado	16	1,031	171,257	24,570	11,087
Washington	7	687	154,968	27,654	10,736
Tennessee	17	1,500	141,127	26,085	10,425
Utah	22	939	130,163	17,624	4,322
Florida	19	1,024	128,910	23,370	11,234
Kentucky	6	640	98,134	12,857	4,436
Nevada	8	541	83,352	13,426	5,070
Other (19 States and Mexico)	34	1,736	301,326	42,507	14,541
	188	12,952	2,000,891	302,959	133,734
California Development			44,212	5,788	1,571
Total medical office	188	12,952	$ 2,045,103	$ 308,747	$ 135,305
Hospital:		*(Beds)*			
Texas	4	889	$ 209,569	$ 28,880	$ 3,028
California	2	176	123,559	14,826	171
Georgia	2	274	79,749	11,420	
North Carolina	1	355	72,500	7,724	
Louisiana	4	343	64,752	6,578	94
Florida	1	199	62,450	7,697	
Kansas	1	80	12,997	1,992	
Arkansas	1	60	10,313	1,229	
Wisconsin	1	62	10,162	1,712	
Other (2 States)	2	124	17,643	2,754	1
Total hospital	19	2,562	$ 663,694	$ 84,812	$ 3,294
Skilled nursing:		*(Beds)*			
Virginia	9	934	$ 62,649	$ 6,800	$
Indiana	8	870	44,356	6,657	
Ohio	8	1,120	42,638	6,963	
Colorado	2	240	14,778	1,548	
California	3	379	13,558	2,110	
Tennessee	4	572	12,755	3,320	
Nevada	2	267	12,350	2,007	
Michigan	3	327	10,227	1,357	
Kentucky	2	195	8,082	1,501	
Other (7 States)	7	777	27,479	3,719	
Total skilled nursing	48	5,681	$ 248,872	$ 35,982	$
Total properties	556		$ 9,531,768	$ 961,746	$ 192,632

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(1) Senior housing facilities are apartment-like facilities and are therefore measured in units (studio, one or two bedroom apartments). Life science facilities and medical office buildings are measured in square feet. Hospitals and skilled nursing facilities are measured in licensed bed count.

(2)

Gross real estate represents the carrying amount of real estate assets after adding back accumulated depreciation and amortization, excluding intangibles and assets held for sale.

(3)

Rental revenues represent the combined amount of rental and related revenues and tenant recoveries.

Table of Contents

The following table summarizes key operating and leasing statistics for all of our operating leases as of and for the years ended December 31, (square feet in thousands):

	2008	2007	2006	2005	2004
Senior housing:					
Average occupancy percentage[1]	89%	91%	94%	91%	87%
Average effective annual rental per unit[1]	$12,333	$11,305	$10,498	$ 9,676	$ 9,690
Units[2]	22,458	22,357	22,142	7,528	6,183
Life science:					
Average occupancy percentage	91%	83%	98%	100%	100%
Average effective annual rental per square foot	$ 36	$ 31	$ 21	$ 21	$ 20
Square feet[2]	6,126	5,896	897	738	514
Medical office:					
Average occupancy percentage	90%	91%	91%	92%	92%
Average effective annual rental per square foot	$ 25	$ 24	$ 17	$ 13	$ 11
Square feet[2]	12,952	12,834	11,954	8,908	7,839
Hospital:					
Average occupancy percentage[1]	43%	41%	56%	57%	69%
Average effective annual rental per bed[1]	$32,741	$32,893	$30,063	$29,420	$29,402
Beds[2]	2,562	2,562	1,568	1,568	1,568
Skilled nursing:					
Average occupancy percentage[1]	86%	86%	87%	86%	87%
Average effective annual rental per bed[1]	$ 6,399	$ 6,445	$ 5,873	$ 5,641	$ 5,514
Beds[2]	5,681	5,681	5,681	5,681	5,681

(1) Represents occupancy and per rental unit/bed amounts as reported by the respective tenants or operators. Certain operators in our hospital portfolio are not required under their respective leases to provide operational data.

(2) Senior housing facilities are measured in units (e.g., studio, one or two bedroom units). Life science facilities and medical office buildings are measured in square feet. Hospitals and skilled nursing facilities are measured in licensed bed count.

Development Properties

The following table sets forth the properties owned by us in our life science and medical office segments as of December 31, 2008 that are currently under development or redevelopment. There are no assurances that any of these projects will be completed on schedule or within estimated amounts.

Name of Project	Location	Estimated Completion Date[1]	Estimated Total Investment	Total Investment To Date
Oyster Point II (Building A)	So. San Francisco, CA	4Q 2008	$ 97,448	$ 79,744
Oyster Point II (Building B)	So. San Francisco, CA	4Q 2008	103,293	84,546
Oyster Point II (Building C)	So. San Francisco, CA	4Q 2008	60,660	47,761
500/600 Saginaw[2]	Redwood City, CA	4Q 2009	45,813	29,277
Modular Labs IV[2]	So. San Francisco, CA	3Q 2010	43,231	7,300
Innovation Drive[2]	San Diego, CA	3Q 2010	34,272	20,272
Folsom Blvd[2]	Sacramento, CA	3Q 2010	31,605	23,626
			$ 416,322	$ 292,526

(1)
For development projects, management's estimate of the date the core and shell structure improvements are expected to be or have been completed. For redevelopment projects, management's estimate of the time in which major construction activity in relation to the scope of the project has been substantially completed.

(2)
Represents redevelopments. Redevelopments are properties that require significant capital expenditures (generally more than 25% of acquired cost or existing basis) to achieve stabilization or to change the use of the properties. Assets are considered stabilized at the earlier of achieving 90% occupancy or one year from the completion of development or redevelopment activities

Table of Contents

Tenant Lease Expiration

The following table shows tenant lease expirations for the next 10 years and thereafter at our leased properties, assuming that none of the tenants exercise any of their renewal options (dollars in thousands):

		Expiration Year										
Segment	**Total**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Senior housing:												
Leases	205	1	4	3	4	4	7	2	24	26	67	63
Base rent(1)	$261,297	$	$ 659	$ 785	$ 1,075	$17,789	$12,150	$ 3,174	$26,860	$31,061	$101,335	$ 66,409
% of total base rent	100				1	7	5	1	10	12	39	25
Life science:												
Leases	111	18	14	9	12	5	6	8	2	12	8	17
Base rent(1)	$188,505	$10,378	$12,340	$13,821	$ 4,665	$ 7,034	$ 5,605	$17,955	$ 5,748	$23,474	$ 22,183	$ 65,302
% of total base rent	100	6	6	7	2	4	3	10	3	12	12	35
Medical office:												
Leases	2,713	639	532	459	310	282	137	108	70	61	70	45
Base rent(1)	$235,392	$43,282	$38,042	$28,490	$30,066	$20,897	$17,216	$12,073	$ 8,303	$10,209	$ 12,491	$ 14,323
% of total base rent	100	19	16	12	13	9	7	5	4	4	5	6
Hospital:												
Leases	18	3	1			1	3	1		2		7
Base rent(1)	$ 62,052	$14,630	$ 2,973	$	$	$ 2,400	$16,018	$ 369	$	$ 4,413	$	$ 21,249
% of total base rent	100	23	5			4	26	1		7		34
Skilled nursing:												
Leases	48	3				10	9	5	5	9	4	3
Base rent(1)	$ 35,422	$ 1,280	$	$	$	$ 6,914	$ 6,672	$ 3,249	$ 4,869	$ 7,953	$ 2,168	$ 2,317
% of total base rent	100	4				19	19	9	14	22	6	7
Total:												
Leases	3,095	664	551	471	326	302	162	124	101	110	149	135
Base rent(1)	$782,668	$69,570	$54,014	$43,096	$35,806	$55,034	$57,661	$36,819	$45,780	$77,109	$138,176	$ 169,603
% of total base rent	100	9	7	5	4	7	7	5	6	10	18	22

(1) The most recent monthly base rent annualized. Base rent does not include tenant recoveries, additional rents and other lease-related adjustments to revenue (i.e., straight-line rents, amortization of above and below market lease intangibles 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

From time to time, we are a party to legal proceedings, lawsuits and other claims that arise in the ordinary course of business. Regardless of their merits, these matters may force us to expend significant financial resources. Except as described below, we are not aware of any legal proceedings or claims that we believe may have, individually or taken together, a material adverse effect on our business, prospects, financial condition or results of operations. Our policy is to accrue legal expenses as they are incurred. The information set forth under the heading "Legal Proceedings" of Note 14 to the Consolidated Financial Statements, included in Part III, Item 15 of this Report, is incorporated herein by reference.

On May 3, 2007, Ventas, Inc. filed a complaint against HCP in the United States District Court for the Western District of Kentucky asserting claims of tortious interference with contract and tortious interference with prospective business advantage. The complaint alleges, among other things, that we interfered with Ventas' purchase agreement with Sunrise Senior Living Real Estate Investment Trust ("Sunrise REIT"); that we interfered with Ventas' prospective business advantage in connection with the Sunrise REIT transaction; and that our actions caused Ventas to suffer damages. As set forth in a statement filed by Ventas on January 20, 2009, Ventas claims damages of $122 million representing the difference between the price it initially agreed to pay for Sunrise REIT and the price it ultimately paid, additional claimed damages of $188 million for alleged financing and other costs and punitive damages.

We believe that Ventas' claims are without merit and intend both to vigorously defend against Ventas' lawsuit and to aggressively pursue our counterclaims against Ventas as successor to Sunrise REIT. As set forth in a statement filed by us on January 20, 2009, we seek recovery of damages in excess of $300 million against Ventas. Our counterclaims allege, among other things, that Sunrise REIT (i) fraudulently or negligently induced us to participate in a rigged, flawed and unfair auction process, (ii) fraudulently or negligently induced us to enter into a confidentiality and standstill agreement that was materially different from the agreement entered into with Ventas, (iii) provided unfair assistance to Ventas, and (iv) changed the rules of the auction at the last minute and such change prevented us from bidding. The counterclaims further allege that at all times Sunrise REIT knew that we were the highest bidder and presumptive winner of the auction. Absent such misconduct by Sunrise REIT, we allege that we would have succeeded in acquiring Sunrise REIT. The amended counterclaims allege that Ventas, in acquiring Sunrise REIT, assumed the liability of Sunrise REIT to us. On December 23, 2008, Ventas filed a motion for judgment on the pleadings seeking dismissal of our counterclaims, and we have responded to Ventas' motion. The District Court has not rendered a decision on Ventas' motion.

The Court has set a trial date of August 18, 2009. We intend to pursue our claims described above vigorously; however, there can be no assurances that we will prevail on any of these claims or the amount of any recovery that may be awarded. We expect that defending our interests and pursuing our own claims in the above matters will require us to expend significant funds. We are unable to estimate the ultimate aggregate amount of monetary gain, loss or financial impact with respect to these matters as of December 31, 2008.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

Table of Contents

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. Set forth below for the fiscal quarters indicated are the reported high and low reported sales prices per share of our common stock on the New York Stock Exchange.

	2008		2007		2006	
	High	**Low**	**High**	**Low**	**High**	**Low**
First Quarter	$35.14	$26.80	$42.11	$35.01	$28.83	$25.27
Second Quarter	38.75	31.14	38.60	28.02	28.47	25.12
Third Quarter	42.16	30.12	34.49	25.11	31.24	26.16
Fourth Quarter	39.83	14.26	35.24	29.30	37.84	29.77

At January 23, 2009, we had approximately 14,453 stockholders of record and there were approximately 139,875 beneficial holders of our common stock.

It has been our policy to declare quarterly dividends to the common stockholders so as to comply with applicable provisions of the Internal Revenue Code governing REITs. The cash dividends per share paid on common stock are set forth below:

	2008	2007	2006
First Quarter	$0.455	$0.445	$0.425
Second Quarter	0.455	0.445	0.425
Third Quarter	0.455	0.445	0.425
Fourth Quarter	0.455	0.445	0.425

On February 2, 2009, we announced that our Board of Directors declared a quarterly common stock cash dividend of $0.46 per share. The common stock dividend will be paid on February 23, 2009 to stockholders of record as of the close of business on February 9, 2009.

On February 2, 2009, we announced that our Board of Directors declared a quarterly cash dividend of $0.45313 per share on our Series E cumulative redeemable preferred stock and $0.44375 per share on our Series F cumulative redeemable preferred stock. These dividends will be paid on March 31, 2009 to stockholders of record as of the close of business on March 13, 2009.

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, 2008.

ISSUER PURCHASES OF EQUITY SECURITIES

Period Covered	Total Number Of Shares Purchased[(1)]	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number (Or Approximate Dollar Value) Of Shares That May Yet Be Purchased Under The Plans Or Programs
October 1-31, 2008	18,547	$ 31.68		
November 1-30, 2008	1,778	24.90		
December 1-31, 2008	115	23.32		
Total	20,440	31.04		

(1)

Represents restricted shares withheld under our Amended and Restated 2000 Stock Incentive Plan, as amended, and our 2006 Performance Incentive Plan (collectively, the "Incentive Plans"), to offset tax withholding obligations that occur upon vesting of restricted shares. Our Incentive Plans provide that the value of the shares withheld shall be the closing price of our common stock on the date the relevant transaction occurs.

Stock Price 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, 2004 to December 31, 2008. Total return assumes quarterly reinvestment of dividends before consideration of income taxes.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

AMONG S&P 500, EQUITY REITS AND HCP, Inc.

RATE OF RETURN TREND COMPARISON

JANUARY 1, 2004 DECEMBER 31, 2008

(JANUARY 1, 2004 = 100)

Stock Price Performance Graph Total Return

Assumes $100 invested January 1, 2004 in HCP, S&P 500 Index and NAREIT Equity REIT Index.

Table of Contents

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, 2008.

	Year Ended December 31,(1)				
	2008	2007(2)	2006(2)	2005	2004
	(Dollars in thousands, except per share data)				
Income statement data:					
Total revenues	$ 1,025,818	$ 907,361	$ 464,247	$ 295,468	$ 235,289
Income from continuing operations	204,329	115,648	33,443	47,328	51,347
Net income applicable to common shares	427,365	567,885	396,417	151,927	147,910
Income from continuing operations applicable to common shares:					
Basic earnings per common share	0.77	0.45	0.08	0.19	0.23
Diluted earnings per common share	0.77	0.45	0.08	0.19	0.23
Net income applicable to common shares:					
Basic earnings per common share	1.80	2.73	2.67	1.13	1.12
Diluted earnings per common share	1.79	2.71	2.66	1.12	1.11
Balance sheet data:					
Total assets	11,849,826	12,521,772	10,012,749	3,597,265	3,104,526
Debt obligations(3)	5,937,456	7,510,907	6,202,015	1,956,946	1,487,291
Stockholders' equity	5,201,271	4,103,709	3,294,036	1,399,766	1,419,442
Other data:					
Dividends paid	457,643	393,566	266,814	248,389	243,250
Dividends paid per common share	1.82	1.78	1.70	1.68	1.67

(1) In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* ("SFAS No. 144"), reclassifications have been made to prior year amounts for properties sold or held for sale to discontinued operations.

(2) We completed our acquisitions of SEUSA on August 1, 2007, CRP and CRC on October 5, 2006 and the interest held by an affiliate of General Electric in HCP Medical Office Properties ("HCP MOP") on November 30, 2006. The results of operations resulting from these acquisitions are reflected in our consolidated financial statements from those dates.

(3) Includes bank line of credit, bridge and term loans, senior unsecured notes, mortgage debt, mortgage debt on assets held for sale, mortgage debt on assets held for contribution and other debt.

Table of Contents

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

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 expectations as identified by the use of words such as "may," "will," "project," "expect," "believe," "intend," "anticipate," "seek," "forecast," "plan," "estimate," "could," "would," "should" and other comparable and derivative terms or the negatives thereof. In addition, we, through our officers, from time to time, make forward-looking oral and written public statements concerning our expected future operations, strategies, securities offerings, growth and investment opportunities, dispositions, capital structure changes, budgets and other developments. Readers are cautioned that, 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. Therefore, readers should be mindful that forward-looking statements are not guarantees of future performance and that they are subject to known and unknown risks and uncertainties that are difficult to predict. As more fully set forth in Part I, Item 1A., "Risk Factors" in this report, factors that may cause our actual results to differ materially from the expectations contained in the forward-looking statements include:

(a) Changes in national and local economic conditions, including a prolonged recession;

(b) Continued volatility in the capital markets, including changes in interest rates and the availability and cost of capital;

(c) The ability of the Company to manage its indebtedness level, and changes in the terms of such indebtedness;

(d) 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 operators, tenants and borrowers;

(e) Changes in the reimbursement available to our tenants and borrowers by governmental or private payors, including changes in Medicare and Medicaid payment levels and the availability and cost of third party insurance coverage;

(f) Competition for tenants and borrowers, including with respect to new leases and mortgages and the renewal or rollover of existing leases;

(g) Availability of suitable properties to acquire at favorable prices and the competition for the acquisition and financing of those properties;

(h) The ability of our operators, tenants and borrowers 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;

(i) The financial weakness of some operators and tenants, including potential bankruptcies and downturns in their businesses, which results in uncertainties regarding our ability to continue to realize the full benefit of such operators' and/or tenants' leases;

(j) The risk that we will not be able to sell or lease properties that are currently vacant, at all or at competitive rates;

(k) The financial, legal and regulatory difficulties of significant operators of our properties, including Sunrise Senior Living, Inc.;

(l) The risk that we may not be able to integrate acquired businesses successfully or achieve the operating efficiencies and other benefits of acquisitions within expected time-frames or at all, or within expected cost projections;

(m) The ability to obtain financing necessary to consummate acquisitions or on favorable terms; and

(n) The potential impact of existing and future litigation matters, including related developments.

Except as required by law, we undertake no, and hereby disclaim any, obligation to update any forward-looking statements, whether as a result of new information, changed circumstances or otherwise.

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:

- Executive Summary
- 2008 Transaction Overview
- Dividends
- Critical Accounting Policies
- Results of Operations
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations
- Inflation
- Recent Accounting Pronouncements

Executive Summary

We are a self-administered REIT that, together with our consolidated subsidiaries, invests primarily in real estate serving the healthcare industry in the United States. We acquire, develop, lease, manage and dispose of healthcare real estate and provide financing to healthcare providers. At December 31, 2008, our portfolio of investments, excluding assets held for sale but including properties owned by our Investment Management Platform, consisted of interests in 694 facilities.

Our business strategy is based on three principles: (i) opportunistic investing, (ii) portfolio diversification, and (iii) conservative financing. We actively redeploy capital from investments with lower return potential into assets with higher return potential and recycle capital from shorter-term to longer-term investments. We make investments where the expected risk-adjusted return exceeds our cost of capital and strive to leverage our operator, tenant and other business relationships.

Our strategy contemplates acquiring and developing properties on terms that are favorable to us. We attempt to structure transactions that are tax-advantaged and mitigate risks in our underwriting process. Generally, we prefer larger, more complex private transactions that leverage our management team's experience and our infrastructure.

We follow a disciplined approach to enhancing the value of our existing portfolio, including ongoing evaluation of potential disposition of properties that no longer fit our strategy. During the year ended December 31, 2008, we sold 51 properties for $643 million. At December 31, 2008, we had six properties with a carrying amount of $15.4 million classified as held for sale.

We primarily generate revenue by leasing healthcare properties under long-term leases. Most of our rents and other earned income from leases are received under triple-net leases or leases that provide for substantial recovery of operating expenses; however, some of our MOBs and life science leases are structured as gross or modified gross leases. Accordingly, for such MOBs and life science facilities we incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance. Our growth depends, in part, on our ability to (i) increase rental income and other earned income from leases by increasing rental rates and occupancy levels; (ii) maximize tenant recoveries given underlying lease structures; and (iii) control operating and other expenses. Our operations are impacted by property specific, market specific, general economic and other conditions.

Access to external capital on favorable terms is critical to the success of our strategy. Generally, we attempt to match the long-term duration of most of our investments with long-term fixed-rate financing. At December 31, 2008, 15% of our consolidated debt is at variable interest rates, which includes a balance of $520 million outstanding under our bridge and term loans. We intend to maintain an investment grade rating on our senior debt securities and manage various capital ratios and amounts within appropriate parameters.

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as to fund future acquisitions and development through the issuance of additional securities or secured debt. During 2008 we have raised $1.0 billion of equity capital, $656 million from asset dispositions, $566 million from the placement of Federal National Mortgage Association ("Fannie Mae") secured debt and $197 million in a bank term loan. In 2008, there was a decline in the availability of financing from the capital markets and widening credit spreads. Our ability to continue to access capital could be impacted by various factors including general market conditions and the continuing slowdown in the economy, interest rates, credit ratings on our securities, and any changes to these ratings, the market price of our capital stock, the performance of our portfolio, tenants, borrowers and operators, including any restructurings, disruptions or bankruptcies of our tenants, borrowers and operators, the perception of our potential future earnings and cash distributions, any unwillingness on the part of lenders to make loans to us and any deterioration in the financial position of lenders that might make them unable to meet their obligations to us.

2008 Transaction Overview

Investment Transactions

During 2008, we made investments aggregating $228 million through the acquisition of a senior housing facility for $11 million, purchase of marketable debt securities for $30 million, purchase of a joint venture interest valued at $29 million and funding an aggregate of $158 million for construction, tenant and capital improvement projects primarily in the life science and medical office segments.

During 2008, we sold assets valued at $656 million, which included the sale of 51 properties for approximately $643 million and other investments for $13 million. Our sales of properties and other investments during 2008 were made from the following segments: (i) $438 million of hospital, (ii) $97 million of skilled nursing, (iii) $94 million of medical office and (iv) $27 million of senior housing.

During 2008, three of our life science facilities located in South San Francisco were placed into service representing 229,000 square feet.

Financing Transactions

During the year ended December 31, 2008, we raised $1.8 billion in capital through the issuance of common stock, placement of Fannie Mae secured debt and the bank term loan market, which includes the transactions discussed below:

In connection with HCP's addition to the S&P 500 Index on March 28, 2008, we issued 12.5 million shares of our common stock on April 2, 2008. In a separate transaction, we issued 4.5 million

Table of Contents

shares to a REIT-dedicated institutional investor on April 2, 2008. The net proceeds received from these two offerings in the aggregate were approximately $560 million, which were used to repay a portion of the outstanding indebtedness under our revolving line of credit facility.

In May 2008, we placed $259 million of seven-year mortgage financing on 21 of our senior housing assets. The assets are cross-collateralized and the debt has a fixed interest rate of 5.83%. We received net proceeds aggregating $254 million, which were used to repay outstanding indebtedness under our revolving line of credit facility and bridge loan.

In June 2008, we settled two forward-starting swaps with an aggregate notional amount of $900 million. Upon settlement of these contracts and for the year ended December 31, 2008, we recognized ineffectiveness charges of $3.5 million, or $0.01 per diluted share of common stock, in interest and other income, net.

On August 11, 2008, we issued 14.95 million shares of our common stock. We received net proceeds of $481 million, which were used to repay a portion of our outstanding indebtedness under our bridge loan facility.

In September 2008, we placed mortgage financing on senior housing assets through Fannie Mae aggregating $319 million, which was comprised of $140 million of five-year mortgage financing on four assets and $179 million of eight-year financing on 12 assets. The assets are cross-collateralized and the debt has a weighted-average fixed interest rate of 6.39%. We received net proceeds aggregating $312 million, which were used to repay our outstanding indebtedness under our revolving line of credit facility.

On October 24, 2008, we entered into a credit agreement with a syndicate of banks for a $200 million unsecured term loan. The term loan accrues interest at a rate of LIBOR plus 2.00%, based on our current debt ratings, and matures in August 2011. The net proceeds of $197 million received by us from the term loan were used to repay a portion of our outstanding indebtedness under our bridge loan facility.

On December 19, 2008, we recognized a gain of $2.4 million related to the negotiated early repayment of $120 million of mortgage debt, at a discount, with an original maturity of January 27, 2009. The mortgage debt was repaid with funds available under our revolving line of credit facility.

Other Events

On July 30, 2008, we received and recognized lease termination income of $18 million from a tenant in connection with the early termination of three leases representing 149,000 square feet in our life science segment. Upon termination of the leases, we recognized an impairment of $4 million related to intangible assets associated with these leases.

On September 19, 2008, we completed the restructuring of our hospital portfolio leased to Tenet and settled various disputes. The settlement provided for, among other things, the sale of our hospital in Tarzana, California, valued at $89 million, the purchase of Tenet's minority interest in a joint venture valued at $29 million and the extension of the terms of three other hospitals leased by us to Tenet. As a result of the sale of our hospital in Tarzana, California and the settlement of our legal disputes with Tenet, we recognized income of $47 million.

On December 1, 2008, we completed the transfer of an 11-property senior housing portfolio to Emeritus. In connection with the transfer, we recognized impairments of lease related intangible assets of $12 million.

Dividends

Quarterly dividends paid during 2008 aggregated $1.82 per share. On February 2, 2009, we announced that our Board of Directors declared a quarterly common stock cash dividend of $0.46 per

Table of Contents

share. The common stock dividend was paid on February 23, 2009 to stockholders of record as of the close of business on February 9, 2009.

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 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. For a description of the risk associated with our critical accounting policies, see "Risk Factors Risks Related to HCP" in Item 1A. 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.

Principles of Consolidation

The consolidated financial statements include the accounts of HCP, our wholly-owned subsidiaries and joint ventures that we control, through voting rights or other means. We apply Financial Accounting Standards Board ("FASB") Interpretation No. 46R, *Consolidation of Variable Interest Entities*, as revised ("FIN 46R"), for arrangements with variable interest entities ("VIEs"). We consolidate investments in VIEs when we are the primary beneficiary of the VIE at either the creation of the variable interest entity or upon the occurrence of a qualifying reconsideration event. We also apply Emerging Issues Task Force ("EITF") Issue 04-5, *Investor's Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights* ("EITF 04-05"), to investments in joint ventures.

Our judgment 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 including, but not limited to, the form of our ownership interest, our representation on the entity's governing body, the size and seniority of our investment, various cash flow scenarios related to the VIE, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the venture, if applicable. Our ability to correctly assess our influence or control over an entity at inception of our involvement or upon a reconsideration event and determine the primary beneficiary of a VIE, affects the presentation of these entities in our consolidated financial statements. If we were to perform a primary beneficiary analysis upon the occurrence of a future reconsideration event, our assumptions may be different, which could 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 results of the VIE (either tenant or borrower) rather than the results of our lease or loan to the VIE. We would depend on the VIE to provide us timely financial information, and we would rely on the internal controls of the VIE to provide accurate financial information. 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 our financial reporting and our internal controls over financial reporting.

Table of Contents

Revenue Recognition

Rental income from tenants is recognized in accordance with GAAP, including SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB 104"). We recognize rental revenue on a straight-line basis over the lease term when collectibility is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. For assets acquired subject to leases, we recognize revenue upon acquisition of the asset provided the tenant has taken possession or controls the physical use of the leased asset. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, 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 use of the 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. Tenant improvement ownership is determined based on various factors including, but not limited to:

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;
- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;
- whether the tenant improvements are unique to the tenant or general-purpose in nature; and
- whether the tenant improvements are expected to have any residual value at the end of the lease.

If our assessment of the owner of the tenant improvements for accounting purposes were to change, the timing and amount of our revenue recognized would be impacted.

Certain leases provide for additional rents 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 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 an ongoing 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. The difference between the future minimum lease payments and the estimated residual values less the cost of the properties is recorded as 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.

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

Table of Contents

amortized cost, reduced by a valuation allowance for estimated credit losses. We recognize interest income on loans, including the amortization of discounts and premiums, using the effective interest method 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 life 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.

Allowances are established for loans and DFLs based upon a probable loss estimate for individual loans and DFLs deemed 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 realizable value of any collateral. These estimates consider all available evidence including, as appropriate, 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.

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 or 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, in which all cash receipts reduce the carrying value of the loan or DFL, based on management's judgment of collectibility.

Real Estate

Real estate, consisting of land, buildings and improvements, is recorded at cost. We allocate the cost of the acquisition, including the assumption of liabilities, to the acquired tangible assets and identified intangibles based on their estimated fair values in accordance with SFAS No. 141, *Business Combinations*. In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141R, *Business Combinations*, as revised ("SFAS No. 141R"). SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 141R on January 1, 2009 will, among other things, require us to prospectively expense all transaction costs for business combinations. The implementation of SFAS No. 141R on January 1, 2009 could materially impact our future financial results to the extent that we acquire significant amounts of real estate, as related acquisition costs will be expensed as incurred rather than our past practice of capitalizing such costs and amortizing them over the estimated useful life of the assets acquired.

We assess fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it was vacant.

We record acquired "above and below" market leases at 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 to be paid pursuant to each in-place lease and (ii) our 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 extended term for any

Table of Contents

leases with below market renewal options. Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. In estimating carrying costs, we include estimates of lost rentals at market rates during the hypothetical expected lease-up periods, which are dependent on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related costs.

We are required to make subjective assessments to allocate the purchase price paid to acquire investments in real estate among the assets acquired and liabilities assumed based on our estimate of the fair values of such assets and liabilities. This includes determining the value of the buildings and improvements, land, ground leases, tenant improvements, in-place tenant leases, favorable or unfavorable market leases and any debt assumed from the seller or loans made by the seller to us. Each of these estimates requires significant judgment and some of the estimates involve complex calculations and judgments about useful lives. These allocation assessments have a direct impact on our results of operations as amounts allocated to some assets and liabilities are not subject to depreciation or amortization and those that are have different lives. Additionally, the amortization of value assigned to favorable or unfavorable market rate leases is recorded as an adjustment to rental revenue as compared to amortization of the value of in-place leases, which is included in depreciation and amortization in our consolidated statements of income.

Impairment of Long-Lived Assets and Goodwill

We assess the carrying value of real estate assets and related intangibles ("real estate assets"), whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets* ("SFAS No. 144"). We test our real estate assets for impairment by comparing the sum of the expected undiscounted cash flows to the carrying amount of the real estate asset or asset group. If the carrying value exceeds the expected undiscounted cash flows, an impairment loss will be recognized by adjusting the carrying amount of the real estate assets to their estimated fair value. Our ability to accurately predict future operating results and cash flows and to accurately estimate and allocate fair values impacts the timing and recognition of real estate asset impairments. While we believe our assumptions are reasonable, changes in these assumptions, such as the anticipated hold period for an asset, may have a material impact on our financial results.

Goodwill is tested for impairment by applying the two-step approach defined in SFAS No. 142, *Goodwill and Other Intangible Assets,* at least annually and whenever we identify triggering events that may indicate impairment. Potential impairment indicators include a significant decline in real estate valuations, restructuring plans or a decline in our market capitalization below book value. We test for impairment of our goodwill by comparing the fair value of a reporting unit containing goodwill to its carrying value. If the carrying value exceeds the fair value, the second step of the test is needed to measure the amount of potential goodwill impairment. The second step requires the fair value of the reporting unit to be allocated to all the assets and liabilities of the reporting unit 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. We selected the fourth quarter of each fiscal year to perform our annual impairment test.

The evaluation of goodwill requires significant judgments and estimates when determining fair value, including, but not limited to, real estate market capitalization rates, projected future cash flows, discount rates and the fair value of HCP. We estimated the fair value of HCP based on the market capitalization of our outstanding shares at December 31, 2008 and a control premium of approximately ten percent. This control premium approximates comparable sale transactions during the 18 months prior to our impairment test. We also performed various sensitivity analyses in which real estate capitalization rates, discount rates and the control premium were expanded or contracted by 50 to 100 basis points, noting that the results would not lead to an impairment of our goodwill assets. Our estimates may differ from actual results due to, among other things, economic conditions or changes in operating performance. While we believe our assumptions are reasonable, changes in these assumptions, such as significant expansions in real estate market capitalization rates, may have a material impact on our financial results.

Investments in Unconsolidated Joint Ventures

Investments in entities which we do not consolidate but for which we have 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, our share of the investee's earnings or losses are included in our 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 carrying value of the assets prior to the sale of interests in the joint venture. We evaluate our equity method investments for impairment based upon a comparison of the fair value of the equity method investment to our carrying value. When we determine that a decline in the fair value of our investment in an unconsolidated joint venture is other-than-temporary and is below its carrying value, an impairment is recorded. The determination of the fair value 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, and other relevant factors. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

Income Taxes

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 and state tax authorities, (ii) our ability to qualify as a REIT, (iii) the potential for built-in-gain recognized related to prior-tax-free acquisitions of C corporations, and (iv) changes in tax laws. Adjustments required in any given period are included in income, other than adjustments to income tax liabilities acquired in business combinations, which are adjusted through goodwill.

Results of Operations

We evaluate our business and allocate resources among our five business segments (i) senior housing, (ii) life science, (iii) medical office, (iv) hospital, and (v) skilled nursing. Under the senior housing, life science, hospital and skilled nursing segments, we invest primarily in single operator or tenant properties through the acquisition and development of real estate and by providing financing to operators in these segments. Under the medical office segment, we invest through acquisition in MOBs that are primarily leased under gross or modified gross leases, generally to multiple tenants, and which generally require a greater level of property management. The acquisition of SEUSA on August 1, 2007 resulted in a change to our reportable segments. Prior to the SEUSA acquisition, we operated through two reportable segments triple-net leased and medical office buildings. The senior housing, life science, hospital and skilled nursing segments were previously aggregated under our triple-net leased segment. SEUSA's results are included in our consolidated financial statements from the date of acquisition of August 1, 2007. 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).

Table of Contents

Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

We completed our acquisition of SEUSA on August 1, 2007 and an investment in mezzanine loans with an aggregate face value of $1.0 billion on December 21, 2007. SEUSA's results of operations and the results of these mezzanine loans are reflected in our consolidated financial statements from those respective dates.

Rental and related revenues.

Segments	Year Ended December 31, 2008	Year Ended December 31, 2007	Change $	Change %
	(dollars in thousands)			
Senior housing	$289,876	$293,331	$ (3,455)	(1)%
Life science	208,415	79,660	128,755	NM[(1)]
Medical office	261,732	275,951	(14,219)	(5)
Hospital	82,894	80,960	1,934	2
Skilled nursing	35,982	35,172	810	2
Total	$878,899	$765,074	$113,825	15%

(1) Percentage change not meaningful.

Senior housing. Senior housing rental and related revenues decreased by $3.5 million to $289.9 million, for the year ended December 31, 2008, primarily as a result of income of $9.1 million recognized in 2007, resulting from our change in estimate relating to the collectibility of straight-lined rents due from Emeritus, which was partially offset by the additive effect of our acquisitions during 2008 and 2007. No significant changes in estimates related to the collectibility of straight-lined rents were made during the year ended December 31, 2008.

Life science. Life science rental and related revenues increased by $128.8 million, to $208.4 million, for the year ended December 31, 2008, primarily as a result of our acquisition of SEUSA on August 1, 2007. In addition, included in life science rental and related revenues for the year ended December 31, 2008, is lease termination income of $18 million received from a tenant in connection with the early termination of three leases on July 30, 2008 and rental revenues related to three development projects that were placed into service in 2008.

Medical office. Medical office rental and related revenues for the year ended December 31, 2007 includes $18 million from assets that are no longer consolidated and are now in the HCP Ventures IV, LLC joint venture ("HCP Ventures IV"). The decrease in medical office rental and related revenues resulting from HCP Ventures IV was partially offset by the additive effect of our MOB acquisitions during 2007.

Tenant recoveries.

Segments	Year Ended December 31, 2008	Year Ended December 31, 2007	Change $	Change %
	(dollars in thousands)			
Life science	$33,914	$19,311	$14,603	76%
Medical office	47,015	44,451	2,564	6
Hospital	1,918	1,092	826	76
Total	$82,847	$64,854	$17,993	28%

Table of Contents

The increase in tenant recoveries for the year ended December 31, 2008 was primarily as a result of our acquisition of SEUSA on August 1, 2007, three development projects that were placed into service in 2008, and the additive effect of our other acquisitions during 2007, partially offset by tenant recoveries related to the assets contributed to HCP Ventures IV.

Income from direct financing leases. Income from DFLs decreased $5.7 million to $58.1 million for the year ended December 31, 2008. The decrease was primarily due to two DFL tenants exercising their purchase options on our leased assets during 2007 and two additional DFLs that were placed on non-accrual status and accounted for on a cost-recovery basis beginning October 2008. No purchase options were exercised during 2008. We expect that income from DFLs will decline in 2009 as a result of the two DFLs that are accounted for on a cost-recovery basis.

Investment management fee income. Investment management fee income decreased $7.7 million, to $5.9 million, for the year ended December 31, 2008. The decrease in investment management fee income was primarily due to the acquisition fees earned related to our HCP Ventures II joint venture of $5.4 million on January 5, 2007 and HCP Ventures IV of $3.0 million on April 30, 2007. No acquisition fees were earned for the year ended December 31, 2008.

Depreciation and amortization expenses. Depreciation and amortization expenses increased $55.7 million, to $314.6 million, for the year ended December 31, 2008. The increase was primarily related to our SEUSA acquisition and three development projects that were placed into service in 2008. The increase in depreciation and amortization related to SEUSA was partially offset by our other acquisitions in 2008 and 2007 and by the 2007 expenses related to the assets contributed to HCP Ventures IV.

Operating expenses.

Segments	Year Ended December 31, 2008	Year Ended December 31, 2007	Change $	Change %
	(dollars in thousands)			
Senior housing	$ 10,492	$ 10,958	$ (466)	(4)%
Life science	43,541	26,220	17,321	66
Medical office	135,305	136,171	(866)	(1)
Hospital	3,294	1,907	1,387	73
Total	$ 192,632	$ 175,256	$ 17,376	10%

Operating expenses are predominantly related to MOB and life science properties where we incur the expenses and recover a portion of those expenses under the respective leases. Accordingly, the number of properties in our MOB and life science portfolios directly impact operating expenses. The presentation of expenses as general and administrative or operating is 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 expense.

Life science. Life science operating expenses increased by $17.3 million, to $43.5 million, for the year ended December 31, 2008, primarily as a result of our acquisition of SEUSA on August 1, 2007 and three development projects that were placed into service in 2008.

Medical office. Medical office operating expenses decreased $0.9 million, to $135.3 million, for the year ended December 31, 2008. Medical office operating expenses for the year ended December 31, 2007 include $7.2 million related to assets contributed to HCP Ventures IV. The decrease in medical office operating expenses resulting from HCP Ventures IV was partially

Table of Contents

offset by the additive effect of our MOB acquisitions during 2007 and increased operating expenses in 2008.

Hospital. Hospital operating expenses increased $1.4 million, to $3.3 million, for the year ended December 31, 2008, primarily as a result the additive effect of our hospital acquisitions during 2007.

General and administrative expenses. General and administrative expenses increased $7.3 million, to $75.7 million, for the year ended December 31, 2008. The increase in general and administrative expenses was due to an increase in legal fees of $7 million primarily resulting from litigation and an increase of $11 million related to compensation related expenses and professional fees. These increases were partially offset by a decrease of $10 million in merger and integration-related expenses associated with the SEUSA acquisition and our merger with CNL Retirement Properties, Inc. and CNL Retirement Corp., and a $2 million decrease in costs related to acquisitions that were not consummated in 2007.

The information set forth under the heading "Legal Proceedings" of Note 14 to the Consolidated Financial Statements, included in this report, is incorporated herein by reference.

Impairments. During the year ended December 31, 2008, we recognized impairments of $24.7 million as follows: (i) $16.9 million related to intangible assets associated with the early termination of leases and (ii) $7.8 million related to three senior housing properties and one hospital as a result of a decrease in expected cash flows. No assets were determined to be impaired during the year ended December 31, 2007.

Gain on sale of real estate interest. On April 30, 2007, we sold an 80% interest in HCP Ventures IV, which resulted in a gain of $10.1 million. No similar transactions occurred during the year ended December 31, 2008.

Interest and other income, net. Interest and other income, net increased $81.2 million, to $156.8 million, for the year ended December 31, 2008. The increase was primarily related to an increase of $81.0 million of interest income from our HCR ManorCare mezzanine loan investment made in December 2007 and $28.6 million related to the settlement of litigation with Tenet. The increase in interest and other income, net was partially offset by (i) $7.1 million of lower interest earned on cash balances in 2008, (ii) a decrease in gains resulting from insurance proceeds of $4.9 million in 2007, (iii) an increase in losses from derivatives and hedge ineffectiveness of $6.4 million, (iv) an increase in recognized losses of marketable equity securities and investments in unconsolidated joint ventures of $4.4 million, (v) $3.5 million of fee income related to the early repayment of a loan in 2007, and (vi) a decrease in gains from the sale of marketable debt securities of $3.2 million.

Our mezzanine investment bears interest on the $1.0 billion aggregate face amount at a floating rate of LIBOR plus 4.0%. During the second half of 2008, LIBOR significantly declined. If interest rates stay at current levels or continue to decline, we expect interest income will decline in 2009 relative to amounts in 2008. For a more detailed description of our mezzanine loan investments, see Note 7 of the Consolidated Financial Statements included in this report. Our exposure to income fluctuations related to our variable rate loans is partially mitigated by our variable rate indebtedness. For a more detailed discussion of our interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A.

Interest expense. Interest expense decreased $7.1 million, to $348.4 million, for the year ended December 31, 2008. The decrease was primarily due to: (i) a decrease of $17 million related to the average outstanding balance under our bridge loan and a decline in LIBOR, (ii) an increase of $15 million of capitalized interest related to an increase in assets under development in our life science segment, (iii) a decrease of $10 million resulting from the repayment of $300 million senior unsecured floating rate notes in September 2008, and (iv) a charge of $6 million related to the write-off of unamortized loan fees associated with our previous revolving line of credit facility that was terminated in 2007. The decrease in interest expense was partially offset by: (i) an increase of $34 million of interest expense from the issuance of $1.1 billion of senior unsecured notes during 2007 and (ii) an increase of $6 million related to the average outstanding balances under our line of credit and term loan. Our exposure to expense fluctuations related to our variable rate indebtedness is mitigated by our variable rate investments. For a more detailed discussion of our interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A.

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

	As of December 31,	
	2008	**2007**
Balance:		
Fixed rate	$5,059,910	$4,704,988
Variable rate	892,431	2,822,316
Total	$5,952,341	$7,527,304
Percent of total debt:		
Fixed rate	85%	63%
Variable rate	15	37
Total	100%	100%
Weighted average interest rate at end of period:		
Fixed rate	6.34%	6.18%
Variable rate	2.57%	5.90%
Total weighted average rate	5.77%	6.08%

Income taxes. For the year ended December 31, 2008, income taxes increased $2.8 million to $4.3 million. This increase is primarily due to an increase in taxable income related to a portion of one of our mezzanine loan investments, which was contributed to a TRS in January 2008.

Equity income from unconsolidated joint ventures. For the year ended December 31, 2008, equity income from unconsolidated joint ventures decreased $2.3 million, to $3.3 million. This decrease is primarily due to a change in the expected useful life of certain intangible assets of one of our unconsolidated joint ventures that resulted in higher amounts of amortization expense.

Minority interests' share in earnings. For the year ended December 31, 2008, minority interests' share in earnings decreased $2.3 million, to $21.3 million. This decrease is primarily due to the conversion of 2.8 million of DownREIT units into shares of our common stock during 2008, and to a lesser extent, the purchase in September 2008 of Tenet's minority interest in Health Care Property Partners ("HCPP"), a joint venture between HCP and an affiliate of Tenet. We expect that these conversions and the purchase of Tenet's minority interest in HCPP will decrease distributions of minority interests during 2009 relative to amounts in 2008. See Notes 2 and 4 to the Consolidated Financial Statements in this report for additional information on DownREIT units and HCPP. In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* ("SFAS No. 160"). Upon adoption on January 1, 2009, SFAS No. 160 requires us to include the net income attributable to the minority interests in our consolidated net income. However, the adoption of SFAS No. 160 is not expected to significantly change the amount of net income applicable to common shares.

Table of Contents

Discontinued operations. Income from discontinued operations for the year ended December 31, 2008 was $244.2 million, compared to $473.4 million for the comparable period in the prior year. The decrease is primarily due to a decrease in gains on real estate dispositions. During the year ended December 31, 2008, we sold 51 properties for $643 million, as compared to 97 properties for $922 million in the year-ago period. Additionally, the decrease was attributable to a year over year decline in operating income from discontinued operations of $51.4 million and an increase in impairment charges of $2.8 million. Discontinued operations for the year ended December 31, 2008 included 57 properties compared to 154 for the year ended December 31, 2007. Also included in discontinued operations during the year ended December 31, 2007 was $6 million of rental income we recognized, as a result of a change in estimate related to the collectibility of straight-line rental income from Emeritus.

Comparison of the Year Ended December 31, 2007 to the Year Ended December 31, 2006

We completed our acquisition of SEUSA on August 1, 2007, mergers with CRP and CRC on October 5, 2006 and the acquisition of an interest held by an affiliate of General Electric ("GE") in HCP MOP on November 30, 2006, which resulted in the consolidation of HCP MOP beginning on that date. The results of operations from our SEUSA, CRP and HCP MOP transactions are reflected in our consolidated financial statements from those respective dates.

Rental and related revenues.

Segments	**Year Ended December 31, 2007**	**2006**	**Change $**	**%**
	(dollars in thousands)			
Senior housing	$ 293,331	$ 162,988	$ 130,343	80%
Life science	79,660	14,919	64,741	NM[(1)]
Medical office	275,951	155,801	120,150	77
Hospital	80,960	49,540	31,420	63
Skilled nursing	35,172	32,955		