

HCP, INC.
Form 10-K
February 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____
Commission file number 1-08895

HCP, Inc.

(Exact name of registrant as specified in its charter)

Maryland 33-0091377
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
1920 Main Street, Suite 1200 92614
Irvine, California (Zip Code)
(Address of principal executive offices)
Registrant's telephone number, including area code
(949) 407-0700
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$14.6 billion.

As of January 29, 2016 there were 465,531,737 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's 2016 Annual Meeting of Stockholders have been incorporated by reference into Part III of this Report.

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HCP, Inc.

Form 10-K

For the Fiscal Year Ended December 31, 2015

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

Cautionary Language Regarding Forward-Looking Statements

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

- HCR ManorCare, Inc.’s (“HCRMC”) ability to meet its contractual obligations under the HCRMC lease amendment and risks related to the impact of the United States (“U.S.”) Department of Justice (“DOJ”) lawsuit against HCRMC, including the possibility of larger than expected litigation costs, adverse results and related developments;
- our reliance on a concentration of a small number of tenants and operators for a significant portion of our revenues;
- the financial weakness of our tenants, operators and borrowers, including potential bankruptcies and downturns in their businesses, and their legal and regulatory proceedings, which results in uncertainties regarding our ability to continue to realize the full benefit of such tenants’ and operators’ leases and borrowers’ loans;
- the ability of our tenants, operators 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 and our ability to recover investments made, if applicable, in their operations;
- competition for tenants and operators, including with respect to new leases and mortgages and the renewal or rollover of existing leases;

- competition for skilled management, nurses and other trained personnel;
- availability of suitable properties to acquire at favorable prices and the competition for the acquisition and financing of those properties;
- our ability to negotiate the same or better terms with new tenants or operators if existing leases are not renewed or we exercise our right to replace an existing tenant or operator upon default;
- the risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision making authority and our reliance on our partners' financial condition and continued cooperation;
- our ability to achieve the benefits of investments within expected time frames or at all, or within expected cost projections;
- the potential impact on us, our tenants, operators and borrowers from current and future litigation matters, including the possibility of larger than expected litigation costs, adverse results and related developments;
- the effect on healthcare providers of legislation addressing entitlement programs and related services, including Medicare and Medicaid, which may result in future reductions in reimbursements;
- changes in federal, state or local laws and regulations, including those affecting the healthcare industry that affect our costs of compliance or increase the costs, or otherwise affect the operations, of our tenants and operators;

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- volatility or uncertainty in the capital markets, the availability and cost of capital as impacted by interest rates, changes in our credit ratings, and the value of our common stock, and other conditions that may adversely impact our ability to fund our obligations or consummate transactions, or reduce the earnings from potential transactions;

- changes in global, national and local economic conditions, and currency exchange rates;

- our ability to manage our indebtedness level and changes in the terms of such indebtedness; and

- our ability to maintain our qualification as a real estate investment trust.

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

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PART I

ITEM 1. Business

General Overview

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

Portfolio Summary

At December 31, 2015, we have \$23.5 billion of investments in our Owned Portfolio, Unconsolidated Joint Ventures and Developments and Redevelopments.

Owned Portfolio. At December 31, 2015, our real estate and debt investments in our owned portfolio consisted of the following (square feet and dollars in thousands):

Segment	Number of		Investment(3)		Total	Adjusted	Interest
	Properties(1)	Capacity(2)	Real Estate(1)	Debt	Investment	(Cash) NOI(4)	Income
Senior housing	506	50,608 Units	\$ 9,200,828	\$ 90,805	\$ 9,291,633	\$ 653,811	\$ 28,718
Post-acute/skilled nursing	311	38,163 Beds	4,389,570	780,896	5,170,466	454,371	83,466
Life science	118	7,550 Sq. ft.	3,795,165	—	3,795,165	262,639	—
Medical office	227	17,055 Sq. ft.	3,474,543	—	3,474,543	250,650	—
Hospital	16	2,227 Beds	594,085	—	594,085	85,451	—
Total	1,178		\$ 21,454,191	\$ 871,701	\$ 22,325,892	\$ 1,706,922	\$ 112,184

(1) Represents 1,070 properties under lease with an investment value of \$18.8 billion and 108 senior housing operating properties under RIDEA structures which are permitted by the Housing and Economic Recovery Act of 2008 (commonly referred to as “RIDEA”) (see “Healthcare Segments—Senior housing” section below) with an investment value of \$2.7 billion.

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

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

(4)

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

Unconsolidated Joint Ventures. At December 31, 2015, we had interests in unconsolidated joint ventures representing 27 properties with an aggregate investment of \$1.7 billion, of which our pro rata share was \$848 million, primarily in our senior housing, life science and medical office segments.

Developments and Redevelopments. At December 31, 2015, we had an aggregate investment of \$282 million in assets under development and redevelopment, including our unconsolidated joint venture developments, which are primarily in our life science, medical office and senior housing segments.

For a description of our significant activities during 2015, see Item 7 in this report.

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Business Strategy

We invest and manage our real estate portfolio for the long-term to maximize the benefit to our stockholders and support the growth of our dividends. The core elements of our strategy are: (i) to acquire, develop, lease, own and manage a diversified portfolio of quality healthcare properties across multiple business segments and geographic locations (including Europe); (ii) to align ourselves with leading healthcare companies, operators and service providers, which over the long-term should result in higher relative rental rates, net operating cash flows and appreciation of property values; (iii) to allocate capital targeting a balanced portfolio between longer-term escalating triple-net leases with high-quality tenants, and operating businesses with shorter-term leases in our medical office and life science segments; (iv) to maintain adequate liquidity with long-term fixed rate debt financing with staggered maturities, which supports the longer-term nature of our investments, while reducing our exposure to interest rate volatility and refinancing risk at any point in the interest rate or credit cycles; and (v) to continue to manage our balance sheet with a targeted financial leverage of 40% relative to our assets.

Internal Growth Strategies

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

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

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

Investment Strategies

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

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

We monitor, but do not limit, our investments based on the percentage of our total assets that may be invested in any one property type, investment vehicle or geographic location, the number of properties that may be leased to a single tenant or operator, or loans that may be made to a single borrower. In allocating capital to our multiple segments, we target opportunities with the most attractive risk/reward profile for our portfolio as a whole. We may take additional measures to

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mitigate risk, including diversifying our investments (by sector, geography, tenant or operator), structuring transactions as master leases, requiring tenant or operator insurance and indemnifications, and obtaining credit enhancements in the form of guarantees, letters of credit or security deposits.

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

- our reputation gained through over 30 years of successful operations and the strength of our existing portfolio of properties;
- our relationships with leading healthcare operators and systems, investment banks and other market intermediaries, corporations, private equity firms, non-profits and public institutions seeking to monetize existing assets or develop new facilities;
- our relationships with institutional buyers and sellers of high-quality healthcare real estate;
- our ability to act quickly on due diligence and financing due to the strength of our experienced management team and balance sheet liquidity;
- our track record and reputation for executing acquisitions responsively and efficiently, which provides confidence to domestic and foreign institutions and private investors who seek to sell healthcare real estate in our market areas;
- our relationships with nationally recognized financial institutions that provide capital to the healthcare and real estate industries;
- our control of sites (including assets under contract with radius restrictions); and
- in addition, we regularly conduct portfolio reviews that help identify assets ranked in the bottom tier(s). We look for opportunities to monetize such non-core assets to improve the overall quality of our portfolio.

Financing Strategies

Our REIT qualification requires us to distribute at least 90% of our REIT taxable income (excluding net capital gains); therefore, we don't retain capital. As a result, we regularly access the public equity and debt markets to raise the funds necessary to finance acquisitions and debt investments, develop and redevelop properties, and refinance maturing debt.

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

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

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

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

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Competition

Investing in real estate serving the healthcare industry is highly competitive. We face competition from other REITs, investment companies, pension funds, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater flexibility (e.g., non-REIT competitors), resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. Our ability to compete may also be impacted by global, national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends.

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

Healthcare Segments

Senior housing. At December 31, 2015, we had interests in 528 senior housing facilities, including 22 properties owned by our unconsolidated joint ventures. Our senior housing facilities are managed utilizing triple-net leases and RIDEA structures and include independent living facilities (“ILFs”), assisted living facilities (“ALFs”), memory care facilities (“MCFs”), care homes, and continuing care retirement communities (“CCRCs”), which cater to different segments of the elderly population based upon their personal needs. Services provided by our tenants or operators in these facilities are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicare and Medicaid.

We have entered into long-term agreements with operators, including Brookdale Senior Living, Inc. (“Brookdale”) to manage properties that are operated under a RIDEA structure. Under the provisions of RIDEA, a REIT may lease a “qualified healthcare property” on an arm’s length basis to a taxable REIT subsidiary (“TRS”), if the property is managed on behalf of such subsidiary by a person who qualifies as an “eligible independent contractor.” RIDEA structures allow us to own the risks and rewards of the operations of healthcare facilities (as compared to leasing the property for contractual triple-net rents) in a tax efficient manner. We view RIDEA as a structure primarily to be used on properties that present attractive valuation entry points and/or growth profiles by: (i) transitioning the asset to a new operator that can bring scale, operating efficiencies, and/or ancillary services; or (ii) investing capital to reposition the asset. Brookdale provides comprehensive facility management and accounting services with respect to our senior housing RIDEA properties, for which we pay annual management fees pursuant to the aforementioned agreements. Most of the management agreements have terms ranging from 10 to 15 years, with 5-year renewals. The base management fees are 4.5% to 5.0% of gross revenues (as defined) generated by the RIDEA facilities. In addition, there are incentive management fees payable to Brookdale if operating results of the RIDEA properties exceed pre-established EBITDAR (defined as earnings before interest, taxes, depreciation and amortization, and rent) thresholds. As of December 31, 2015, 127 properties were under RIDEA structures, 19 of which were owned by our unconsolidated joint ventures.

Our senior housing property types under both triple-net leases and RIDEA structures are further described below:

· Independent Living Facilities. ILFs are designed to meet the needs of seniors who choose to live in an environment surrounded socially by their peers with services such as housekeeping, meals and activities. Additionally, the programs and services may include transportation, social activities, exercise and fitness programs, beauty or barber shop access, hobby and craft activities, community excursions, meals in a dining room setting and other activities sought by residents. These residents generally do not need assistance with activities of daily living (“ADL”). However, in some of our facilities, residents have the option to contract for these services. At December 31, 2015, we had interests in 80 ILFs.

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- Assisted Living Facilities. ALFs are licensed care facilities that provide personal care services, support and housing for those who need help with ADL, such as bathing, eating, dressing and medication management, yet require limited medical care. These facilities are often in apartment-like buildings with private residences ranging from single rooms to large apartments. Certain ALFs may have a dedicated portion of a facility that offers higher levels of personal assistance for residents requiring memory care as a result of Alzheimer’s disease or other forms of dementia. Levels of personal assistance are based in part on local regulations. At December 31, 2015, we had interests in 308 ALFs.
- Memory Care Facilities. MCFs address the unique challenges of our residents with Alzheimer’s disease or other forms of dementia. Residents may live in semi-private apartments or private rooms and have structured activities delivered by staff members trained specifically on how to care for residents with memory impairment. These facilities offer programs that provide comfort and care in a secure environment. At December 31, 2015, we had interests in 73 MCFs.
- Care Homes (United Kingdom). Care homes offer personal care services, such as lodging, meal services, housekeeping and laundry services, medication management and assistance with ADL. Care homes are registered to provide different levels of services, ranging from personal care to nursing care. Some homes can be further registered for a specific care need, such as dementia or terminal illness. At December 31, 2015, we had interests in 40 care homes.
- Continuing Care Retirement Communities. CCRCs offer several levels of assistance, including independent living, assisted living and nursing home care. CCRCs are different from other housing and care options for seniors because they usually provide written agreements or long-term contracts between residents and the communities (frequently lasting the term of the resident’s lifetime), which offer a continuum of housing, services and healthcare on one campus or site. CCRCs are appealing as they allow residents to “age in place.” CCRCs typically require the individual to be in relatively good health and independent upon entry. At December 31, 2015, we had interests in 27 CCRCs. Our senior housing segment accounted for approximately 42%, 39% and 36% of total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. The following table provides information about our senior housing tenant/operator concentration for the year ended December 31, 2015:

Tenants/Operators	Percentage of Segment Revenues	Percentage of Total Revenues
Brookdale(1)	23%	10%
HCRMC(2)	7%	23%

- (1) Percentages do not include senior housing facilities that Brookdale manages (is not a tenant) under a RIDEA structure.
- (2) Percentage of total revenues includes revenues earned from both senior housing and post-acute/skilled nursing facilities leased to HCRMC.

Post-acute/skilled nursing. At December 31, 2015, we had interests in 311 post-acute/skilled nursing facilities (“SNFs”). SNFs offer restorative, rehabilitative and custodial nursing care for people following a hospital stay or not requiring the more extensive and complex treatment available at hospitals. Ancillary revenues and revenues from sub-acute care services are derived from providing services to residents beyond room and board and include occupational, physical, speech, respiratory and intravenous therapy, wound care, oncology treatment, brain injury care and orthopedic therapy, as well as sales of pharmaceutical products and other services. Certain SNFs provide some of the foregoing services on an out-patient basis. Post-acute/skilled nursing services provided by our tenants and operators in these facilities are paid for by private sources, third-party payors (e.g., insurance and Managed Care Organizations or “MCOs”) or through the Medicare (including Managed Care) and Medicaid programs. All of our SNFs are triple-net leased.

- Care Homes (United Kingdom). Our post-acute/skilled nursing property types include care homes in the United Kingdom (“U.K.”) that provide nursing care, which is care that (i) goes above and beyond that necessary to allow an individual to carry out their activities of daily living, (ii) needs to be administered by a qualified nurse or other medical professional, and (iii) may include management and administration of medicine, intravenous therapy, wound care or other medical services. At December 31, 2015, we had interests in 21 care homes.

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Our post-acute/skilled nursing segment accounted for approximately 24%, 27% and 29% of total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. The following table provides information about our post-acute/skilled nursing tenant/operator concentration for the year ended December 31, 2015:

Tenants/Operators	Percentage of Segment Revenues	Percentage of Total Revenues
HCRMC(1)	80	23

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

For a description of significant HCRMC updates during 2015, see Item 7 in this report.

Life science. At December 31, 2015, we had interests in and managed 122 life science properties, including four facilities owned by our unconsolidated joint ventures. These properties contain laboratory and office space primarily for biotechnology, medical device and pharmaceutical companies, scientific research institutions, government agencies and other organizations involved in the life science industry. While these properties have characteristics similar to commercial office buildings, they generally contain more advanced electrical, mechanical, and heating, ventilating and air conditioning (“HVAC”) systems. The facilities generally have specialty equipment including emergency generators, fume hoods, lab bench tops and related amenities. In many instances, life science tenants make significant investments to improve their leased space, in addition to landlord improvements, to accommodate biology, chemistry or medical device research initiatives.

Life science properties are primarily configured in business park or campus settings and include multiple buildings. The business park and campus settings allow us the opportunity to provide flexible, contiguous/adjacent expansion to accommodate the growth of existing tenants. Our properties are located in well-established geographical markets known for scientific research and drug discovery, including San Francisco and San Diego, California, Salt Lake City, Utah, Durham, North Carolina and Boston, Massachusetts. At December 31, 2015, 98% of our life science properties were triple-net leased (based on leased square feet).

Our life science segment accounted for approximately 13%, 14% and 14% of total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. The following table provides information about our life science tenant concentration for the year ended December 31, 2015:

Tenants	Percentage of Segment Revenues	Percentage of Total Revenues
Genentech, Inc.(1)	17	2
Amgen, Inc.	15	2

(1) Pursuant to a purchase and sale agreement in January 2016, the tenant exercised its purchase options under its lease. Accordingly, the percentage of segment revenues will decrease below 10% upon the completion of the sales.

Medical office. At December 31, 2015, we had interests in and managed 228 medical office buildings (“MOBs”),

including a facility owned by our unconsolidated joint venture. MOB's typically contain physicians' offices and examination rooms, and may also include pharmacies, hospital ancillary service space and outpatient services such as diagnostic centers, rehabilitation clinics and day-surgery operating rooms. While these facilities are similar to commercial office buildings, they require additional plumbing, electrical and mechanical systems to accommodate multiple exam rooms that may require sinks in every room, and special equipment such as x-ray machines. In addition, MOB's are often built to accommodate higher structural loads for certain equipment and may contain vaults or other specialized construction. Our MOB's are typically multi-tenant properties leased to healthcare providers (hospitals and physician practices), with approximately 83% of our MOB's, based on square feet, located on hospital campuses and 95% are affiliated with hospital systems. Occasionally, we invest in MOB's located on hospital campuses which may be subject to ground leases. At December 31, 2015, approximately 50% of our medical office buildings were triple-net leased (based on leased square feet).

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Our medical office segment accounted for approximately 17%, 16% and 17% of total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. The following table provides information about our medical office tenant/operator concentration for the year ended December 31, 2015:

Tenants/Operators	Percentage of Segment Revenues	Percentage of Total Revenues
HCA(1)	14	3

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

Hospital. At December 31, 2015, we had interests in and managed 16 hospitals. Services provided by our tenants and operators in these facilities are paid for by private sources, third-party payors (e.g., insurance and HMOs) or through Medicare and Medicaid programs. Our hospital property types include acute care, long-term acute care, specialty and rehabilitation hospitals. All of our hospitals are triple-net leased.

Our hospital segment accounted for approximately 3%, 4% and 4% of total revenues for the years ended December 31, 2015, 2014 and 2013, respectively. The following table provides information about our hospital tenant/operator concentration for the year ended December 31, 2015:

Tenants/Operators	Percentage of Segment Revenues	Percentage of Total Revenues
HCA(1)	29	3
Tenet Healthcare Corporation	26	1

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

Sustainability

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

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

Our 2015 sustainability achievements include being named the Healthcare Leader in the Light Award winner by the National Association of Real Estate Investment Trusts (“NAREIT”) and constituency in the FTSE4Good Index series for the fourth consecutive year.

Additionally, we achieved constituency in the North America Dow Jones Sustainability Index (DJSI) for the third consecutive year, as well as the World DJSI for the first time. Accordingly, HCP was included in The Sustainability Yearbook, a listing of the world’s most sustainable companies which includes only those companies in the top 15% of their industry, as scored by the DJSI assessment. We were also named Industry Mover, as the company achieving the largest proportional improvement in sustainability performance in our industry as compared to our DJSI score in the previous year. For additional information regarding our sustainability initiatives, please visit our website at www.hcpi.com/sustainability.

Insurance

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

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

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

Employees of HCP

At December 31, 2015, we had 187 full-time employees, none of whom were subject to a collective bargaining agreement.

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

Based on information primarily provided by our tenants and operators, excluding our medical office segment, at December 31, 2015, we estimate that approximately 13% and 12% of the annualized base rental payments received from our tenants and operators were dependent on Medicare and Medicaid reimbursement, respectively.

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

Fraud and Abuse Enforcement

There are various extremely complex U.S. federal and state laws and regulations (and in relation to our facilities located in the U.K., national laws and regulations of England, Scotland, Northern Ireland, and Wales) governing healthcare providers' relationships and arrangements and prohibiting fraudulent and abusive practices by such providers. These laws include: (i) U.S. federal, state false claims acts and U.K. anti-fraud legislation and regulation, which, among other things, prohibit providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other U.S. federal or state or U.K. healthcare programs; (ii) U.S. federal, state anti-kickback and fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit or restrict the payment or receipt of remuneration to induce referrals or recommendations of healthcare items or services, and U.K. legislation and regulations on financial inducements and vested interests; (iii) U.S. federal and state physician self-referral laws (commonly referred to as the "Stark Law"), which generally prohibit referrals by physicians to entities with which the physician or an immediate family member has a financial relationship; (iv) the federal Civil Monetary Penalties Law, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services; and (v) U.S. federal, state and U.K. privacy laws, including the privacy and security rules contained in the Health Insurance Portability and Accountability Act of 1996 (commonly referred to as "HIPAA") and the U.K. Data Protection Act 1988, which provide for the privacy and security of personal health information. Violations of U.S. and U.K. healthcare fraud and abuse laws

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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 in the U.S. can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring qui tam or “whistleblower” actions. Many of our tenants and operators are subject to these laws, and may become the subject of governmental enforcement actions if they fail to comply with applicable laws.

Reimbursement

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

Healthcare Licensure and Certificate of Need

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

Life Science Facilities

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

Senior Housing Entrance Fee Communities

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

Americans with Disabilities Act (the “ADA”)

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

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modifications as appropriate in this respect.

Environmental Matters

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

Available Information

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 (the "Exchange Act") are available on our website, free of charge, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the U.S. Securities and Exchange Commission ("SEC").

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

ITEM 1A. Risk Factors

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

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

- risks related to our business and operations;
- risks related to our capital structure and market conditions;
- risks related to other events; and
- risks related to tax, including REIT-related risks.

Risks Related to Our Business and Operations

We depend on a limited number of tenants and operators for a large percentage of our revenues and net operating income.

We manage our facilities utilizing lease and RIDEA structures. Under our lease arrangements, we generated 33% of our revenues from HCRMC (23%) and Brookdale (10%) during the year ended December 31, 2015. HCRMC is an operator that primarily provides post-acute care, skilled nursing care and assisted living services, and relies heavily on government reimbursement programs such as Medicare and Medicaid.

In addition to our lease arrangement with Brookdale, under RIDEA structures, we generated 8% of our net operating

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income from properties managed by Brookdale during the year ended December 31, 2015. Services provided by our tenants or operators in facilities managed under a RIDEA structure are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs. We report the resident level fees and services revenues and corresponding operating expenses in our consolidated financial statements.

The inability or other failure of either HCRMC under its lease agreements, or Brookdale under its lease agreements and RIDEA structures, to meet their obligations to us could materially reduce our cash flow, net operating income and results of operations, which could in turn reduce the amount of dividends we pay to our stockholders, cause our stock price to decline and have other materially adverse effects on our business, results of operations and financial condition.

In addition, any failure by HCRMC or Brookdale to effectively conduct their operations or to maintain and improve our properties could adversely affect their business reputation and their ability to attract and retain patients and residents in our properties, which could have a materially adverse effect on our business, results of operations and financial condition. Furthermore, they each face an increasingly competitive labor market for skilled management personnel and nurses, which can cause operating costs to increase. While HCRMC and Brookdale generally have also agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses, they may have insufficient assets, income, access to financing and/or insurance coverage to enable them to satisfy their indemnification obligations.

The real estate portfolio that we have master leased to HCRMC accounts for a significant portion of our assets and revenues. Adverse regulatory and operational developments in HCRMC's business and financial condition have had, and could continue to have, an adverse effect on us.

HCRMC, a provider of a range of healthcare services, primarily in post-acute care, skilled nursing care and assisted living, is our largest tenant, representing 23% of our gross assets and revenues as of and for the year ended December 31, 2015. In April 2011, we completed a \$6 billion acquisition of substantially all the real estate assets of, and an equity interest in, HCRMC. In the first quarter 2015, we recorded an impairment charge of \$478 million related to the real estate portfolio master leased to HCRMC, based on the present value of the future lease payments under the amendment to the master lease with HCRMC that became effective April 1, 2015. As a result of HCRMC's fourth quarter 2015 performance deterioration and related decline in fixed charge coverage, we subsequently placed the real estate portfolio master leased to HCRMC on "Watch List" status effective at year-end 2015, and changed our accounting treatment to recognize rental income on a cash basis beginning January 1, 2016. Furthermore, HCRMC's preliminary 2016 forecast indicates only limited improvement in its fixed charge coverage and free cash flow after capital expenditures in 2016. Accordingly, we assessed the value of this real estate portfolio, including obtaining an independent valuation appraisal of our post-acute/skilled nursing and senior housing facilities. As a result, we reduced the carrying value of this real estate portfolio to \$5.2 billion, approximating its estimated market value, which resulted in an impairment charge of \$817 million recorded in the fourth quarter of 2015.

In the fourth quarter of 2014 and the third quarter of 2015, we recorded impairment charges of \$36 million and \$27 million, respectively, for our equity ownership interest in HCRMC. These impairment charges resulted primarily from our review of their 2015 preliminary base financial forecast, operating results and other financial information provided by HCRMC, as well as market and industry data that, among other factors, showed a declining trend in admissions from hospitals and continuing trends in mix and length of stay driven by Medicare Advantage and other Managed Care plans. As a result of HCRMC's fourth quarter 2015 performance deterioration, we recorded an additional impairment charge of \$19 million for our equity ownership in HCRMC, reducing its carrying value to zero.

On April 20, 2015, the DOJ unsealed a previously filed complaint in the United States District Court for the Eastern District of Virginia against HCRMC and certain of its affiliates in three consolidated cases following a civil

investigation arising out of three lawsuits filed by former employees of HCRMC under the qui tam provisions of the federal False Claims Act. The complaint alleges that HCRMC submitted claims to Medicare for therapy services that were not covered by the skilled nursing facility benefit, were not medically reasonable and necessary, and were not skilled in nature, and therefore not entitled to Medicare reimbursement. HCRMC incurred legal and regulatory defense costs of \$3 million and \$9 million during the fourth quarter and full year 2015, respectively. While the DOJ litigation is at an early stage and HCRMC has indicated that it believes the claims are unjust and it will vigorously defend against them, the ultimate outcome is uncertain and could, among other things, cause HCRMC to: (i) incur substantial additional time and costs to respond to and defend

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HCRMC's actions in the litigation with the DOJ and any other third-party payors; (ii) refund or adjust amounts previously paid for services under governmental programs and to change business operations going forward in a manner that negatively impacts future revenue; (iii) pay substantial fines and penalties and incur other administrative sanctions, including having to conduct future business operations pursuant to a corporate integrity agreement, which may be with the Office of Inspector General of the Department of Health and Human Services; (iv) lose the right to participate in the Medicare or Medicaid programs; and (v) suffer damage to HCRMC's reputation. In addition, any settlement in the DOJ litigation, with or without an admission of wrongdoing, may include a substantial monetary component that could have a material adverse effect on HCRMC's liquidity and financial condition that makes it difficult or not possible for HCRMC to meet its obligations under its amended master lease with us.

Continued deterioration in HCRMC's operating performance, business or financial condition, or adverse regulatory developments, could further reduce the revenues we earn under our master lease with HCRMC, further impair the value of our master lease with HCRMC, and result in, among other adverse events, acceleration of HCRMC's indebtedness, impairment of its continued access to capital, the enforcement of default remedies by its counterparties, or the commencement of insolvency proceedings by or against it under the U.S. Bankruptcy Code, any one or a combination of which could have a materially adverse effect on us.

See additional information regarding the aforementioned impairment charges, equity interest in HCRMC and master lease with HCRMC in: (i) Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—2015 Transaction Overview"; and (ii) Note 6 (Net Investment in Direct Financing Leases), Note 8 (Investments in and Advances to Unconsolidated Joint Ventures), Note 17 (Impairments) and Note 23 (Concentration of Credit Risk) to the Consolidated Financial Statements.

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

As of December 31, 2015, Brookdale managed 108 senior housing facilities that we own and 15 CCRCs owned by our unconsolidated joint venture pursuant to long-term management agreements. For the year ended December 31, 2015, these properties represented 12% and 10% of our gross assets and revenues, respectively. Although we have various rights as the property owner under our management agreements, we rely on Brookdale's personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our senior living operations efficiently and effectively. We also rely on Brookdale to set appropriate resident fees, to provide accurate property-level financial results for our properties in a timely manner and to otherwise operate our senior housing communities in compliance with the terms of our management agreements and all applicable laws and regulations.

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

The bankruptcy, insolvency or financial deterioration of one or more of our major tenants, operators or borrowers 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. We are also a direct or indirect lender to various tenants and operators. Although our leases, financing arrangements and other agreements with our tenants and operators generally provide us the right under specified circumstances to terminate a lease, evict a tenant or operator, or demand immediate repayment of certain obligations to us, the bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization that may render certain of these remedies unenforceable, or at the

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least, delay our ability to pursue such remedies. For example, we cannot evict a tenant or operator solely because of its bankruptcy filing. A debtor has the right to assume, or to assume and assign to a third party, or to reject its unexpired contracts in a bankruptcy proceeding. If a debtor were to reject its leases with us, our claim against the debtor for unpaid and future rents would be limited by the statutory cap set forth in the U.S. Bankruptcy Code, which may be substantially less than the remaining rent actually owed under the lease. In addition, a debtor may assert in a bankruptcy proceeding that our lease should be re-characterized as a financing agreement, in which case our rights and remedies as a lender, compared to a landlord, generally would be more limited.

Also, if a debtor-manager seeks bankruptcy protection, the automatic stay provisions of the U.S. Bankruptcy Code would preclude us from enforcing our remedies against the manager unless relief is first obtained from the court having jurisdiction over the bankruptcy case. In any of these events, we also may be required to fund certain expenses and obligations (e.g., real estate taxes, insurance, debt costs and maintenance expenses) to preserve the value of our properties, avoid the imposition of liens on our properties or transition our properties to a new tenant, operator or manager. Furthermore, many of our facilities are leased to healthcare providers who provide long-term custodial care to the elderly; evicting such operators for failure to pay rent while the facility is occupied may involve specific procedural requirements and may not be successful.

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

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

The healthcare industry is highly competitive. The occupancy levels at, and rental income from, our facilities are dependent on our ability and the ability of our tenants, operators and borrowers to compete with other tenants and operators on a number of different levels, including the quality of care provided, reputation, the physical appearance of a facility, price, the range of services offered, family preference, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, and the size and demographics of the population in the surrounding area. In addition, our tenants, operators and borrowers face an increasingly competitive labor market for skilled management personnel and nurses. An inability to attract and retain skilled management personnel and nurses and other trained personnel could negatively impact the ability of our tenants, operators and borrowers to meet their obligations to us. A shortage of nurses or other trained personnel or general inflationary pressures on wages may force tenants, operators and borrowers to enhance pay and benefits packages to compete effectively for skilled personnel, or to use more expensive contract personnel, but they be unable to offset these added costs by increasing the rates charged to residents. Any increase in labor costs and other property operating expenses or any failure by our tenants, operators or borrowers to attract and retain qualified personnel could adversely affect our cash flow and have a materially adverse effect on our business, results of operations and financial condition.

Our tenants, operators and borrowers also compete with numerous other companies providing similar healthcare services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. This competition, which is due, in part, to over development in some segments in which we invest, has caused the occupancy rate of newly constructed buildings to slow and the monthly rate that many newly built and previously existing facilities were able to obtain for their services to decrease.

We cannot be certain that our tenants, operators and borrowers will be able to achieve occupancy and rate levels, and to manage their expenses, in a way that will enable them to meet all of their obligations to us. Further, many competing companies may have resources and attributes that are superior to those of our tenants, operators and borrowers. They may encounter increased competition that could limit their ability to maintain or attract residents or expand their businesses or to manage their expenses, either of which could materially adversely affect their ability to meet their financial and other contractual obligations to us, potentially decreasing our revenues, impairing our assets, and/or increasing our collection and dispute costs.

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

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

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

For the year ended December 31, 2015, 35% of our revenue was derived from properties located in California (22%) and Texas (13%). As a result, we may be subject to increased exposure to adverse conditions affecting these regions, including downturns in the local economies or changes in local real estate conditions, increased competition or decreased demand, changes in state-specific legislation and local climate events and natural disasters (such as earthquakes, wildfires and hurricanes), which could adversely affect our business and results of operations.

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

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

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

Property development is a component of our growth strategy. At December 31, 2015, our actual investment and estimated commitments under our development platform, including land held for redevelopment, represented approximately \$721 million, or 3% of our total assets. Large-scale, ground-up development of healthcare properties presents additional risks for us, including risks that:

- a development opportunity may be abandoned after expending significant resources resulting in the loss of deposits or failure to recover expenses already incurred;
- the development and construction costs of a project may exceed original estimates due to increased interest rates and higher materials, transportation, labor, leasing or other costs, which could make the completion of the development project less profitable;
- construction and/or permanent financing may not be available on favorable terms or at all;

- the project may not be completed on schedule as a result of a variety of factors that are beyond our control, including natural disasters, labor conditions, material shortages, regulatory hurdles, civil unrest and acts of war, which can result in increases in construction costs and debt service expenses or provide tenants or operators with the right to terminate pre-construction leases; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to

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make the property profitable.

Any of the foregoing risks could materially adversely affect our business, results of operations and financial condition.

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

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

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

Any of the foregoing risks could materially adversely affect our business, results of operations and financial condition.

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

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

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

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

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

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

Our tenants, operators and borrowers face litigation and may continue to experience rising liability and insurance costs.

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

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

Certain of our tenants, operators and borrowers are affected, directly or indirectly, by an extremely complex set of federal, state and local laws and regulations pertaining to governmental reimbursement programs. Such laws and regulations are subject to frequent and substantial changes that are sometimes applied retroactively. See "Item 1—Business—Government Regulation, Licensing and Enforcement" above. For example, to the extent that any of our tenants or operators receive a significant portion of their revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to:

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

If our tenants, operators or borrowers directly or indirectly fail to comply with the extensive laws, regulations and other requirements applicable to their business and the operation of our properties, they could become ineligible to receive reimbursement from governmental reimbursement programs, face bans on admissions of new patients or residents, suffer civil or criminal penalties or be required to make significant changes to their operations. These laws

and regulations 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. For

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example, one of our borrowers, Tandem Health Care, has an operator of its facilities, Consulate Health Care (“Consulate”), facing a qui tam or “whistleblower” action alleging that Consulate overbilled the federal government and the State of Florida. Our tenants, operators and borrowers could be adversely affected by the resources required to respond to an investigation or other enforcement action. In such event, the results of operations and financial condition of our tenants and the results of operations of our properties operated by those entities could be materially adversely affected, which, in turn, could have a materially adverse effect on us. We are unable to predict future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation, and any changes in the regulatory framework could have a materially adverse effect on our tenants, which, in turn, could have a materially adverse effect on us.

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

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

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

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

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

Our tenants, operators and borrowers are subject to or impacted by extensive, frequently changing federal, state, local and international laws and regulations. These laws and regulations include, among others: laws protecting consumers

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

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

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

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

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

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

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

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

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

Transfers of healthcare facilities to successor tenants or operators may be subject to regulatory approvals or ratifications, including, but not limited to, change of ownership approvals under certificate of need laws and Medicare

and Medicaid provider arrangements that are not required for transfers of other types of commercial operations and other types of real estate. The replacement of any tenant or operator could be delayed by the regulatory approval process of any federal, state or local government agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. If we are unable to find a suitable replacement tenant or operator upon favorable terms, or at all, we may take possession of a facility, which might expose us to successor liability, require us to indemnify subsequent operators to

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whom we might transfer the operating rights and licenses, or spend substantial time and funds to adapt the facility to other uses, all of which may materially adversely affect our business, results of operations and financial condition.

Risks Related to Our Capital Structure and Market Conditions

We rely on external sources of capital to fund future capital needs, and if access to such capital is unavailable on acceptable terms or at all, it could have a materially adverse effect on our ability to meet commitments as they become due or make future investments necessary to grow our business.

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

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

If access to capital is unavailable on acceptable terms or at all, it could have a materially adverse impact on our ability to fund operations, repay or refinance our debt obligations, fund dividend payments, acquire properties and make the investments needed to grow our business.

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

Our credit ratings can affect the amount and type of capital we can access, as well as the terms of any financings we may obtain. We may be unable to maintain our current credit ratings, and in the event that our current credit ratings deteriorate, we would likely incur higher borrowing costs, and it may be more difficult or expensive to obtain additional financing or refinance existing obligations and commitments. Also, a downgrade in our credit ratings would trigger additional costs or other potentially negative consequences under our current and future credit facilities and debt instruments. The credit ratings of our senior unsecured debt are based on, among other things, our operating performance, liquidity and leverage ratios, overall financial position, level of indebtedness and pending or future changes in the regulatory framework applicable to our operators and our industry.

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

Our outstanding indebtedness as of December 31, 2015, was approximately \$11.1 billion. We may incur additional indebtedness in the future, including in connection with the development or acquisition of assets, which may be substantial. Any significant additional indebtedness could negatively affect the credit ratings of our debt and require us to dedicate a substantial portion of our cash flow to interest and principal payments due on our indebtedness. Greater demands on our cash resources may reduce funds available to us to pay dividends, conduct development activities, make capital

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

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

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

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

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

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

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

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

Market volatility could also lead to significant uncertainty in the valuation of our investments and those of our joint ventures, which may result in a substantial decrease in the value of our properties and those of our joint ventures. As a result, we may be unable to recover the carrying amount of such investments and the associated goodwill, if any, which may require us to recognize impairment charges in earnings.

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

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

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

Risks Related to Other Events

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

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

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

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

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

From time to time, we are involved in legal proceedings, lawsuits and other claims. We may also be named as defendants in lawsuits arising out of our alleged actions or the alleged actions of our tenants and operators for which such tenants and operators have agreed to indemnify, defend and hold us harmless. An unfavorable resolution of any such litigation may have a materially adverse effect on our business, results of operations and financial condition. Regardless of the outcome, litigation or other legal proceedings may result in substantial costs, disruption of our normal business operations and the diversion of management attention. We may be unable to prevail in, or achieve a favorable settlement of, any pending or future legal action against us.

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

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

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

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

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

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

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

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

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

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, and maintaining personal identifying information and tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for the processing, transmission and storage of confidential tenant and customer data, including individually identifiable information relating to financial accounts. Although we have taken steps to protect the security of

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our information systems and the data maintained in those systems, it is possible that our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. The risk of security breaches has generally increased as the number, intensity and sophistication of attacks have increased. In some cases, it may be difficult to anticipate or immediately detect such incidents and the damage they cause. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a materially adverse effect on our business, financial condition and results of operations.

Risk Related to Tax, including REIT-Related Risks

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

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

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

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

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

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the U.S. Internal Revenue Service (the "IRS") and the U.S. Treasury Department, which results in statutory

changes as well as frequent revisions to regulations and interpretations. Revisions in federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

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

If, during the five-year period beginning on the date we acquire certain companies, we recognize a gain on the disposition of any property acquired, then, to the extent of the excess of (i) the fair market value of such property as of the acquisition

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date over (ii) our adjusted income tax basis in such property as of that date, we will be required to pay a corporate-level federal income tax on this gain at the highest regular corporate rate. There can be no assurance that these triggering dispositions will not occur, and these requirements could limit, delay or impede future sales of our properties.

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

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

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

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

The lease of “qualified healthcare properties” to a taxable REIT subsidiary, or TRS, is subject to special requirements.

We may lease certain “qualified healthcare properties” to a TRS, which in turn contracts with a manager or related party to operate the property. The rents from this TRS lessee structure are treated as qualifying rents from real property if (i) they are paid pursuant to an arms-length lease of a “qualified healthcare property” with the TRS and (ii) the manager qualifies as an “eligible independent contractor,” as defined in the Code. If either of these conditions is not satisfied, then the rents will not be qualifying rents.

Recent tax legislation impacts certain U.S. federal income tax rules applicable to REITs and could adversely affect our current tax positions.

The recently enacted Protecting Americans from Tax Hikes Act of 2015 (the “Act”) contains changes to certain aspects of the U.S. federal income tax rules applicable to us. The Act is the most recent example of changes to the REIT rules, and additional legislative changes may occur that could adversely affect our current tax positions. The Act modifies various rules that apply to our ownership of, and business relationship with, our TRSs and reduces the maximum allowable value of our assets attributable to TRSs from 25% to 20% which could impact our ability to enter into future investments. The Act makes permanent the reduction of the recognition period (from ten years to five years) during which an entity that converted from a corporation to a REIT or was acquired by a REIT is subject to a corporate-level tax on built-in gains recognized during such period, which could influence the types of investments we enter into in the future. The Act also makes multiple changes related to the Foreign Investment in Real Property Tax Act, or

FIRPTA, expands prohibited transaction safe harbors and qualifying hedges, and repeals the preferential dividend rule for public REITs previously applicable to us. Lastly, the Act adjusts the way we may calculate certain earnings and profits calculations to avoid double taxation at the stockholder level, and expands the types of qualifying assets and income for purposes of the REIT requirements. The provisions enacted by the Act could result in changes in our tax positions or investments, and future legislative changes related to those rules described above could have a materially adverse impact on our results of operations and financial condition.

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

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

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

- location, construction quality, age, condition and design of the property;
- geographic area, proximity to other healthcare facilities, type of property and demographic profile, including new competitive supply;
- whether the expected risk-adjusted return exceeds the incremental cost of capital;
- whether the rent or operating income provides a competitive market return to our investors;
- duration, rental rates, tenant and operator quality and other attributes of in-place leases, including master lease structures and coverage;
- current and anticipated cash flow and its adequacy to meet our operational needs;
- availability of security such as letters of credit, security deposits and guarantees;
- potential for capital appreciation;
- expertise and reputation of the tenant or operator;
- occupancy and demand for similar healthcare facilities in the same or nearby communities;
- the mix of revenues generated at healthcare facilities between privately paid and government reimbursed;

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- availability of qualified operators or property managers and whether we can manage the property;
- potential alternative uses of the facilities;
 - the regulatory and reimbursement environment in which the properties operate;
- tax laws related to REITs;
- prospects for liquidity through financing or refinancing; and
- our access to and cost of capital.

Property and Direct Financing Lease Investments

The following table summarizes our property and direct financing lease (“DFL”) investments in our Owned Portfolio as of and for the year ended December 31, 2015 (square feet and dollars in thousands):

Facility Location	Number of Facilities	Capacity (Units)	Gross Asset Value(1)	Rental Revenues(2)	Operating Expenses
Senior housing—real estate:					
California	27	2,633	\$ 546,272	\$ 54,646	\$ 2,663
Texas	28	3,513	438,060	47,205	1
Florida	23	2,582	374,000	28,590	8
Oregon	25	2,042	306,098	26,427	329
Virginia	9	1,154	252,318	19,555	—
Washington	17	1,200	211,010	16,778	—
Colorado	6	908	192,532	17,704	—
Other (33 States)	134	11,680	1,907,453	173,232	1,112
	269	25,712	4,227,743	384,137	4,113
Senior housing—real estate (U.K.):					
Other (U.K.)	40	1,855	213,324	17,557	—
Senior housing—RIDEA:					
Other (25 States)	108	15,403	2,467,708	525,453	370,204
Senior housing—DFLs(3):					
Other (17 States)	89	7,638	1,788,765	117,408	300
Total senior housing	506	50,608	\$ 8,697,540	\$ 1,044,555	\$ 374,617
Post-acute/skilled nursing—real estate:		(Beds)			
Indiana	8	947	\$ 59,171	\$ 9,095	\$ —
Virginia	9	932	58,377	7,425	—
Ohio	6	577	30,826	4,949	16
Nevada	2	298	17,474	3,329	—
Colorado	2	216	13,800	1,792	—
Other (6 States)	7	693	25,310	4,324	1,735
	34	3,663	204,958	30,914	1,751
Post-acute/skilled nursing—real estate (U.K.):					

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Other (U.K.)	21	1,341	145,490	11,122	—
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Facility Location	Number of Facilities	Capacity (Beds)	Gross Asset Value(1)	Rental Revenues(2)	Operating Expenses
Post-acute/skilled nursing—DFLs(3):					
Other (25 States)	256	33,159	3,992,353	493,075	251
Total post-acute/skilled nursing	311	38,163	\$ 4,342,801	\$ 535,111	\$ 2,002
Life science:		(Sq. Ft.)			
California	105	6,637	\$ 3,305,305	\$ 312,396	\$ 64,501
Other (3 States)	13	913	232,565	30,588	5,716
Total life science	118	7,550	\$ 3,537,870	\$ 342,984	\$ 70,217
Medical office:		(Sq. Ft.)			
Texas	59	5,509	\$ 886,418	\$ 114,693	\$ 49,986
Pennsylvania	2	1,141	253,487	27,852	9,866
California	16	830	237,747	25,054	7,223
Colorado	16	1,083	202,891	30,892	12,303
Other (24 States and Mexico)	134	8,492	1,454,549	220,734	84,172
Total medical office	227	17,055	\$ 3,035,092	\$ 419,225	\$ 163,550
Hospital—real estate:		(Beds)			
Texas	4	912	\$ 231,552	\$ 31,882	\$ 3,857
California	2	111	143,500	19,370	28
Other (6 States)	7	448	88,742	13,776	81
	13	1,471	\$ 463,794	\$ 65,028	\$ 3,966
Hospital—DFLs(3):					
Other (3 States)	3	756	123,891	23,352	23
Total hospital	16	2,227	\$ 587,685	\$ 88,380	\$ 3,989
Total properties	1,178		\$ 20,200,988	\$ 2,430,255	\$ 614,375

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

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

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

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Occupancy and Annual Rent Trends

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

	2015	2014	2013	2012	2011
Senior housing(1):					
Average annual rent per unit(2)(3)	\$ 13,796	\$ 13,596	\$ 13,174	\$ 13,140	\$ 14,431
Average capacity (available units)	47,702	45,684	45,400	36,694	30,167
Average capacity (available units) - RIDEA	12,704	6,408	4,620	4,626	1,545
Average resident occupancy percentage - RIDEA	88 %	87 %	88 %	86 %	86 %
Post-acute/skilled nursing(1):					
Average annual rent per bed(2)(3)	\$ 11,767	\$ 12,646	\$ 12,218	\$ 11,802	\$ 12,669
Average capacity (available beds)	38,779	38,441	38,464	38,459	26,167
Life science:					
Average occupancy percentage	97 %	93 %	92 %	90 %	90 %
Average annual rent per square foot(2)	\$ 46	\$ 46	\$ 44	\$ 45	\$ 44
Average occupied square feet	7,179	6,637	6,480	6,250	6,076
Medical office:					
Average occupancy percentage	91 %	91 %	91 %	91 %	91 %
Average annual rent per square foot(2)	\$ 28	\$ 28	\$ 27	\$ 27	\$ 27
Average occupied square feet	14,762	13,178	12,767	12,147	11,721
Hospital(1):					
Average annual rent per bed(2)	\$ 40,212	\$ 39,149	\$ 38,437	\$ 37,679	\$ 36,974
Average capacity (available beds)	2,224	2,221	2,175	2,087	2,084

- (1) Senior housing includes average units that are in a RIDEA structure in which resident occupancy impacts our annual revenue, which structure was initially adopted in 2011 and expanded in August 2014 and June 2015. All other senior housing, post-acute/skilled nursing and hospital facilities are triple-net leased to operator occupied facilities, which makes these facilities 100% leased from our perspective.
- (2) Average annual rent is presented as a ratio of revenues comprised of rental and related revenues, tenant recoveries and income from DFLs divided by the average capacity or average occupied square feet of the facilities and annualized for mergers and acquisitions for the year in which they occurred. Average annual rent for properties operated under a RIDEA structure is calculated based on NOI divided by the average capacity of the facilities. Average annual rent for leased properties (including DFLs) excludes termination fees and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles and DFL interest accretion).
- (3) We changed our accounting treatment to recognize income on a cash basis beginning January 1, 2016 on our HCRMC DFL investments (see Note 6 to the Consolidated Financial Statements).

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Development Properties

The following table sets forth the properties owned by us in our life science, medical office and senior housing segments at December 31, 2015 that were under development or redevelopment (dollars and square feet in thousands):

Name of Project	Location	Estimated Completion Date(1)	Estimated Rentable Sq. Ft./Units	Investment to Date	Estimated Total Investment
Life science:					
The Cove at Oyster Point - Phase I	South San Francisco, CA	3Q 2016	247	\$ 92,926	\$ 184,314
Medical office:					
Memorial Hermann - Pearland II	Pearland, TX	1Q 2016	98	13,869	18,800
Sky Ridge Memorial Hermann - Cypress	Lone Tree, CO	1Q 2016	118	23,315	29,400
Folsom	Cypress, TX	2Q 2016	165	20,330	35,630
Bayfront(2)	Sacramento, CA	2Q 2016	92	59,863	61,850
Senior housing:	St. Petersburg, FL	2Q 2016	117	13,633	22,070
Deer Park	Deer Park, IL	1Q 2016	180	41,219	47,690
				\$ 265,155	\$ 399,754

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

At December 31, 2015, we also had \$321 million of land held for future development primarily in our life science segment.

Tenant Lease Expirations

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

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Expiration Year	2016(1)	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total										
398	8	6	25	5	26	8	2	8	26	2
\$ 512,951	\$ 13,338	\$ 9,248	\$ 50,829	\$ 9,161	\$ 41,216	\$ 10,928	\$ 2,157	\$ 24,129	\$ 31,540	\$ 5,610
100	3	2	10	2	8	2	—	5	6	1
311	—	—	1	21	6	1	4	—	—	—
\$ 435,760	\$ —	\$ —	\$ 1,197	\$ 19,056	\$ 7,338	\$ 351	\$ 3,274	\$ —	\$ —	\$ —
100	—	—	—	4	2	—	1	—	—	—
7,411	844	883	1,268	561	482	729	584	786	471	560
\$ 283,613	\$ 34,935	\$ 32,633	\$ 60,350	\$ 17,629	\$ 14,915	\$ 39,059	\$ 17,948	\$ 36,141	\$ 7,759	\$ 15,000
100	12	12	21	6	5	14	6	13	3	5
15,680	2,329	2,306	2,188	1,740	2,040	828	845	454	483	1,810
\$ 354,494	\$ 54,977	\$ 55,035	\$ 50,255	\$ 40,910	\$ 48,047	\$ 20,198	\$ 19,881	\$ 10,115	\$ 12,731	\$ 27,900
100	15	15	14	11	14	6	6	3	4	8
16	—	3	—	5	1	1	2	—	1	2
\$ 75,714	\$ —	\$ 12,800	\$ —	\$ 7,346	\$ 7,759	\$ 1,482	\$ 11,491	\$ —	\$ 13,570	\$ 17,100
100	—	17	—	10	10	2	15	—	18	23
\$ 1,662,532	\$ 103,250	\$ 109,716	\$ 162,631	\$ 94,102	\$ 119,275	\$ 72,018	\$ 54,751	\$ 70,385	\$ 65,600	\$ 65,700
100	6	7	10	6	7	4	3	4	4	4

(1) Includes month-to-month leases.

(2) Excludes 108 RIDEA facilities, leased to consolidated subsidiaries, with annualized NOI of \$193 million.

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- (3) The most recent month's (or subsequent month's if acquired in the most recent month) base rent including additional rent floors and cash income from DFLs annualized for 12 months. Base rent does not include tenant recoveries, additional rents in excess of floors and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles, DFL interest accretion and deferred revenues).
- (4) Includes 457,000 sq. ft. and 337,000 sq. ft. and annualized revenues of \$24 million and \$19 million expiring in 2016 and 2018, respectively, related to the exercise of tenant purchase options in January 2016.

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

ITEM 3. Legal Proceedings

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

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

ITEM 4. Mine Safety Disclosures

None.

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PART II

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

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

	High	Low	Per Share Distribution
2015			
Fourth Quarter	\$ 39.83	\$ 32.71	\$ 0.565
Third Quarter	40.90	35.37	0.565
Second Quarter	44.79	36.20	0.565
First Quarter	49.61	39.88	0.565
2014			
Fourth Quarter	46.07	39.66	0.545
Third Quarter	43.86	39.34	0.545
Second Quarter	42.82	38.49	0.545
First Quarter	39.59	35.95	0.545

At January 29, 2016, we had approximately 10,085 stockholders of record, and there were approximately 305,054 beneficial holders of our common stock.

Dividends (Distributions)

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

	Year Ended December 31,		
	2015	2014	2013
Ordinary dividends	\$ 2.1184	\$ 1.9992	\$ 1.8127
Capital gain dividends	0.0316	0.0890	0.1516
Nondividend distributions	0.1100	0.0918	0.1357
	\$ 2.2600	\$ 2.1800	\$ 2.1000

On January 28, 2016, we announced that our Board of Directors declared a quarterly common stock cash dividend of \$0.575 per share. The common stock dividend will be paid on February 23, 2016 to stockholders of record as of the close of business on February 8, 2016.

Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases of our common stock made by or on our behalf during

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the quarter ended December 31, 2015.

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, 2015	12,861	\$ 37.38	—	—
November 1-30, 2015	108	37.20	—	—
December 1-31, 2015	6,759	36.46	—	—
Total	19,728	37.06	—	—

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

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Performance Graph

The graph below compares the cumulative total return of HCP, the S&P 500 Index and the Equity REIT Index of NAREIT, from January 1, 2011 to December 31, 2015. Total cumulative return is based on a \$100 investment in HCP common stock and in each of the indices on January 1, 2011 and assumes quarterly reinvestment of dividends before consideration of income taxes. Stockholder returns over the indicated periods should not be considered indicative of future stock prices or stockholder returns.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

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

RATE OF RETURN TREND COMPARISON

JANUARY 1, 2011–DECEMBER 31, 2015

(JANUARY 1, 2011 = \$100)

Performance Graph Total Stockholder Return

	December 31,				
	2011	2012	2013	2014	2015
FTSE NAREIT Equity REIT Index	\$ 108.28	\$ 129.62	\$ 133.32	\$ 170.68	\$ 175.51
S&P 500	102.08	118.39	156.70	178.10	180.56
HCP, Inc.	118.42	135.24	114.07	145.60	134.09

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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, 2015 (dollars in thousands, except per share data):

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Statement of operations data:					
Total revenues	\$ 2,544,312	\$ 2,266,279	\$ 2,099,878	\$ 1,879,970	\$ 1,694,418
(Loss) income from continuing operations	(546,418)	906,845	910,633	801,190	536,130
Net (loss) income applicable to common shares	(560,552)	919,796	969,103	812,289	515,302
(Loss) income from continuing operations applicable to common shares:					
Basic earnings per common share	(1.21)	1.94	1.97	1.80	1.25
Diluted earnings per common share	(1.21)	1.94	1.97	1.80	1.25
Net (loss) income applicable to common shares:					
Basic earnings per common share	(1.21)	2.01	2.13	1.90	1.29
Diluted earnings per common share	(1.21)	2.00	2.13	1.90	1.29
Balance sheet data:					
Total assets	21,449,849	21,331,436	20,040,310	19,879,697	17,382,029
Debt obligations(1)	11,069,003	9,721,269	8,626,067	8,659,691	7,704,691
Total equity	9,746,317	10,997,099	10,931,134	10,753,777	9,220,622
Other data:					
Dividends paid	1,046,638	1,001,559	956,685	865,306	787,689
Dividends paid per common share	2.26	2.18	2.10	2.00	1.92
Funds from operations (“FFO”)(2)	(10,841)	1,381,634	1,349,264	1,166,508	877,907
Diluted FFO per common share(2)	(0.02)	3.00	2.95	2.72	2.19
FFO as adjusted(2)	1,470,167	1,398,691	1,382,699	1,195,799	1,052,692
Diluted FFO as adjusted per common share(2)	3.16	3.04	3.02	2.79	2.71
Funds available for distribution (“FAD”)(2)	1,261,849	1,178,822	1,158,082	954,645	838,440
Diluted FAD per common share(2)	2.72	2.57	2.54	2.23	2.16

- (1) Includes bank line of credit, bridge and term loans, senior unsecured notes, mortgage and other secured debt, and other debt. Reflects the early adoption of Accounting Standards Update (“ASU”) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”) and ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting) (“ASU 2015-15”). ASU 2015-03 and ASU 2015-15 simplify the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability (consistent with debt discounts).
- (2) For a more detailed discussion and reconciliation of Funds From Operations (“FFO”), FFO as adjusted and Funds Available for Distribution (“FAD”), see “Non-GAAP Financial Measures Reconciliations” in Item 7.

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

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

- 2015 Transaction Overview
- Dividends
- Results of Operations
- Liquidity and Capital Resources
- Contractual Obligations
- Off-Balance Sheet Arrangements
- Inflation
- Non-GAAP Financial Measures Reconciliations
- Critical Accounting Policies
- Recent Accounting Pronouncements

2015 Transaction Overview

HCR ManorCare, Inc.

HCRMC Fourth Quarter 2015

The post-acute/skilled nursing ("SNF") industry and HCRMC continued to experience a challenging operating environment in 2015, due to the ongoing change in reimbursement models which reduces rates and lowers census, the result of shorter lengths of stay. HCRMC's normalized fixed charge coverage for the 12-month period ended December 31, 2015 was 1.07x.

For the fourth quarter 2015, HCRMC reported normalized EBITDAR of \$110 million, which decreased \$36 million on a year-over-year basis compared to the fourth quarter 2014, and decreased \$17 million sequentially compared to the third quarter 2015. The results were impacted by core operating performance weakness and unfavorable non-routine items discussed below. The level of performance was below expectations and uncharacteristic for the fourth quarter, which has historically been strong due in large part to increased census and the annual Medicare rate increases on October 1.

HCRMC ended 2015 with \$125 million of cash and cash equivalents and continues to be current on its obligations under the amended master lease (the "Amended Master Lease").

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Core Operating Performance. Before the impact from non-routine items described below, HCRMC's fourth quarter EBITDAR was below its forecast, primarily due to the continued change in payor mix from traditional Medicare to Managed Care plans, which reduced reimbursement rates and lowered census. As a result, HCRMC reported a decline in its core SNF operating metrics (which excludes the 50 non-strategic disposition assets), with fourth quarter census decreasing 175 basis points from the prior year to 82.6%.

Non-Routine Items. As discussed below, HCRMC is in the process of exiting 50 non-strategic assets, of which 21 sales were completed in the fourth quarter and an additional 11 closed in the first quarter 2016. As such, disruption resulting from transitioning operations to new owners and closing costs led to additional underperformance from this pool of assets. EBITDAR losses from the sale of non-strategic assets totaled \$11 million in the fourth quarter 2015, and \$22 million for full year 2015. HCP continues to expect total proceeds of \$350 million from the sales of the non-strategic assets, of which \$280 million have closed to-date with the remaining \$70 million expected to close in mid-2016.

In addition, HCRMC continues to defend against the DOJ civil complaint previously disclosed in April 2015. HCRMC incurred legal and regulatory defense costs of \$3 million during the fourth quarter 2015 and \$9 million for the full year 2015. The outcome of the DOJ civil complaint remains uncertain, and HCRMC expects to incur additional legal and regulatory defense costs in 2016.

As a result of HCRMC's fourth quarter performance deterioration and the related decline in its FCC, we placed our real estate portfolio operated by HCRMC on "Watch List" status at year end 2015, and changed our accounting treatment to recognize rental income on a cash basis beginning January 2016. As such, we will no longer recognize non-cash accretion income under the HCRMC DFLs (see Note 2 to the Consolidated Financial Statements).

The reduced growth outlook for the broader post-acute/SNF industry indicates challenges to the improvement in HCRMC's financial performance over the next few years. At year end 2015, the Company determined that it is probable that its HCRMC DFL investments are impaired and the amount of the loss can be reasonably estimated. In the fourth quarter 2015, the Company recorded an allowance (impairment charge) for DFL losses of \$817 million, reducing the carrying amount of its HCRMC DFL investments from \$6.0 billion to \$5.2 billion (see Notes 6 and 17 to the Consolidated Financial Statements). We also recorded a fourth quarter 2015 impairment charge of \$19 million related to our equity investment in HCRMC OpCo (see Note 8 to the Consolidated Financial Statements).

HCP has engaged advisors and continues to work closely with HCRMC to jointly explore all opportunities that reduce our concentration, improve the credit quality and coverage of our Amended Master Lease, and ensure HCRMC can continue to deliver high quality care and services.

HCRMC Third Quarter 2015

In October 2015, we concluded that our equity investment in HCRMC was other-than-temporarily impaired as of September 30, 2015, and we recorded an impairment charge of \$27 million during the third quarter of 2015. The impairment charge reduced the carrying amount of our equity investment in HCRMC to \$21 million. Our impairment determination primarily resulted from our review of HCRMC operating results and market and industry data which, among other factors, showed a declining trend in admissions from hospitals and continuing trends in mix and length of stay driven by Medicare Advantage and other Manage Care plans.

HCRMC First Quarter 2015

During the quarter ended March 31, 2015, HCP and HCRMC agreed to market for sale the real estate and operations associated with 50 non-strategic facilities that were under the Master Lease and Security Agreement (the "Master

Lease”) for an estimated total gross sales price of approximately \$350 million. HCRMC receives annual rent reduction under the Master Lease based on 7.75% of the net sales proceeds received by HCP. During the year ended December 31, 2015, we completed sales of 22 non-strategic HCRMC facilities for \$219 million. Through February 8, 2016, 33 of the facility sales have closed, and the remaining facility sales are expected to close mid-2016.

Additionally, HCP and HCRMC agreed to amend the Master Lease (the “HCRMC Lease Amendment”). Commencing April 1, 2015, HCP provided an annual net rent reduction of \$68 million, which equates to initial lease year rent of \$473 million, compared to \$541 million that would have commenced April 1, 2015 prior to the HCRMC Lease

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Amendment. The contractual rent will increase by 3.0% annually during the initial term. In exchange, HCP received the following consideration:

- Fee ownership in nine post-acute facilities valued at \$275 million with a median age of four years, owned and operated by HCRMC. HCP retained a lease receivable of equal value, earning income of \$19 million annually (included in the amended initial lease year rent of \$473 million above), which will be reduced as the facility purchases are completed. Following the purchase of a facility, HCRMC will lease such facility from HCP pursuant to the Amended Master Lease. The nine facilities will contribute an aggregate of \$19 million of annual rent (subject to escalation) under the Amended Master Lease. During the year ended December 31, 2015 and through February 8, 2016, HCRMC and HCP completed seven of the nine facility purchases for \$184 million. The purchases of the remaining two facilities are expected to close mid-2016, subject to customary licensing and regulatory approvals;
- A second lease receivable with an initial amount of \$250 million, payable by HCRMC upon the earlier of: (i) the end of the initial term of the first renewal pool under the Amended Master Lease; or (ii) certain capital or liquidity events of HCRMC, including an initial public offering or sale. The \$250 million lease receivable amount will increase each year as follows: 3.0% in April 2016 through 2018, 4.0% in 2019, 5.0% in 2020 and 6.0% in 2021 until the end of the initial lease term; and
- Extension of the initial lease term by five years, to an average of 16 years.

In March 2015, we recorded a non-cash impairment charge of \$478 million related to our HCRMC DFL investments. The non-cash charge reduced the carrying value of the HCRMC DFL investments from \$6.6 billion to \$6.1 billion, which represented the present value of the future lease payments under the Amended Master Lease. The impairment determination resulted from discussions with HCRMC in which they expressed an increasing desire to reduce rent in consideration of potential economic trades to HCP prior to the April 1, 2015 rental increase of 3.5% under the Master Lease (without regard to the HCRMC Lease Amendment).

See Note 6 to the Consolidated Financial Statements for additional discussion of the HCRMC Lease Amendment and impairment of our HCRMC DFL investments, Note 8 to the Consolidated Financial Statements for additional discussion regarding our equity interest in HCRMC and the DOJ complaint against HCRMC, and Note 17 to the Consolidated Financial Statements for additional discussion regarding the impairments, which information is incorporated by reference herein.

Investment Transactions

Acquisition of Private Pay Senior Housing Portfolio

On June 30, 2015, HCP acquired a portfolio of 35 private pay senior housing communities from Chartwell Retirement Residences, including two leasehold interests, representing 5,025 units for \$847 million. The portfolio was acquired in a RIDEA structure (RIDEA III), with Brookdale owning a 10% noncontrolling interest. Brookdale has operated these communities since 2011, and continues to manage the communities under a long-term management agreement.

The Cove Development

In February 2015, we began construction on the first phase, \$184 million (estimated total investment), of The Cove at Oyster Point (“The Cove”), a life science development in South San Francisco, California. The first phase includes two “class A” buildings totaling 247,000 square feet that are expected to be completed in the third quarter of 2016.

Edgewater Business Park

In December 2015, we acquired a six-building lab campus, totaling 170,000 square feet in South San Francisco, California for \$83 million.

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U.K. Investments

In December 2015, we purchased £28 million (\$42 million) of Four Seasons Health Care's ("Four Seasons") £40 million senior secured term loan.

In September 2015, we amended and increased the commitment under our HC-One Facility by £11 million, primarily to fund a development project in the U.K. and other capital improvements.

In May 2015, we provided a £27 million (\$42 million) loan to fund Maria Mallaband Care Group's ("Maria Mallaband") acquisition of two care homes in the U.K. In July 2015, the loan was converted into fee ownership of the real estate at an equal value and the properties are triple-net leased to Maria Mallaband for an initial term of 15 years.

In April 2015, we converted £174 million of our total £502 million HC-One Facility to fee ownership in a portfolio of 36 care homes subject to long-term triple-net leases that provide aggregate rent in the first year of £13 million. The contractual rent will increase annually by the Retail Price Index ("RPI"), with rent resets to fair market value at the end of lease years 15 and 25. The triple-net leases have initial terms of 30 years with lessee termination options at the end of lease years 15 and 25.

In February 2015, we increased our U.K. HC-One debt investment ("HC-One Facility") by £108 million (\$164 million) to £502 million (\$795 million) in conjunction with HC-One's acquisition of Meridian Healthcare. At closing, the HC-One Facility was secured by 303 nursing and residential care homes representing over 13,900 beds in the U.K., primarily located in England and Scotland.

Acquisitions of On-Campus Medical Office Buildings

In June 2015, we expanded our relationship with Memorial Hermann Health System ("Memorial Hermann") through the acquisition of a portfolio of 11 on-campus MOB's located in Houston, Texas in a sale-leaseback transaction for \$225 million. Memorial Hermann, an 'A rated' health system, is the largest not-for-profit system in Southeast Texas and maintains the largest market share at 24% in the Houston metro area. The MOB portfolio, located on four campuses, has an aggregate 1.2 million rentable square feet and is subject to triple-net master leases with 10-year initial lease terms and four 5-year renewal terms. In October 2015, we issued a 49% noncontrolling interest in this portfolio ("HCP Ventures V") for \$110 million.

In April 2015, we acquired a MOB in Philadelphia, Pennsylvania for \$161 million. The MOB is anchored by Thomas Jefferson University Hospital, which is ranked second among best hospitals in the Philadelphia metropolitan area by U.S. News and is owned by 'A rated' Thomas Jefferson University. The MOB contains 705,000 rentable square feet and was 85% occupied at closing.

MBK Joint Venture

In March 2015, we formed a new RIDEA joint venture ("MBK JV") with MBK Senior Living ("MBK"), a subsidiary of Mitsui & Co. Ltd, that acquired three senior housing facilities for \$126 million with HCP and MBK each owning a 50% equity interest. MBK manages these communities on behalf of this joint venture. At closing, we contributed \$27

million of cash and MBK contributed the three senior housing facilities, which were encumbered by \$78 million of mortgage debt. The MBK JV intends to acquire additional senior housing facilities by focusing on off-market transactions.

Other Investment Transactions

In November 2015, we exercised the purchase option under our \$18 million par value development loan to acquire a newly built assisted living facility in Olney, Maryland for \$39 million. The facility was 97% occupied at closing and was placed in a 100% owned RIDEA structure with Brookdale managing the facility.

In November 2015, we expanded our senior housing joint venture partnerships with Brookdale in the CCRC JV, an unconsolidated joint venture, through the acquisition of a CCRC in Spring, Texas for \$40 million and in a RIDEA portfolio through the acquisition of a senior housing facility in Victoria, Texas for \$10 million, of which our contribution was \$19 million and \$9 million, respectively.

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In May 2015, we increased and extended our mezzanine loan facility with Tandem Health Care (“Tandem”) to (i) fund an additional \$55 million, which proceeds were used to repay a portion of Tandem’s existing senior and mortgage debt tranches; (ii) extend its maturity to October 2018; and (iii) extend the prepayment penalty period to January 2017. The mezzanine loan facility now totals \$256 million and has an 11.5% blended coupon, or 11.9% blended yield-to-maturity.

In April 2015, we exercised the purchase option under our \$33 million par value development loan to acquire a newly built assisted living and memory care facility in Germantown, Tennessee for \$72 million. The facility was 93% occupied at closing and was placed in a RIDEA structure with Brookdale acquiring a 10% noncontrolling interest and managing the facility.

In March 2015, we exercised the purchase option under our \$14 million par value development loan to acquire a newly built assisted living and memory care facility in Houston, Texas for \$36 million. The facility was 99% occupied at closing and was placed in a RIDEA structure with Brookdale acquiring a 10% noncontrolling interest and managing the facility.

Financing and Capital Recycling Activities

In December 2015, we issued \$600 million of 4.00% senior unsecured notes due 2022. The notes were priced at 99.577% of the principal amount with a yield-to-maturity of 4.070%. Net proceeds were used to prefund our \$500 million 3.750% senior notes due February 2016. Prior to such repayment, we used a portion of such proceeds to temporarily reduce outstanding borrowings under our revolving line of credit, which borrowings were principally used for acquisitions and investments.

During the second half of 2015, we received £34 million (\$52 million) and \$23 million in loan paydowns from asset disposition proceeds relating to our HC-One Facility and loan to Delphis Operations, L.P., respectively.

In October 2015, we issued a 49% noncontrolling interest in HCP Ventures V to an institutional capital investor for \$110 million. HCP Ventures V owns the MOB portfolio we acquired through a sale-leaseback transaction with Memorial Hermann in June 2015. We retained a 51% controlling interest in HCP Ventures V and will act as the managing member of the joint venture.

In July 2015, we sold a parcel of land at The Cove for \$11 million; additionally, in October 2015, we sold a parcel of land in our life science segment for \$40 million.

In June 2015, we established an at-the-market equity offering program (“ATM Program”), in connection with the renewal of our Shelf Registration Statement. Under this program, we may sell shares of our common stock from time to time having an aggregate gross sales price of up to \$750 million through a consortium of banks acting as sales agents or directly to the banks acting as principals. During the year ended December 31, 2015, we issued 1.8 million shares of common stock at a weighted average price of \$40.14 for proceeds of \$73 million, net of fees and commissions of \$1 million.

In May 2015, we issued \$750 million of 4.00% senior unsecured notes due 2025. The notes were priced at 99.126% of the principal amount with a yield-to-maturity of 4.107%. Net proceeds were used to fund a portion of our investment transactions completed to date.

In January 2015, we issued \$600 million of 3.40% senior unsecured notes due 2025. The notes were priced at 99.185% of the principal amount with a yield-to-maturity of 3.497%. Net proceeds were used to repay the entire \$105 million U.S. dollar amount outstanding on our revolving credit facility at closing and \$200 million of 6.00% senior unsecured notes that matured on March 1, 2015. We used the remaining proceeds to repay \$200 million of 7.07% senior unsecured notes maturing in June 2015 and for general corporate purposes.

In January 2015, to economically hedge a portion of our foreign currency risk from the HC-One Facility, we completed a £220 million four-year unsecured term loan that accrues interest at GBP LIBOR plus 0.975%, subject to adjustments based on our credit ratings. Concurrently, we entered into a three-year interest rate swap agreement that fixes the rate of the term loan at 1.79%, and a foreign currency swap agreement that fixes the British pound sterling (“GBP”) into U.S. dollars (“USD”) exchange rate at 1.5149 on interest income from the HC-One Facility in excess of interest payments on the term

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loan. Proceeds from this term loan repaid £220 million of the GBP balance drawn on our revolving credit facility that was used to fund our HC-One Facility in November 2014.

Dividends

Quarterly dividends paid during 2015 aggregated \$2.26 per share, which represents a 3.7% increase from 2014. On January 28, 2016, our Board of Directors declared a quarterly cash dividend of \$0.575 per common share. The annualized distribution rate per share for 2016 increased 1.8% to \$2.30, compared to \$2.26 for 2015. The dividend will be paid on February 23, 2016 to stockholders of record as of the close of business on February 8, 2016.

Results of Operations

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

Non-GAAP Financial Measures

Net Operating Income (“NOI”)

NOI and adjusted NOI are non-GAAP supplemental financial measures used to evaluate the operating performance of real estate. NOI is defined as rental and related revenues, including tenant recoveries, resident fees and services, and income from DFLs, less property level operating expenses; NOI excludes all other financial statement amounts included in net income (loss) as presented in Note 14 to the Consolidated Financial Statements. Management believes NOI provides relevant and useful information because it reflects only income and operating expense items that are incurred at the property level and presents them on an unleveraged basis. Adjusted NOI is calculated as NOI after eliminating the effects of straight-line rents, DFL accretion, amortization of market lease intangibles and lease termination fees. Adjusted NOI is oftentimes referred to as “cash NOI.” We use NOI and adjusted NOI to make decisions about resource allocations, assess and compare property level performance, and evaluate our same property portfolio (“SPP”), as described below. We believe that net income (loss) is the most directly comparable U.S. generally accepted accounting principles (“GAAP”) measure to NOI. NOI should not be viewed as an alternative measure of operating performance to net income (loss) as defined by GAAP since it does not reflect various excluded items. Further, our definition of NOI may not be comparable to the definition used by other REITs or real estate companies, as they may use different methodologies for calculating NOI. NOI and adjusted NOI are non-GAAP supplemental financial measures; for a reconciliation of net income (loss) to NOI and adjusted NOI and other relevant disclosure, refer to Note 14 to the Consolidated Financial Statements.

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

Same Property Portfolio (“SPP”)

SPP NOI and adjusted NOI information allows us to evaluate the performance of our property portfolio under a consistent population by eliminating changes in the composition of our portfolio of properties. We identify our SPP as stabilized properties that remained in operations and were consistently reported as leased properties or RIDEA properties for the duration of the year-over-year comparison periods presented, excluding assets held for sale. Accordingly, it takes a stabilized property a minimum of 12 months in operations under a consistent reporting structure to be included in our SPP. Newly acquired operating assets are generally considered stabilized at the earlier of lease up (typically when the tenant(s) controls the physical use of at least 80% of the space) or 12 months from the acquisition date. Newly completed developments and redevelopments are considered stabilized at the earlier of lease up or 24 months from the date the

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property is placed in service. SPP NOI excludes certain non-property specific operating expenses that are allocated to each operating segment on a consolidated basis. SPP adjusted NOI excludes the effects of foreign exchange rate movements by using the average current period exchange rate to translate from GBP into USD for the comparison periods. A property is removed from our SPP when it is sold, placed into redevelopment or changes its reporting structure.

Funds From Operations

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

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

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

Funds Available for Distribution

FAD is defined as FFO as adjusted after excluding the impact of the following: (i) amortization of acquired market lease intangibles, net; (ii) amortization of deferred compensation expense; (iii) amortization of deferred financing costs, net; (iv) straight-line rents; (v) accretion and depreciation related to DFLs and lease incentive amortization (reduction of straight-line rents); and (vi) deferred revenues, excluding amounts amortized into rental income that are associated with tenant funded improvements owned/recognized by us and up-front cash payments made by tenants to reduce their contractual rents. Also, FAD: (i) is computed after deducting recurring capital expenditures, including leasing costs and second generation tenant and capital improvements; and (ii) includes lease restructure payments and adjustments to compute our share of FAD from our unconsolidated joint ventures and those related to CCRC non-refundable entrance fees. Other REITs or real estate companies may use different methodologies for calculating FAD, and accordingly, our FAD may not be comparable to those reported by other REITs. Although our FAD computation may not be comparable to that of other REITs, management believes FAD provides a meaningful

supplemental measure of our performance and is frequently used by analysts, investors, and other interested parties in the evaluation of our performance as a REIT. FAD does not represent cash generated from operating activities determined in accordance with GAAP, is not necessarily indicative of cash available to fund cash needs, and should not be considered as an alternative to net income (loss) determined in accordance with GAAP. FAD is a non-GAAP supplemental financial measure; for a reconciliation of net income (loss) to FAD, as defined, and other relevant disclosure, refer to “Non-GAAP Financial Measures Reconciliations” below.

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Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014 and the Year Ended December 31, 2014 to the Year Ended December 31, 2013

Overview(1)

2015 and 2014

Results for the years ended December 31, 2015 and 2014 (dollars in thousands except per share data):

	Year Ended December 31, 2015		Year Ended December 31, 2014		Per Share Change
	Amount	Per Share	Amount	Per Share	
FFO	\$ (10,841)	\$ (0.02)	\$ 1,381,634	\$ 3.00	\$ (3.02)
FFO as adjusted	1,470,167	3.16	1,398,691	3.04	0.12
FAD	1,261,849	2.72	1,178,822	2.57	0.15
Net (loss) income applicable to common shares	(560,552)	(1.21)	919,796	2.00	(3.21)

(1) For the reconciliation, see “Non-GAAP Financial Measures Reconciliations” section below.

FFO as adjusted and FAD increased \$0.12 and \$0.15 per share, respectively, primarily as a result of increased NOI from our 2014 and 2015 acquisitions and incremental interest income from the repayments of three development loans resulting from our share in the appreciation of the underlying real estate assets. The increases were partially offset by the decline in income from DFLs as a result of the HCRMC Lease Amendment and by placing our marketable debt securities issued by Elli Investments Limited as part of the financing for its acquisition of Four Seasons Health Care (“Four Seasons Notes”) on cost-recovery method in the third quarter of 2015.

FFO and earnings per share (“EPS”) decreased \$3.02 and \$3.21 per share, respectively, primarily as a result of: (i) \$1.3 billion of impairments related to our HCRMC DFL investments, (ii) \$112 million of impairments related to our investment in Four Seasons Notes, (iii) \$46 million of impairments related to our equity investment in HCRMC, (iv) \$38 million recognized in 2014 in net fees for terminating the leases on the 49 senior housing properties in the Brookdale Transaction, (v) transaction-related items of \$33 million and (vi) a severance-related charge of \$7 million. The decreases were partially offset by: (i) the aforementioned events impacting FFO as adjusted and FAD, (ii) \$6 million impairment recovery from a repayment of a loan in our hospital segment and (iii) foreign currency remeasurement gains of \$5 million.

Additionally, EPS decreased primarily as a result of: (i) decreased gain on sales of real estate and (ii) increased depreciation expense, partially offset by the increased equity income from unconsolidated joint venture as a result of gain on sales of real estate from HCP Ventures III, LLC and HCP Ventures IV, LLC.

2014 and 2013

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

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

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

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

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

Segment NOI and Adjusted NOI

The tables below provide selected operating information for our SPP and total property portfolio for each of our five business segments. For the year ended December 31, 2015, our consolidated SPP consists of 993 properties representing properties acquired or placed in service and stabilized on or prior to January 1, 2014 and that remained in operations under a consistent reporting structure. For the year ended December 31, 2014, our consolidated SPP consisted of 1,011 properties representing properties acquired or placed in service and stabilized on or prior to January 1, 2013 and that remained in operations under a consistent reporting structure. Our consolidated total property portfolio represents 1,178, 1,108 and 1,079 properties at December 31, 2015, 2014 and 2013, respectively, and excludes properties classified as discontinued operations.

Senior Housing

2015 and 2014

On June 30, 2015 (the "Closing Date"), we completed the RIDEA III acquisition of 35 senior housing properties (see Note 4 to the Consolidated Financial Statements). We report the resident level fees and services revenues and corresponding operating expenses in our consolidated financial statements from the Closing Date. For periods subsequent to the Closing Date, we expect increases in resident fees and services revenue and operating expenses.

Results as of and for the years ended December 31, 2015 and 2014 (dollars in thousands except per unit data):

	SPP			Total Portfolio		
	2015	2014(1)	Change	2015	2014	Change
Rental revenues(2)	\$ 503,447	\$ 499,675	\$ 3,772	\$ 519,102	\$ 621,114	\$ (102,012)
Resident fees and services	160,116	153,251	6,865	525,453	241,965	283,488
Total segment revenues	\$ 663,563	\$ 652,926	\$ 10,637	\$ 1,044,555	\$ 863,079	\$ 181,476
Operating expenses	(101,484)	(98,190)	(3,294)	(374,617)	(167,407)	(207,210)
NOI	\$ 562,079	\$ 554,736	\$ 7,343	\$ 669,938	\$ 695,672	\$ (25,734)
Non-cash adjustments to NOI	(23,177)	(34,920)	11,743	(16,127)	(78,197)	62,070
Adjusted NOI	\$ 538,902	\$ 519,816	\$ 19,086	\$ 653,811	\$ 617,475	\$ 36,336
Adjusted NOI % change			3.7 %			
Property count	376	376		506	465	
	37,718	37,763		47,702	45,684	

Average capacity
(units)(3)

Average annual rent per
unit(4)

\$ 14,328

\$ 13,809

\$ 13,796

\$ 13,596

- (1) From our 2014 presentation of SPP, we removed 12 senior housing properties that were sold and three senior housing properties that were contributed to partnerships under a RIDEA structure, and no longer meet our criteria for SPP as of the date of contribution.
- (2) Represents rental and related revenues and income from DFLs.
- (3) Represents average capacity as reported by the respective tenants or operators for a twelve-month period that is a quarter in arrears from the periods presented.
- (4) Average annual rent per unit for RIDEA properties is based on NOI.

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

Total Portfolio NOI and Adjusted NOI. Our total portfolio NOI decreased primarily as a result of: (i) \$38 million of net revenues recognized from the 2014 Brookdale transaction (see Note 3 to the Consolidated Financial Statements) and (ii) an \$8 million net termination fee related to our RIDEA III acquisition in 2015 (see Note 4 to the Consolidated Financial

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Statements), partially offset by the impact from our SPP and senior housing acquisitions in 2014 and 2015 primarily from our RIDEA III transaction in June 2015 (see Note 4 to the Consolidated Financial Statements).

In addition to the impact of our SPP, our total portfolio adjusted NOI increased as a result of senior housing acquisitions in 2014 and 2015 primarily from our RIDEA III transaction in June 2015 (see Note 4 to the Consolidated Financial Statements).

We placed our HCRMC DFL investments on cash basis of accounting as of January 1, 2016 and will no longer recognize accretion income, unless the timing and amounts owed under the HCRMC DFL investments are reasonably assured (see Note 6 to the Consolidated Financial Statements).

2014 and 2013

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

	SPP			Total Portfolio		
	2014	2013(1)	Change	2014	2013	Change
Rental revenues(2)	\$ 506,592	\$ 505,629	\$ 963	\$ 621,114	\$ 602,506	\$ 18,608
Resident fees and services	153,251	146,245	7,006	241,965	146,288	95,677
Total segment revenues	\$ 659,843	\$ 651,874	\$ 7,969	\$ 863,079	\$ 748,794	\$ 114,285
Operating expenses	(98,191)	(93,792)	(4,399)	(167,407)	(95,603)	(71,804)
NOI	\$ 561,652	\$ 558,082	\$ 3,570	\$ 695,672	\$ 653,191	\$ 42,481
Non-cash adjustments to NOI	(35,519)	(50,144)	14,625	(78,197)	(58,699)	(19,498)
Adjusted NOI	\$ 526,133	\$ 507,938	\$ 18,195	\$ 617,475	\$ 594,492	\$ 22,983
Adjusted NOI % change			3.6 %			
Property count	387	387		465	444	
Average capacity (units)(3)	38,545	38,541		45,684	45,400	
Average annual rent per unit(4)	\$ 13,693	\$ 13,285		\$ 13,596	\$ 13,174	

(1) From our 2013 presentation of SPP, we removed a senior housing property that was sold and 51 senior housing properties that were contributed to partnerships under a RIDEA structure as part of the 2014 Brookdale transaction and no longer meet our criteria for SPP upon contribution.

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

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

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

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

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

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Post-Acute/Skilled Nursing

2015 and 2014

Results as of and for the years ended December 31, 2015 and 2014 (dollars in thousands, except per bed data):

	SPP			Total Portfolio		
	2015	2014(1)	Change	2015	2014	Change
Rental revenues(2)	\$ 508,638	\$ 533,141	\$ (24,503)	\$ 535,111	\$ 555,322	\$ (20,211)
Operating expenses	(166)	(153)	(13)	(2,002)	(2,087)	85
NOI	\$ 508,472	\$ 532,988	\$ (24,516)	\$ 533,109	\$ 553,235	\$ (20,126)
Non-cash adjustments to NOI	(75,401)	(66,651)	(8,750)	(78,738)	(69,141)	(9,597)
Adjusted NOI	\$ 433,071	\$ 466,337	\$ (33,266)	\$ 454,371	\$ 484,094	\$ (29,723)
Adjusted NOI % change			(7.1) %			
Property count	290	290		311	301	
Average capacity (beds)(3)	35,934	35,936		38,779	38,441	
Average annual rent per bed	\$ 12,056	\$ 12,980		\$ 11,767	\$ 12,646	

(1) From our 2014 presentation of SPP, we removed 18 post-acute/skilled nursing facilities that were sold.

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

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

NOI and Adjusted NOI. SPP and total portfolio NOI and adjusted NOI decreased primarily as a result of the HCRMC Lease Amendment. See “2015 Transaction Overview” above for further discussion of developments with HCRMC.

We placed our HCRMC DFL investments on cash basis of accounting as of January 1, 2016 and will no longer recognize accretion income, unless the timing and amounts owed under the HCRMC DFL investments are reasonably assured (see Note 6 to the Consolidated Financial Statements).

2014 and 2013

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

	SPP			Total Portfolio		
	2014	2013(1)	Change	2014	2013	Change
Rental revenues(2)	\$ 553,778	\$ 540,403	\$ 13,375	\$ 555,322	\$ 541,805	\$ 13,517
Operating expenses	(168)	(443)	275	(2,087)	(2,485)	398

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NOI	\$ 553,610	\$ 539,960	\$ 13,650	\$ 553,235	\$ 539,320	\$ 13,915
Non-cash adjustments to NOI	(69,004)	(71,632)	2,628	(69,141)	(71,812)	2,671
Adjusted NOI	\$ 484,606	\$ 468,328	\$ 16,278	\$ 484,094	\$ 467,508	\$ 16,586
Adjusted NOI % change			3.5	%		
Property count	301	301		301	302	
Average capacity (beds)(3)	38,333	38,253		38,441	38,464	
Average annual rent per bed	\$ 12,645	\$ 12,253		\$ 12,646	\$ 12,218	

-
- (1) From our 2013 presentation of SPP, we removed a post-acute/skilled nursing property that was sold.
(2) Represents rental and related revenues and income from DFLs.
(3) Represents average capacity as reported by the respective tenants or operators for a twelve-month period that is a quarter in arrears from the periods presented.

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

Life Science

2015 and 2014

Results as of and for the years ended December 31, 2015 and 2014 (dollars and sq. ft. in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2015	2014(1)	Change	2015	2014	Change
Rental revenues	\$ 264,110	\$ 251,857	\$ 12,253	\$ 283,557	\$ 264,164	\$ 19,393
Tenant recoveries	53,827	46,863	6,964	59,427	49,950	9,477
Total segment revenues	\$ 317,937	\$ 298,720	\$ 19,217	\$ 342,984	\$ 314,114	\$ 28,870
Operating expenses	(59,053)	(54,554)	(4,499)	(70,217)	(63,080)	(7,137)
NOI	\$ 258,884	\$ 244,166	\$ 14,718	\$ 272,767	\$ 251,034	\$ 21,733
Non-cash adjustments to NOI	(8,628)	(9,121)	493	(10,128)	(10,075)	(53)
Adjusted NOI	\$ 250,256	\$ 235,045	\$ 15,211	\$ 262,639	\$ 240,959	\$ 21,680
Adjusted NOI % change			6.5 %			
Property count	107	107		118	111	
Average occupancy	97.2 %	92.7 %		97.1 %	93.0 %	
Average occupied sq. ft.	6,735	6,414		7,179	6,637	
Average annual total revenues per occupied sq. ft.	\$ 46	\$ 45		\$ 46	\$ 46	
Average annual rental revenues per occupied sq. ft.	\$ 38	\$ 38		\$ 38	\$ 38	

(1) From our 2014 presentation of SPP, we removed a life science facility that was placed into land held for development, which no longer meets our criteria for SPP as of the date placed into development.

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

Total Portfolio NOI and Adjusted NOI. In addition to the impact of our SPP, our total portfolio NOI and adjusted NOI increased primarily as a result of the impact of our life science development projects placed into service during 2014 and life science acquisitions in 2014 and 2015.

During the year ended December 31, 2015, 694,000 square feet of new and renewal leases commenced at an average annual base rent of \$33.52 per square foot compared to 412,000 square feet of expired and terminated leases with an average annual base rent of \$33.47 per square foot. During the year ended December 31, 2015, we acquired six properties with 158,000 occupied square feet with an average annual base rent of \$38.80 per square foot.

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2014 and 2013

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

	SPP			Total Portfolio		
	2014	2013	Change	2014	2013	Change
Rental revenues	\$ 247,062	\$ 243,558	\$ 3,504	\$ 264,164	\$ 251,919	\$ 12,245
Tenant recoveries	46,004	43,628	2,376	49,950	44,960	4,990
Total segment revenues	\$ 293,066	\$ 287,186	\$ 5,880	\$ 314,114	\$ 296,879	\$ 17,235
Operating expenses	(53,512)	(50,888)	(2,624)	(63,080)	(56,956)	(6,124)
NOI	\$ 239,554	\$ 236,298	\$ 3,256	\$ 251,034	\$ 239,923	\$ 11,111
Non-cash adjustments to NOI	(8,117)	(12,572)	4,455	(10,075)	(11,448)	1,373
Adjusted NOI	\$ 231,437	\$ 223,726	\$ 7,711	\$ 240,959	\$ 228,475	\$ 12,484
Adjusted NOI % change			3.4 %			
Property count	105	105		111	111	
Average occupancy	93.1 %	91.5 %		93.0 %	91.8 %	
Average occupied sq. ft.	6,325	6,212		6,637	6,480	
Average annual total revenues per occupied sq. ft.	\$ 45	\$ 44		\$ 46	\$ 44	
Average annual rental revenues per occupied sq. ft.	\$ 38	\$ 37		\$ 38	\$ 37	

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

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

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

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

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Medical Office

2015 and 2014

Results as of and for the years ended December 31, 2015 and 2014 (dollars and sq. ft. in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2015	2014(1)	Change	2015	2014	Change
Rental revenues	\$ 302,792	\$ 297,360	\$ 5,432	\$ 354,824	\$ 312,734	\$ 42,090
Tenant recoveries	55,977	55,082	895	64,401	58,222	6,179
Total segment revenues	\$ 358,769	\$ 352,442	\$ 6,327	\$ 419,225	\$ 370,956	\$ 48,269
Operating expenses	(137,411)	(135,375)	(2,036)	(163,550)	(148,199)	(15,351)
NOI	\$ 221,358	\$ 217,067	\$ 4,291	\$ 255,675	\$ 222,757	\$ 32,918
Non-cash adjustments to NOI	(661)	(844)	183	(5,025)	(1,406)	(3,619)
Adjusted NOI	\$ 220,697	\$ 216,223	\$ 4,474	\$ 250,650	\$ 221,351	\$ 29,299
Adjusted NOI % change			2.1 %			
Property count	204	204		227	215	
Average occupancy	90.5 %	91.1 %		90.7 %	90.7 %	
Average occupied sq. ft.	12,566	12,649		14,762	13,178	
Average annual total revenues per occupied sq. ft.	\$ 28	\$ 28		\$ 28	\$ 28	
Average annual rental revenues per occupied sq. ft.	\$ 24	\$ 23		\$ 24	\$ 24	

(1) From our 2014 presentation of SPP, we removed a MOB that was sold.

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

Total Portfolio NOI and Adjusted NOI. Our total portfolio NOI and adjusted NOI increased primarily as a result of the impact of our MOB acquisitions in 2014 and 2015.

During the year ended December 31, 2015, 2.4 million square feet of new and renewal leases commenced at an average annual base rent of \$23.82 per square foot compared to 2.4 million square feet of expiring and terminated leases with an average annual base rent of \$24.15 per square foot. During the year ended December 31, 2015, we acquired properties with 1.9 million occupied square feet with an average annual base rent of \$16.19 per square foot, including 1.2 million square feet with a triple net annual base rent of \$10.74 per square foot, and disposed of 17,000 square feet with an average annual base rent of \$17.50 per square foot.

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2014 and 2013

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

	SPP			Total Portfolio		
	2014	2013(1)	Change	2014	2013	Change
Rental revenues	\$ 296,216	\$ 292,680	\$ 3,536	\$ 312,734	\$ 299,102	\$ 13,632
Tenant recoveries	54,935	52,769	2,166	58,222	53,232	4,990
Total segment revenues	\$ 351,151	\$ 345,449	\$ 5,702	\$ 370,956	\$ 352,334	\$ 18,622
Operating expenses	(134,275)	(131,148)	(3,127)	(148,199)	(139,376)	(8,823)
NOI	\$ 216,876	\$ 214,301	\$ 2,575	\$ 222,757	\$ 212,958	\$ 9,799
Non-cash adjustments to NOI	(467)	(2,161)	1,694	(1,406)	(2,147)	741
Adjusted NOI	\$ 216,409	\$ 212,140	\$ 4,269	\$ 221,351	\$ 210,811	\$ 10,540
Adjusted NOI % change			2.0 %			
Property count	203	203		215	206	
Average occupancy	91.4 %	91.3 %		90.7 %	90.7 %	
Average occupied sq. ft.	12,618	12,582		13,178	12,767	
Average annual total revenues per occupied sq. ft.	\$ 28	\$ 27		\$ 28	\$ 27	
Average annual rental revenues per occupied sq. ft.	\$ 23	\$ 23		\$ 24	\$ 23	

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

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

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

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

Hospital

2015 and 2014

Results as of and for the years ended December 31, 2015 and 2014 (dollars in thousands, except per bed data):

	SPP			Total Portfolio		
	2015	2014	Change	2015	2014	Change
Rental revenues(1)	\$ 85,672	\$ 83,941	\$ 1,731	\$ 85,723	\$ 83,992	\$ 1,731
Tenant recoveries	2,657	2,515	142	2,657	2,516	141
Total segment revenues	\$ 88,329	\$ 86,456	\$ 1,873	\$ 88,380	\$ 86,508	\$ 1,872
Operating expenses	(3,942)	(3,773)	(169)	(3,989)	(3,830)	(159)
NOI	\$ 84,387	\$ 82,683	\$ 1,704	\$ 84,391	\$ 82,678	\$ 1,713
Non-cash adjustments to NOI	1,060	445	615	1,060	443	617
Adjusted NOI	\$ 85,447	\$ 83,128	\$ 2,319	\$ 85,451	\$ 83,121	\$ 2,330
Adjusted NOI % change			2.8 %			
Property count	16	16		16	16	
Average capacity (beds)(2)	2,224	2,221		2,224	2,221	
Average annual rent per bed	\$ 40,189	\$ 39,127		\$ 40,212	\$ 39,149	

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

NOI and Adjusted NOI. SPP and total portfolio NOI and adjusted NOI increased primarily as a result of additional rents earned in 2015 due to exceeding pre-established thresholds and annual rent escalations, partially offset by increased operating expenses.

2014 and 2013

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

	SPP			Total Portfolio		
	2014	2013	Change	2014	2013	Change
Rental revenues(1)	\$ 82,667	\$ 69,213	\$ 13,454	\$ 83,992	\$ 69,603	\$ 14,389
Tenant recoveries	2,515	2,457	58	2,516	2,457	59
Total segment revenues	\$ 85,182	\$ 71,670	\$ 13,512	\$ 86,508	\$ 72,060	\$ 14,448
Operating expenses	(3,773)	(3,813)	40	(3,830)	(3,862)	32
NOI	\$ 81,409	\$ 67,857	\$ 13,552	\$ 82,678	\$ 68,198	\$ 14,480
Non-cash adjustments to NOI	466	11,561	(11,095)	443	11,554	(11,111)
Adjusted NOI	\$ 81,875	\$ 79,418	\$ 2,457	\$ 83,121	\$ 79,752	\$ 3,369
Adjusted NOI % change			3.1	%		
Property count	15	15		16	16	
Average capacity (beds)(2)	2,161	2,149		2,221	2,175	
Average annual rent per bed	\$ 39,634	\$ 38,730		\$ 39,149	\$ 38,437	

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

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

Other Income and Expense Items

Interest income. Interest income increased \$38 million to \$112 million for the year ended December 31, 2015. The increase was primarily the result of: (i) fundings through our HC-One Facility in November 2014 and February 2015 (see Note 7 to the Consolidated Financial Statements), (ii) incremental interest income from the repayments of three development loans resulting from the appreciation of the underlying real estate assets and (iii) additional fundings under our mezzanine loan facility with Tandem in May 2015 (see Note 7 to the Consolidated Financial Statements). The increases in interest income were partially offset by a change in interest income recognition on our investment in

the Four Seasons Notes (see Note 17 to the Consolidated Financial Statements).

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

Interest expense. For the year ended December 31, 2015, interest expense increased \$40 million to \$480 million. The increase was primarily the result of: (i) our senior unsecured notes offerings during 2014 and 2015, (ii) increased borrowings from our term loan originated in 2015, (iii) increased borrowings under our line of credit facility and (iv) lower capitalized interest. The increases in interest expense were partially offset by repayments of senior unsecured notes and mortgage debt that matured during 2014 and 2015. The increased borrowings were used to fund our investment activities and to refinance our debt maturities.

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2015 and 2014

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

	As of December 31,(1)			
	2015		2014	
Balance:				
Fixed rate	\$ 10,659,378		\$ 8,841,676	
Variable rate	397,432		847,016	
Total	\$ 11,056,810		\$ 9,688,692	
Percentage of total debt:				
Fixed rate	96.4	%	91.3	%
Variable rate	3.6		8.7	
Total	100	%	100	%
Weighted average interest rate at end of period:				
Fixed rate	4.68	%	5.01	%
Variable rate	1.72	%	1.59	%
Total weighted average rate	4.57	%	4.71	%

(1) At December 31, 2015 and 2014, excludes \$94 million and \$97 million of other debt, respectively, that represents non-interest bearing life care bonds and occupancy fee deposits at certain of our senior housing facilities and demand notes that have no scheduled maturities. At both December 31, 2015 and 2014, \$71 million of variable-rate mortgages are presented as fixed-rate debt as the interest payments were swapped from variable to fixed. At December 31, 2015 and 2014, £357 million (\$526 million) and £137 million (\$214 million) term loans, respectively, are presented as fixed-rate debt as the interest payments were swapped from variable to fixed.

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

2014 and 2013

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

	As of December 31,(1)	
	2014	2013
Balance:		
Fixed rate	\$ 8,841,676	\$ 8,581,889
Variable rate	847,016	33,955
Total	\$ 9,688,692	\$ 8,615,844
Percentage of total debt:		

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Fixed rate	91.3	%	99.6	%
Variable rate	8.7		0.4	
Total	100	%	100	%
Weighted average interest rate at end of period:				
Fixed rate	5.01	%	5.10	%
Variable rate	1.59	%	1.13	%
Total weighted average rate	4.71	%	5.08	%

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

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

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Depreciation and amortization expense. Depreciation and amortization expense increased \$51 million to \$511 million for the year ended December 31, 2015. The increase was primarily the result of the impact of our acquisitions and redevelopment projects placed in service during 2014 and 2015. The increases in depreciation and amortization expense were partially offset by additional depreciation expense recognized in 2014 as a result of a change in estimate of the depreciable life and residual value of certain properties.

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

General and administrative expenses. General and administrative expenses increased \$14 million to \$96 million for the year ended December 31, 2015. The increase was primarily the result of a \$7 million severance-related charge resulting from the resignation of our former Executive Vice President and Chief Investment Officer in June 2015. In addition, the increase was the result of higher compensation related expenses.

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

Acquisition and pursuit costs. Acquisition and pursuit costs increased \$10 million to \$27 million for the year ended December 31, 2015. The increase was primarily due to higher levels of transactional activity in 2015, including transactional costs related to the U.K. and RIDEA III investments.

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

Impairments (recovery). During the year ended December 31, 2015, we recognized the following impairment charges: (i) \$1.3 billion related to our HCRMC DFL investments, (ii) \$112 million related to our investment in Four Seasons Notes and (iii) \$3 million related to a MOB. The impairment charges were partially offset by a \$6 million impairment recovery related to a repayment of a loan in our hospital segment. See Notes 6 and 17 to the Consolidated Financial Statements.

Other income, net. For the year ended December 31, 2015, other income, net increased \$7 million to \$14 million. The increase was primarily the result of the impact from remeasuring assets and liabilities denominated in GBP to USD.

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

Income tax benefit (expense). For the year ended December 31, 2015, income taxes decreased by \$9 million to a benefit of \$9 million. The decrease was primarily the result of the tax benefit related to our share of operating losses from our RIDEA joint ventures formed as part of the 2014 Brookdale transaction and related to our U.K. real estate investments in 2015.

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

Equity income from unconsolidated joint ventures. For the year ended December 31, 2015, equity income from unconsolidated joint ventures increased \$8 million to \$57 million. The increase in equity income from unconsolidated joint ventures was primarily the result of our share of gains on sales of real estate from HCP Ventures III, LLC and HCP Ventures IV, LLC, partially offset by our share of operating losses recognized from the CCRC JV.

In December 2015, we concluded that our equity investment in HCRMC was other-than-temporarily impaired and recorded an impairment charge of \$19 million and, prospectively, income will be recognized only if cash distributions are received from HCRMC (see Notes 8 and 17 to the Consolidated Financial Statements).

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

Impairment of investments in unconsolidated joint ventures. During the year ended December 31, 2015 and 2014, we recognized impairments of \$46 million and \$36 million, respectively, related to our equity ownership interest in HCRMC (see Notes 8 and 17 to the Consolidated Financial Statements).

Gain on sales of real estate (continuing and discontinued operations). During the year ended December 31, 2015, we sold 10 properties for total gain on sales of real estate of \$6 million. During the year ended December 31, 2014, we sold five properties for total gain on sales of real estate of \$31 million (see Note 5 to the Consolidated Financial Statements).

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

Liquidity and Capital Resources

We anticipate: (i) funding recurring operating expenses, (ii) meeting debt service requirements including principal payments and maturities, and (iii) satisfying our distributions to our stockholders and non-controlling interest members, for the next 12 months primarily by using cash flow from operations, available cash balances and cash from our various financing activities. Additionally, we expect to partially meet our scheduled financing maturities for 2016 (excluding future acquisitions) with the proceeds from our December 2015 \$600 million senior unsecured note offering.

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

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

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

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

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as our ability to fund future acquisitions and development through the issuance of additional securities or secured debt. Credit ratings impact our ability to access capital and directly impact our cost of capital as well. For example, as noted below, our revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon our credit ratings. We also pay a facility fee on the entire revolving commitment that depends upon our credit ratings. As of January 29, 2016, we had a credit rating of BBB+ from Fitch, Baa1 from Moody's and BBB+ from S&P on our senior unsecured debt securities.

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Cash Flow Summary

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

Cash and cash equivalents were \$347 million and \$184 million at December 31, 2015 and 2014, respectively, reflecting an increase of \$163 million. The following table sets forth changes in cash flows (dollars in thousands):

	Year Ended December 31,		
	2015	2014	Change
Net cash provided by operating activities	\$ 1,222,145	\$ 1,248,621	\$ (26,476)
Net cash used in investing activities	(1,672,005)	(1,511,879)	(160,126)
Net cash provided by financing activities	614,087	144,797	469,290

The increase in operating cash flow is the result of a net paydown of working capital. Our cash flow from operations is dependent upon the occupancy levels of our buildings, rental rates on leases, our tenants' performance on their lease obligations, the level of operating expenses and other factors.

The following are significant investing and financing activities for the year ended December 31, 2015:

- made investments of \$2.4 billion (development, leasing and acquisition of real estate, and investments in unconsolidated joint ventures and loans);
- paid dividends on common stock of \$1 billion, which were generally funded by cash provided by our operating activities and cash on hand; and
- raised proceeds of \$2.7 billion primarily from issuing senior unsecured notes, the term loan originated in January 2015, net borrowings under our bank line of credit, issuances of common stock and noncontrolling interest, and an additional \$684 million from sales of real estate, and loan and DFL repayments; and repaid \$969 million of senior unsecured notes, bank line of credit and mortgage debt.

Debt

Bank line of credit and Term Loans. Our \$2.0 billion unsecured revolving line of credit facility (the "Facility") matures on March 31, 2018 and contains a one-year extension option. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends upon our credit ratings. We pay a facility fee on the entire revolving commitment that depends on our credit ratings. Based on our credit ratings at January 29, 2016, the margin on the Facility was 0.925%, and the facility fee was 0.15%. The Facility also includes a feature that will allow us to increase the borrowing capacity by an aggregate amount of up to \$500 million, subject to securing additional commitments from existing lenders or new lending institutions. At December 31, 2015, we had \$397 million (£270 million) outstanding under the Facility with a weighted average effective interest rate of 1.72%.

On July 30, 2012, we entered into a credit agreement with a syndicate of banks for a £137 million (\$202 million at December 31, 2015) four-year unsecured term loan (the "2012 Term Loan"). Based on our credit ratings at January 29, 2016, the 2012 Term Loan accrues interest at a rate of GBP LIBOR plus 1.20%. Concurrent with the closing of the 2012 Term Loan, we entered into a four-year interest rate swap contract that fixes the rate of the 2012 Term Loan at 1.81%, subject to adjustments based on our credit ratings. The 2012 Term Loan contains a one-year committed extension option.

On January 12, 2015, we entered into a credit agreement with a syndicate of banks for a £220 million (\$323 million at December 31, 2015) four-year unsecured term loan (the “2015 Term Loan”) that accrues interest at a rate of GBP LIBOR plus 0.975%, subject to adjustments based on our credit ratings (the 2012 and 2015 Term Loans are collectively, the “Term Loans”). Proceeds from this term loan were used to repay a £220 million draw on the Facility that partially funded the November 2014 HC-One Facility (see Note 7 to the Consolidated Financial Statements). Concurrently, we entered into a three-year interest rate swap agreement that effectively fixes the interest rate of the 2015 Term Loan at 1.79% (see Note 24 to the Consolidated Financial Statements). The 2015 Term Loan contains a one-year committed extension option.

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The Facility and Term Loans contain certain financial restrictions and other customary requirements. Among other things, these covenants, using terms defined in the agreements, (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60% and (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times. The Facility and Term Loans also require a Minimum Consolidated Tangible Net Worth of \$9.5 billion at December 31, 2015. At December 31, 2015, we were in compliance with each of these restrictions and requirements of the Facility and Term Loans.

Senior unsecured notes. At December 31, 2015, we had senior unsecured notes outstanding with an aggregate principal balance of \$9.2 billion. Interest rates on the notes ranged from 2.79% to 6.88% with a weighted average effective interest rate of 4.68% and a weighted average maturity of six years at December 31, 2015. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. At December 31, 2015, we believe we were in compliance with these covenants.

Mortgage debt. At December 31, 2015, we had \$933 million in aggregate principal amount of mortgage debt outstanding that is secured by 62 healthcare facilities (including redevelopment properties) with a carrying value of \$1.2 billion. Interest rates on the mortgage debt ranged from 3.14% to 8.35% with a weighted average effective interest rate of 6.21% and a weighted average maturity of two years at December 31, 2015.

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

Equity

At December 31, 2015, we had 465 million shares of common stock outstanding, equity totaled \$9.7 billion, and our equity securities had a market value of \$18.0 billion.

At December 31, 2015, non-managing members held an aggregate of four million units in five limited liability companies (“DownREITs”) for which we are the managing member. The DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications).

At-The-Market Program. In June 2015, we established an ATM Program, in connection with the renewal of our Shelf Registration Statement. Under this program, we may sell shares of our common stock from time to time having an aggregate gross sales price of up to \$750 million through a consortium of banks acting as sales agents or directly to the banks acting as principals. During the year ended December 31, 2015, we issued 1.8 million shares of common stock at a weighted average price of \$40.14 for proceeds of \$73 million, net of fees and commissions of \$1 million. Actual future sales will depend upon a variety of factors, including but not limited to market conditions, the trading price of our common stock and our capital needs. We have no obligation to sell the remaining shares available for sale under our program.

Shelf Registration

We filed a prospectus with the SEC as part of a registration statement on Form S-3ASR, using a shelf registration process, which expires in June 2018. Under the “shelf” process, we may sell any combination of the securities described in the prospectus through one or more offerings. The securities described in the prospectus include common stock, preferred stock, depositary shares, debt securities and warrants.

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Capital Market Outlook

The capital markets have facilitated our continued growth, including our international expansion. For the 24 months ended December 31, 2015, we have raised \$3.1 billion in senior unsecured notes, originated a £220 million (\$333 million) four-year unsecured term loan and increased our Facility from \$1.5 billion to \$2.0 billion. The capital raised, in combination with available cash and borrowing capacity under our Facility, supported \$4.2 billion of investments completed during the 24 months ended December 31, 2015. We believe our equity and debt investors, as well as our banking relationships, will provide additional capital as we pursue new investment opportunities.

Contractual Obligations

The following table summarizes our material contractual payment obligations and commitments at December 31, 2015 (in thousands):

	Total(1)	2016	2017-2018	2019-2020	More than Five Years
Bank line of credit(2)	\$ 397,432	\$ —	\$ 397,432	\$ —	\$ —
Term loans(3)	526,468	202,034	—	324,434	—
Senior unsecured notes(4)	9,200,000	900,000	1,350,000	1,250,000	5,700,000
Mortgage debt	932,910	279,194	588,474	4,150	61,092
U.K. loan commitments(5)	56,915	34,099	22,816	—	—
Construction loan commitments(6)	2,060	2,060	—	—	—
Development commitments(7)	92,712	92,712	—	—	—
Ground and other operating leases	383,906	7,870	14,068	13,719	348,249
Interest(8)	2,776,445	471,543	712,356	543,451	1,049,095
Total	\$ 14,368,848	\$ 1,989,512	\$ 3,085,146	\$ 2,135,754	\$ 7,158,436

- (1) Excludes \$94 million of other debt that represents life care bonds and demand notes that have no scheduled maturities.
- (2) Represents £270 million translated into USD.
- (3) Represents £357 million translated into USD.
- (4) In February 2016, we repaid \$500 million senior unsecured notes with proceeds from our December 2015 senior unsecured notes issuance.
- (5) Represents £39 million translated into USD as of December 31, 2015 for commitments to fund our U.K. loan facilities.
- (6) Represents commitments to finance development projects and related working capital financings.
- (7) Represents construction and other commitments for developments in progress.
- (8) Interest on variable-rate debt is calculated using rates in effect at December 31, 2015.

Off-Balance Sheet Arrangements

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

resources except those described above under “Contractual Obligations”.

Inflation

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

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Non-GAAP Financial Measures Reconciliations

Funds From Operations and Funds Available for Distribution

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

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Net (loss) income applicable to common shares	\$ (560,552)	\$ 919,796	\$ 969,103	\$ 812,289	\$ 515,302
Depreciation and amortization of real estate, in-place lease and other intangibles:					
Continuing operations	510,785	459,995	423,312	353,704	346,055
Discontinued operations	—	—	5,862	12,808	11,340
Other depreciation and amortization	22,223	18,864	14,326	12,756	8,840
Gain on sales of real estate	(6,377)	(31,298)	(69,866)	(31,454)	(3,107)
Impairments of real estate	2,948	—	1,372	—	—
Gain upon consolidation of joint venture	—	—	—	—	(7,769)
Equity income from unconsolidated joint ventures	(57,313)	(49,570)	(64,433)	(54,455)	(46,750)
FFO from unconsolidated joint ventures	90,498	70,873	74,324	64,933	56,887
Noncontrolling interests' and participating securities' share in earnings	14,134	16,795	15,903	17,547	18,062
Noncontrolling interests' and participating securities' share in FFO	(27,187)	(23,821)	(20,639)	(21,620)	(20,953)
FFO applicable to common shares	\$ (10,841)	\$ 1,381,634	\$ 1,349,264	\$ 1,166,508	\$ 877,907
Distributions on dilutive convertible units	—	13,799	13,276	13,028	6,916
Diluted FFO applicable to common shares	\$ (10,841)	\$ 1,395,433	\$ 1,362,540	\$ 1,179,536	\$ 884,823
Diluted FFO per common share	\$ (0.02)	\$ 3.00	\$ 2.95	\$ 2.72	\$ 2.19
Weighted average shares used to calculate diluted FFO per common share	462,795	464,845	461,710	434,328	403,864
Diluted earnings per common share	(1.21)	\$ 2.00	\$ 2.13	\$ 1.90	\$ 1.29
Depreciation and amortization of real estate, in-place lease and other intangibles	1.10	1.00	0.93	0.85	0.89
Impairments on real estate and DFL depreciation	0.06 (0.01)	0.04 (0.07)	0.03 (0.15)	0.03 (0.07)	0.02 (0.03)

Gain on sales of real estate and upon consolidation of joint venture					
Joint venture and participating securities FFO adjustments	0.04	0.03	0.01	0.01	0.02
Diluted FFO per common share	\$ (0.02)	\$ 3.00	\$ 2.95	\$ 2.72	\$ 2.19
Impact of adjustments to FFO:					
Transaction-related items(1)	\$ 32,932	\$ (18,856)	\$ 6,191	\$ 5,339	\$ 29,558
Other impairments, net(2)	1,446,800	35,913	—	7,878	15,400
Severance-related charges(3)	6,713	—	27,244	5,642	4,827
Foreign currency remeasurement gains	(5,437)	—	—	—	—
Preferred stock redemption charge	—	—	—	10,432	—
Litigation settlement and provision charge	—	—	—	—	125,000
	\$ 1,481,008	\$ 17,057	\$ 33,435	\$ 29,291	\$ 174,785
FFO as adjusted applicable to common shares	\$ 1,470,167	\$ 1,398,691	\$ 1,382,699	\$ 1,195,799	\$ 1,052,692
Distributions on dilutive convertible units and other	13,597	13,766	13,220	12,957	11,646
Diluted FFO as adjusted applicable to common shares	\$ 1,483,764	\$ 1,412,457	\$ 1,395,919	\$ 1,208,756	\$ 1,064,338
Diluted FFO as adjusted per common share	\$ 3.16	\$ 3.04	\$ 3.02	\$ 2.79	\$ 2.71
Weighted average shares used to calculate diluted FFO as adjusted per common share(4)	469,064	464,845	461,710	433,607	393,237

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	Year Ended December 31,				
	2015	2014	2013	2012	2011
FFO as adjusted applicable to common shares	\$ 1,470,167	\$ 1,398,691	\$ 1,382,699	\$ 1,195,799	\$ 1,052,692
Amortization of market lease intangibles, net	(1,295)	(949)	(6,646)	(2,232)	(4,510)
Amortization of deferred compensation(5)	23,233	21,885	23,327	23,277	20,034
Amortization of deferred financing costs, net(6)	20,222	19,260	18,541	16,501	13,716
Straight-line rents	(28,859)	(41,032)	(39,587)	(47,311)	(59,173)
DFL accretion(7)	(87,861)	(77,568)	(86,055)	(94,240)	(74,007)
Other depreciation and amortization	(22,223)	(18,864)	(14,326)	(12,756)	(8,840)
Deferred revenues – tenant improvement related	(2,594)	(2,306)	(2,906)	(1,570)	(2,371)
Deferred revenues – additional rents	(219)	422	63	(85)	52
Leasing costs and tenant and capital improvements	(82,072)	(74,464)	(64,557)	(61,440)	(52,903)
Lease restructure payments	22,657	9,425	—	—	—
Joint venture adjustments – CCRC entrance fees	30,918	11,443	—	—	—
Joint venture and other FAD adjustments(7)	(80,225)	(67,121)	(52,471)	(61,298)	(46,250)
FAD applicable to common shares	\$ 1,261,849	\$ 1,178,822	\$ 1,158,082	\$ 954,645	\$ 838,440
Distributions on dilutive convertible units	14,230	13,799	13,276	7,714	6,916
Diluted FAD applicable to common shares	\$ 1,276,079	\$ 1,192,621	\$ 1,171,358	\$ 962,359	\$ 845,356
Diluted FAD per common share	\$ 2.72	\$ 2.57	\$ 2.54	\$ 2.23	\$ 2.16
Weighted average shares used to calculate diluted FAD per common share	469,064	464,845	461,710	431,429	390,944

- (1) For the year ended December 31, 2015, transaction-related items primarily relate to acquisition and pursuit costs. For the year ended December 31, 2014, transaction-related items include a net benefit from the 2014 Brookdale transaction, partially offset by acquisition and pursuit costs. For the years ended December 31, 2013 and 2012, transaction-related items are primarily attributable to acquisition and pursuit costs. For the year ended December 31, 2011, transaction-related items are primarily attributable to our HCRMC acquisition.
- (2) For the year ended December 31, 2015, other impairments, net include impairment charges of: (i) \$1.3 billion related to our HCRMC DFL investments, (ii) \$112 million related to our Four Seasons Notes and (iii) \$46 million related to our equity investment in HCRMC, partially offset by impairment recovery of \$6 million related to a loan payoff in our hospital segment. For the year ended December 31, 2014, the other impairment relates to our equity ownership interest in HCRMC.
- (3) For the year ended December 31, 2015, the severance-related charge relates to the resignation of our former Executive Vice President and Chief Investment Officer. For the year ended December 31, 2013, the severance-related charge relates to the termination of our former Chairman, Chief Executive Officer and

President.

- (4) Our weighted average shares for the year ended December 31, 2012 used to calculate diluted FFO as adjusted eliminate the impact of 22 million shares from our common stock offering completed on October 19, 2012; proceeds from this offering were used to fund the Blackstone JV acquisition. Our weighted average shares used to calculate diluted FFO as adjusted eliminate the impact of 30 million shares from our March 2011 common stock offering (excludes 4.5 million shares sold to the underwriters upon exercise of their option to purchase additional shares), which issuances increased our weighted average shares by 12.9 million for the year ended December 31, 2011; proceeds from these offerings were used to fund a portion of the cash consideration for the HCRMC acquisition.
- (5) Excludes \$3 million related to the acceleration of deferred compensation for restricted stock units and stock options that vested upon the resignation of our former Executive Vice President and Chief Investment Officer, which is included in the severance-related charge for year ended December 31, 2015. Excludes \$16.7 million related to the acceleration of deferred compensation for restricted stock units and options that vested upon termination of the our former chief executive officer, which is included in severance-related charges for the year ended December 31, 2013.
- (6) Excludes \$11.3 million related to the write-off of unamortized loan fees related to an expired bridge loan commitment and \$0.8 million related to the amortization of deferred issuance costs of the senior notes, which costs are included in transaction-related items for the year ended December 31, 2011.
- (7) Our ownership interest in HCRMC is accounted for using the equity method, which requires an ongoing elimination of DFL income that is proportional to our ownership in HCRMC. Further, our share of earnings from HCRMC (equity income) increases for the corresponding elimination of related lease expense recognized at the HCRMC entity level, which we present as a non-cash joint venture FAD adjustment. See Note 6 to the Consolidated Financial Statements for additional discussion.

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Critical Accounting Policies

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

Principles of Consolidation

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

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

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

Revenue Recognition

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

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classifications assessments were different, our lease classification for accounting purposes may have been different; thus the timing and amount of our revenue recognized would have been impacted, which may be material to our consolidated financial statements.

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

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

We maintain an allowance for doubtful accounts, including an allowance for operating lease straight-line rent receivables, for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. We monitor the liquidity and creditworthiness of our tenants and operators on a continuous basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For straight-line rent receivable 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, the net investment in the DFL represents receivables for the sum of future minimum lease payments receivable and the estimated residual values of the leased properties, less the unamortized unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectibility of the lease payments is reasonably assured. The determination of estimated useful lives and residual values are subject to significant judgment. If these assessments were to change, the timing and amount of our revenue recognized would be impacted.

Loans receivable are classified as held-for-investment based on management's intent and ability to hold the loans for the foreseeable future or to maturity. We recognize interest income on loans, including the amortization of discounts and premiums, using the interest method applied on a loan-by-loan basis when collectibility of the future payments is reasonably assured. Premiums, discounts and related costs are recognized as yield adjustments over the term of the related loans. If management determined that certain loans should no longer be classified as held-for-investment, the timing and amount of our interest income recognized would be impacted.

Loans receivable and DFLs (collectively, "Finance Receivables"), are reviewed and assigned an internal rating of Performing, Watch List or Workout. Finance Receivables that are deemed Performing meet all present contractual obligations, and collection and timing, of all amounts owed is reasonably assured. Watch List Finance Receivables are defined as Finance Receivables that do not meet the definition of Performing or Workout. Workout Finance Receivables are defined as Finance Receivables in which the Company has determined, based on current information

and events, that it is probable (i) it will be unable to collect all amounts due according to the contractual terms of the agreement, (ii) the tenant, operator, or borrower is delinquent on making payments under the contractual terms of the agreement (iii) and the Company has commenced action or anticipates pursuing action in the near term to seek recovery of its investment.

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Finance Receivables are placed on nonaccrual status when management determines that the collectibility of contractual amounts is not reasonably assured (the asset will have an internal rating of either Watch List or Workout). Further, we perform a credit analysis to support the tenant's, operator's, borrower's and/or guarantor's repayment capacity and the underlying collateral values. We use the cash basis method of accounting for Finance Receivables placed on nonaccrual status unless one of the following conditions exist whereby we utilize the cost recovery method of accounting: (i) if we determine that it is probable that we will only recover the recorded investment in the Finance Receivable, net of associated allowances or charge-offs (if any), or (ii) we cannot reasonably estimate the amount of an impaired Finance Receivable. For cash basis method of accounting we apply payments received, excluding principal paydowns, to interest income so long as that amount does not exceed the amount that would have been earned under the original contractual terms. For cost recovery method of accounting any payment received is applied to reduce the recorded investment. Generally, we return a Finance Receivable to accrual status when all delinquent payments become current under the terms of the loan or lease agreements and collectibility of the remaining contractual loan or lease payments is reasonably assured.

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

Real Estate

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

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

Impairment of Long-Lived Assets and Goodwill

We assess the carrying value of our real estate assets and related intangibles (“real estate assets”) when events or changes in circumstances indicate that the carrying amount of the real estate assets may not be recoverable, but at least annually. Recoverability of real estate assets is measured by comparing the carrying amount of the real estate assets to the respective estimated future undiscounted cash flows. The estimated future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. In order to review our real estate assets for recoverability, we consider market conditions, as well as our intent with respect to holding or disposing of the asset. If our analysis indicates that the carrying value of the real estate assets is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the fair value of the real estate asset.

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

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

Investments in Unconsolidated Joint Ventures

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

Income Taxes

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

Recent Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for the impact of new accounting standards.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates and foreign currency exchange rates, specifically the GBP. We use derivative financial instruments in the normal course of business to mitigate interest rate and foreign currency risk. We do not use derivative financial instruments for speculative or trading purposes. Derivatives are recorded on the consolidated balance sheets at fair value (see Note 24 to the Consolidated Financial Statements).

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To illustrate the effect of movements in the interest rate and foreign currency markets, we performed a market sensitivity analysis on our hedging instruments. We applied various basis point spreads to the underlying interest rate curves and foreign currency exchange rates of the derivative portfolio in order to determine the change in fair value. Assuming a one percentage point change in the underlying interest rate curve and foreign currency exchange rates, the estimated change in fair value of each of the underlying derivative instruments would not exceed \$6 million. See Note 24 to the Consolidated Financial Statements for additional analysis details.

Interest Rate Risk

At December 31, 2015, we are exposed to market risks related to fluctuations in interest rates primarily on variable rate debt, which has been predominately hedged through interest rate swap contracts.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt and assets until their maturity or earlier prepayment and refinancing. If interest rates have risen at the time we seek to refinance our fixed rate debt, whether at maturity or otherwise, our future earnings and cash flows could adversely be affected by additional borrowing costs. Conversely, lower interest rates at the time of refinancing may reduce our overall borrowing costs. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a one percentage point increase in the interest rate related to the variable-rate debt and variable-rate investments, and assuming no other changes in the outstanding balance as of December 31, 2015, our annual interest expense would increase by approximately \$3 million, or less than \$0.01 per common share on a diluted basis.

Foreign Currency Exchange Rate Risk

At December 31, 2015, our exposure to foreign currencies primarily relates to U.K. investments in leased real estate, senior notes and related GBP denominated cash flows. Our foreign currency exposure is partially mitigated through the use of GBP denominated borrowings and foreign currency swap contracts. Based solely on our operating results for the three months ended December 31, 2015, including the impact of existing hedging arrangements, if the value of the GBP relative to the U.S. dollar were to increase or decrease by 10% compared to the average exchange rate during the quarter ended December 31, 2015, our cash flows would have decreased or increased, as applicable, by less than \$1 million.

Market Risk

We have investments in marketable debt securities classified as held-to-maturity because we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded at amortized cost and adjusted for the amortization of premiums and discounts through maturity. We consider a variety of factors in evaluating an other-than-temporary decline in value, such as: the length of time and the extent to which the market value has been less than our current adjusted carrying value; the issuer's financial condition, capital strength and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the market value, if any. At December 31, 2015, both the fair value and carrying value of marketable debt securities were \$103 million.

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

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

	Maturity 2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Assets:								
Loans receivable (SD)	\$ 15,244	\$ 37,038	\$ 276,789	\$ —	\$ —	\$ —	\$ 329,071	\$ 330,380
Weighted average interest rate	8.50 %	8.50 %	11.23 %	— %	— %	— %	10.79 %	
Loans receivable (BP)(1)	\$ —	\$ 42,253	\$ —	\$ 397,419	\$ —	\$ —	\$ 439,672	\$ 439,672
Weighted average interest rate	— %	6.00 %	— %	7.56 %	— %	— %	7.41 %	
Mortgage debt securities held to maturity (SD)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 17,776	\$ 17,776	\$ 17,776
Weighted average interest rate	— %	— %	— %	— %	— %	4.43 %	4.43 %	
Mortgage debt securities held to maturity (BP)(2)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 85,182	\$ 85,182	\$ 85,182
Weighted average interest rate	— %	— %	— %	— %	— %	12.25 %	12.25 %	
Liabilities(3):								
Variable rate								
Line of credit (BP)(4)	\$ —	\$ —	\$ 397,432	\$ —	\$ —	\$ —	\$ 397,432	\$ 397,432
Weighted average interest rate	— %	— %	1.72 %	— %	— %	— %	1.72 %	
	\$ 202,034	\$ —	\$ —	\$ 324,434	\$ —	\$ —	\$ 526,468	\$ 526,468

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Term loans															
Weighted average interest rate	1.71	%	—	%	—	%	1.48	%	—	%	—	%	1.57	%	
Mortgage debt payable (USD)	\$ 25,102		\$ —		\$ —		\$ —		\$ —		\$ 45,610		\$ 70,712		\$ 74,433
Weighted average interest rate	1.69	%	—	%	—	%	—	%	—	%	0.03	%	0.62	%	
Fixed rate debt:															
Senior secured debt payable (USD)(6)	\$ 900,000		\$ 750,000		\$ 600,000		\$ 450,000		\$ 800,000		\$ 5,700,000		\$ 9,200,000		\$ 9,390,660
Weighted average interest rate	4.88	%	5.88	%	6.70	%	3.75	%	2.63	%	4.36	%	4.50	%	
Mortgage debt payable (USD)	\$ 238,711		\$ 593,569		\$ 4,870		\$ —		\$ 931		\$ 24,117		\$ 862,198		\$ 890,735
Weighted average interest rate	6.50	%	5.69	%	5.90	%	—	%	5.75	%	5.87	%	5.92	%	
Interest rate derivatives (liabilities):															
Variable rate mortgage debt: variable to fixed (USD)	\$ (761)		\$ —		\$ —		\$ —		\$ (5,430)		\$ —		\$ (6,191)		\$ (6,191)
Weighted average payable rate	5.95	%	—	%	—	%	—	%	3.82	%	—	%	4.08	%	
Weighted average receive rate	2.03	%	—	%	—	%	—	%	1.65	%	—	%	1.70	%	
Variable rate Term Loans: variable to fixed (GBP)	\$ (60)		\$ 196		\$ —		\$ —		\$ —		\$ —		\$ 136		\$ 136
Weighted average payable rate	1.81	%	1.79	%	—	%	—	%	—	%	—	%	1.78	%	
Weighted average receive rate	1.71	%	1.74	%	—	%	—	%	—	%	—	%	1.76	%	

(1) Represents approximately £301 million translated into USD.

(2) Represents approximately £58 million translated into USD.

- (3) Excludes \$94 million of other debt that represents life care bonds and demand notes that have no scheduled maturities.
- (4) Represents approximately £270 million translated into USD.
- (5) Represents approximately £357 million translated into USD.
- (6) In February 2016, we repaid \$500 million of senior unsecured notes from the proceeds from our December 2015 senior unsecured notes issuance.

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ITEM 8. Financial Statements and Supplementary Data

HCP, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of HCP, Inc.

Irvine, California

We have audited the accompanying consolidated balance sheets of HCP, Inc. and subsidiaries (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive (loss) income, equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of HCP, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 9, 2016 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Los Angeles, California

February 9, 2016

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HCP, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2015	2014
ASSETS		
Real estate:		
Buildings and improvements	\$ 12,501,511	\$ 10,972,973
Development costs and construction in progress	390,584	275,233
Land	1,995,657	1,889,438
Accumulated depreciation and amortization	(2,605,036)	(2,250,757)
Net real estate	12,282,716	10,886,887
Net investment in direct financing leases	5,905,009	7,280,334
Loans receivable, net	768,743	906,961
Investments in and advances to unconsolidated joint ventures	605,244	605,448
Accounts receivable, net of allowance of \$3,261 and \$3,785, respectively	48,929	36,339
Cash and cash equivalents	346,500	183,810
Restricted cash	60,616	48,976
Intangible assets, net	614,227	481,013
Other assets, net	817,865	901,668
Total assets(1)	\$ 21,449,849	\$ 21,331,436
LIABILITIES AND EQUITY		
Bank line of credit	\$ 397,432	\$ 838,516
Term loans	524,807	212,986
Senior unsecured notes	9,120,107	7,589,960
Mortgage debt	932,212	982,785
Other debt	94,445	97,022
Intangible liabilities, net	75,273	84,723
Accounts payable and accrued liabilities	436,239	432,934
Deferred revenue	123,017	95,411
Total liabilities(1)	11,703,532	10,334,337
Commitments and contingencies		
Common stock, \$1.00 par value: 750,000,000 shares authorized; 465,488,492 and 459,746,267 shares issued and outstanding, respectively	465,488	459,746
Additional paid-in capital	11,647,039	11,431,987
Cumulative dividends in excess of earnings	(2,738,414)	(1,132,541)
Accumulated other comprehensive loss	(30,470)	(23,895)
Total stockholders' equity	9,343,643	10,735,297
Joint venture partners	217,066	73,214
Non-managing member unitholders	185,608	188,588
Total noncontrolling interests	402,674	261,802
Total equity	9,746,317	10,997,099
Total liabilities and equity	\$ 21,449,849	\$ 21,331,436

(1) The Company's consolidated total assets and total liabilities at December 31, 2015 and 2014 include certain assets of variable interest entities ("VIEs") that can only be used to settle the liabilities of the related VIE. The VIE creditors do not have recourse to HCP, Inc. Total assets at December 31, 2015 include VIE assets as follows: buildings and improvements \$791 million; land \$125 million; accumulated depreciation and amortization \$135 million; accounts receivable \$16 million; cash \$35 million; restricted cash \$18 million; and other assets \$20 million. Total assets at December 31, 2014 include VIE assets as follows: buildings and improvements \$677 million; land \$113 million; accumulated depreciation and amortization \$111 million; accounts receivable \$5 million; cash \$42 million; and other assets of \$23 million. Total liabilities at December 31, 2015 include accounts payable and accrued liabilities of \$60 million and deferred revenue of \$14 million from VIEs. Total liabilities at December 31, 2014 include accounts payable and accrued liabilities of \$34 million and deferred revenue of \$12 million of from VIEs. See Note 21 to the Consolidated Financial Statements for additional details. See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2015	2014	2013
Revenues:			
Rental and related revenues	\$ 1,144,482	\$ 1,174,256	\$ 1,128,054
Tenant recoveries	126,485	110,688	100,649
Resident fees and services	525,453	241,965	146,288
Income from direct financing leases	633,835	663,070	636,881
Interest income	112,184	74,491	86,159
Investment management fee income	1,873	1,809	1,847
Total revenues	2,544,312	2,266,279	2,099,878
Costs and expenses:			
Interest expense	479,596	439,742	435,252
Depreciation and amortization	510,785	459,995	423,312
Operating	614,375	384,603	298,282
General and administrative	96,022	82,175	103,042
Acquisition and pursuit costs	27,309	17,142	6,191
Impairments, net	1,403,853	—	—
Total costs and expenses	3,131,940	1,383,657	1,266,079
Gain on sales of real estate	6,377	3,288	—
Other income, net	14,404	7,528	18,216
Total other income, net	20,781	10,816	18,216
(Loss) income before income taxes and equity income from and impairment of unconsolidated joint ventures	(566,847)	893,438	852,015
Income tax benefit (expense)	9,011	(250)	(5,815)
Equity income from unconsolidated joint ventures	57,313	49,570	64,433
Impairments of investments in unconsolidated joint ventures	(45,895)	(35,913)	—
(Loss) income from continuing operations	(546,418)	906,845	910,633
Discontinued operations:			
Income before impairment losses and gain on sales of real estate, net of income taxes	—	1,736	5,879
Impairment losses on real estate	—	—	(1,372)
Gain on sales of real estate, net of income taxes	—	28,010	69,866
Total discontinued operations	—	29,746	74,373
Net (loss) income	(546,418)	936,591	985,006
Noncontrolling interests' share in earnings	(12,817)	(14,358)	(14,169)
Net (loss) income attributable to HCP, Inc.	(559,235)	922,233	970,837
Participating securities' share in earnings	(1,317)	(2,437)	(1,734)
Net (loss) income applicable to common shares	\$ (560,552)	\$ 919,796	\$ 969,103
Basic earnings per common share:			
Continuing operations	\$ (1.21)	\$ 1.94	\$ 1.97

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Discontinued operations	—	0.07	0.16
Net (loss) income applicable to common shares	\$ (1.21)	\$ 2.01	\$ 2.13
Diluted earnings per common share:			
Continuing operations	\$ (1.21)	\$ 1.94	\$ 1.97
Discontinued operations	—	0.06	0.16
Net (loss) income applicable to common shares	\$ (1.21)	\$ 2.00	\$ 2.13
Weighted average shares used to calculate earnings per common share:			
Basic	462,795	458,425	455,002
Diluted	462,795	458,796	455,702

See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Net (loss) income	\$ (546,418)	\$ 936,591	\$ 985,006
Other comprehensive (loss) income:			
Change in net unrealized (losses) gains on securities:			
Unrealized (losses) gains	(5)	13	1,355
Reclassification adjustment realized in net income	—	—	(9,131)
Change in net unrealized gains on cash flow hedges:			
Unrealized gains	1,894	2,258	6,435
Reclassification adjustment realized in net income	148	(1,085)	1,220
Change in Supplemental Executive Retirement Plan obligation	126	(627)	240
Foreign currency translation adjustment	(8,738)	(9,967)	47
Total other comprehensive (loss) income	(6,575)	(9,408)	166
Total comprehensive (loss) income	(552,993)	927,183	985,172
Total comprehensive income attributable to noncontrolling interests	(12,817)	(14,358)	(14,169)
Total comprehensive (loss) income attributable to HCP, Inc.	\$ (565,810)	\$ 912,825	\$ 971,003

See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share data)

	Common Stock		Additional	Cumulative	Accumulated	Total	Noncontrolling	Total
	Shares	Amount	Paid-In	Dividends	Other	Stockholders'	Interests	Equity
			Capital	In Excess	Comprehensive	Equity		
				Of Earnings	Income (Loss)			
January 1, 2013	453,191	\$ 453,191	\$ 11,180,066	\$ (1,067,367)	\$ (14,653)	\$ 10,551,237	\$ 202,540	\$ 10,753,7
Income	—	—	—	970,837	—	970,837	14,169	985,006
Other comprehensive income	—	—	—	—	166	166	—	166
Issuance of common stock,	3,136	3,136	107,565	—	—	110,701	(3,683)	107,018
Repurchase of common stock	(242)	(242)	(10,196)	—	—	(10,438)	—	(10,438)
Exercise of stock options	876	876	16,626	—	—	17,502	—	17,502
Amortization of deferred compensation	—	—	39,980	—	—	39,980	—	39,980
Dividends	—	—	—	(956,685)	—	(956,685)	—	(956,685)
Contributions to noncontrolling interests	—	—	—	—	—	—	(17,664)	(17,664)
Issuance of common stock to noncontrolling interests	—	—	—	—	—	—	12,472	12,472
December 31,	456,961	456,961	11,334,041	(1,053,215)	(14,487)	10,723,300	207,834	10,931,1
Income	—	—	—	922,233	—	922,233	14,358	936,591
Other comprehensive income	—	—	—	—	(9,408)	(9,408)	—	(9,408)
Issuance of common stock,	2,939	2,939	89,749	—	—	92,688	(557)	92,131

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Purchase of common stock	(323)	(323)	(12,380)	—	—	(12,703)	—	(12,703)
Exercise of stock options	169	169	4,292	—	—	4,461	—	4,461
Amortization of deferred compensation	—	—	21,885	—	—	21,885	—	21,885
Common dividends	—	—	—	(1,001,559)	—	(1,001,559)	—	(1,001,559)
Contributions to controlling interests	—	—	—	—	—	—	(15,611)	(15,611)
Balance of controlling interests	—	—	—	—	—	—	57,746	57,746
Change of controlling interests	—	—	(5,600)	—	—	(5,600)	(1,968)	(7,568)
December 31, 2014	459,746	459,746	11,431,987	(1,132,541)	(23,895)	10,735,297	261,802	10,997,000
(loss) income	—	—	—	(559,235)	—	(559,235)	12,817	(546,418)
Comprehensive	—	—	—	—	(6,575)	(6,575)	—	(6,575)
Change of common stock,	5,117	5,117	176,950	—	—	182,067	(3,183)	178,884
Purchase of common stock	(198)	(198)	(8,540)	—	—	(8,738)	—	(8,738)
Exercise of stock options	823	823	26,764	—	—	27,587	—	27,587
Amortization of deferred compensation	—	—	26,127	—	—	26,127	—	26,127
Common dividends	—	—	—	(1,046,638)	—	(1,046,638)	—	(1,046,638)
Contributions to controlling interests	—	—	(263)	—	—	(263)	(18,884)	(19,147)
Balance of controlling interests	—	—	—	—	—	—	151,185	151,185
Change of controlling interests	—	—	(5,986)	—	—	(5,986)	(1,063)	(7,049)
December 31, 2015	465,488	\$ 465,488	\$ 11,647,039	\$ (2,738,414)	\$ (30,470)	\$ 9,343,643	\$ 402,674	\$ 9,746,310

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See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net (loss) income	\$ (546,418)	\$ 936,591	\$ 985,006
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization of real estate, in-place lease and other intangibles:			
Continuing operations	510,785	459,995	423,312
Discontinued operations	—	—	5,862
Amortization of market lease intangibles, net	(1,295)	(949)	(6,646)
Amortization of deferred compensation	26,127	21,885	39,980
Amortization of deferred financing costs, net	20,222	19,260	18,541
Straight-line rents	(28,859)	(41,032)	(39,587)
Loan and direct financing lease interest accretion	(95,713)	(78,286)	(86,314)
Deferred rental revenues	(2,813)	(1,884)	(2,843)
Equity income from unconsolidated joint ventures	(57,313)	(49,570)	(64,433)
Distributions of earnings from unconsolidated joint ventures	15,111	5,045	3,989
Lease termination income, net	(1,103)	(38,001)	—
Gain on sales of real estate	(6,377)	(31,298)	(69,866)
Foreign exchange and other gains, net	(7,178)	(2,270)	(10,817)
Impairments, net	1,449,748	35,913	1,372
Changes in:			
Accounts receivable, net	(9,569)	(8,845)	6,656
Other assets	(19,453)	(6,287)	(58,290)
Accounts payable and other accrued liabilities	(23,757)	28,354	3,065
Net cash provided by operating activities	1,222,145	1,248,621	1,148,987
Cash flows from investing activities:			
Acquisition of RIDEA III, net	(770,325)	—	—
Acquisition of the CCRC unconsolidated joint venture interest, net	—	(370,186)	—
Acquisitions of other real estate	(613,252)	(503,470)	(64,678)
Development of real estate	(281,017)	(178,513)	(130,317)
Leasing costs and tenant and capital improvements	(84,282)	(71,734)	(64,557)
Proceeds from sales and pending sales of real estate, net	58,623	104,557	95,816
Contributions to unconsolidated joint ventures	(69,936)	(2,935)	—
Distributions in excess of earnings from unconsolidated joint ventures	30,989	2,657	14,102

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Purchases of marketable securities	—	—	(16,706)
Proceeds from sales of marketable securities	2,348	—	28,403
Principal repayments on loans receivable, direct financing leases and other	625,701	119,511	263,445
Investments in loans receivable, direct financing leases and other	(575,652)	(600,019)	(322,775)
Decrease (increase) in restricted cash	4,798	(11,747)	619
Net cash used in investing activities	(1,672,005)	(1,511,879)	(196,648)
Cash flows from financing activities:			
Net borrowings under bank line of credit	98,743	845,190	—
Repayments under bank line of credit	(511,521)	—	—
Borrowings under term loan	333,014	—	—
Issuance of senior unsecured notes	1,936,017	1,150,000	800,000
Repayments of senior unsecured notes	(400,000)	(487,000)	(550,000)
Issuance of mortgage and other debt	—	35,445	6,798
Repayments of mortgage and other debt	(57,845)	(447,784)	(302,119)
Deferred financing costs	(19,995)	(16,550)	(7,300)
Issuance of common stock and exercise of options	206,471	96,592	114,082
Repurchase of common stock	(8,738)	(12,703)	—
Dividends paid on common stock	(1,046,638)	(1,001,559)	(956,685)
Issuance of noncontrolling interests	110,775	4,674	12,472
Purchase of noncontrolling interests	(7,049)	(5,897)	—
Distributions to noncontrolling interests	(19,147)	(15,611)	(17,664)
Net cash provided by (used in) financing activities	614,087	144,797	(900,416)
Effect of foreign exchange on cash and cash equivalents	(1,537)	1,715	960
Net increase (decrease) in cash and cash equivalents	162,690	(116,746)	52,883
Cash and cash equivalents, beginning of year	183,810	300,556	247,673
Cash and cash equivalents, end of year	\$ 346,500	\$ 183,810	\$ 300,556

See accompanying Notes to Consolidated Financial Statements.

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HCP, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. Business

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

NOTE 2. Summary of Significant Accounting Policies

Use of Estimates

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

Principles of Consolidation

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

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

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

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

Revenue Recognition

At the inception of a new lease arrangement, including new leases that arise from amendments, the Company assesses its terms and conditions to determine the proper lease classification. A lease arrangement is classified as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee prior to or shortly after the end of the lease term, (ii) lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is equal to 75% or

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more of the underlying property's economic life, or (iv) the present value of future minimum lease payments (excluding executory costs) is equal to 90% or more of the excess fair value (over retained tax credits) of the leased property. If one of the four criteria is met and the minimum lease payments are determined to be reasonably predictable and collectible, the lease arrangement is generally accounted for as a direct financing lease ("DFL").

The Company utilizes the direct finance method of accounting to record DFL income. For a lease accounted for as a DFL, the net investment in the DFL represents receivables for the sum of future minimum lease payments and the estimated residual value of the leased property, less the unamortized unearned income. Unearned income is deferred and amortized to income over the lease term to provide a constant yield when collectibility of the lease payments is reasonably assured.

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

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

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

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

For operating leases with minimum scheduled rent increases, the Company recognizes income on a straight line basis over the lease term when collectibility is reasonably assured. Recognizing rental income on a straight line basis results in a difference in the timing of revenue amounts from what is contractually due from tenants. If the Company determines that collectibility of straight line rents is not reasonably assured, future revenue recognition is limited to amounts contractually owed and paid, and, when appropriate, an allowance for estimated losses is established.

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

Loans receivable are classified as held-for-investment based on management's intent and ability to hold the loans for the foreseeable future or to maturity. Loans held-for-investment are carried at amortized cost and are reduced by a valuation allowance for estimated credit losses as necessary. The Company recognizes interest income on loans, including the amortization of discounts and premiums, loan fees paid and received, using the interest method. The interest method is applied on a loan-by-loan basis when collectibility of the future payments is reasonably assured. Premiums and discounts are recognized as yield adjustments over the term of the related loans. Loans are transferred from held-for-investment to

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held-for-sale when management's intent is to no longer hold the loans for the foreseeable future. Loans held-for-sale are recorded at the lower of cost or fair value.

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

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

Allowance for Doubtful Accounts

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

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

In connection with the Company's quarterly review process or upon the occurrence of a significant event, loans receivable and DFLs (collectively, "Finance Receivables"), are reviewed and assigned an internal rating of Performing, Watch List or Workout. Finance Receivables that are deemed Performing meet all present contractual obligations, and collection and timing, of all amounts owed is reasonably assured. Watch List Finance Receivables are defined as Finance Receivables that do not meet the definition of Performing or Workout. Workout Finance Receivables are defined as Finance Receivables in which the Company has determined, based on current information and events, that it is probable (i) it will be unable to collect all amounts due according to the contractual terms of the agreement, (ii) the tenant, operator, or borrower is delinquent on making payments under the contractual terms of the agreement and (iii) the Company has commenced action or anticipates pursuing action in the near term to seek recovery of its investment.

Finance Receivables are placed on nonaccrual status when management determines that the collectibility of contractual amounts is not reasonably assured (the asset will have an internal rating of either Watch List or Workout). Further, the Company performs a credit analysis to support the tenant's, operator's, borrower's and/or guarantor's repayment capacity and the underlying collateral values. The Company uses the cash basis method of accounting for Finance Receivables placed on nonaccrual status unless one of the following conditions exist whereby it utilizes the cost recovery method of accounting: (i) if the Company determines that it is probable that it will only recover the recorded investment in the Finance Receivable, net of associated allowances or charge-offs (if any), or (ii) the

Company cannot reasonably estimate the amount of an impaired Finance Receivable. For cash basis method of accounting the Company applies payments received, excluding principal paydowns, to interest income so long as that amount does not exceed the amount that would have been earned under the original contractual terms. For cost recovery method of accounting any payment received is applied to reduce the recorded investment. Generally, the Company returns a Finance Receivable to accrual status when all delinquent payments become current under the terms of the loan or lease agreements and collectibility of the remaining contractual loan or lease payments is reasonably assured.

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

Real Estate

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

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

The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the development or construction of a real estate asset. The Company capitalizes construction and development costs while substantive activities are ongoing to prepare an asset for its intended use. The Company considers a construction project as substantially complete and held available for occupancy upon the completion of Company-owned tenant improvements, but no later than one year from cessation of significant construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as incurred. For redevelopment of existing operating properties, the Company capitalizes certain costs based on the net carrying value of the property under redevelopment plus the cost for the construction and improvement incurred in connection with the redevelopment.

Costs previously capitalized related to abandoned developments/redevelopments are charged to earnings. Expenditures for repairs and maintenance are expensed as incurred. The Company considers costs incurred in

conjunction with re-leasing properties, including tenant improvements and lease commissions, to represent the acquisition of productive assets and, accordingly, such costs are reflected as investing activities in the Company's consolidated statement of cash flows.

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

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Impairment of Long-Lived Assets and Goodwill

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

Goodwill is tested for impairment at least annually based on certain qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying value. Potential impairment indicators include a significant decline in real estate values, restructuring plans, current macroeconomic conditions, state of the equity and capital markets or a significant decline in the Company’s market capitalization. If the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company applies the required two-step quantitative approach. The quantitative procedures of the two-step approach (i) compare the fair value of a reporting unit with its carrying value, including goodwill, and, if necessary, (ii) compare the implied fair value of reporting unit goodwill with the carrying value 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, excluding goodwill, is the implied value of goodwill and is used to determine the impairment amount, if any. The Company has selected the fourth quarter of each fiscal year to perform its annual impairment test.

Assets Held for Sale and Discontinued Operations

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

Investments in Unconsolidated Joint Ventures

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

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

ventures to the extent the economic substance of the transaction is a sale.

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

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Share-Based Compensation

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

Cash and Cash Equivalents

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

Restricted Cash

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

Derivatives and Hedging

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

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

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

Income Taxes

HCP, Inc. elected REIT status and believes it has always operated so as to continue to qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, HCP, Inc. will not be subject to U.S. federal income tax, provided that it continues to qualify as a REIT and makes distributions to stockholders equal to or in excess of its taxable income. In addition, the Company has formed several consolidated

subsidiaries, which have elected REIT status. HCP, Inc. and its consolidated REIT subsidiaries are each subject to the REIT qualification requirements under the Code. If any REIT fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates and may be ineligible to qualify as a REIT for four subsequent tax years.

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

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Marketable Securities

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

Capital Raising Issuance Costs

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

Segment Reporting

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

Noncontrolling Interests

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

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

Foreign Currency Translation and Transactions

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

included in other income, net in the consolidated statements of operations.

Life Care Bonds Payable

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

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Fair Value Measurement

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

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

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

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option volatilities, credit spreads and/or market capitalization rates. Items valued using such internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or Level 3 even though there may be some significant inputs that are readily observable. Internal fair value models and techniques used by the Company include discounted cash flow and Black-Scholes valuation models. The Company also considers its counterparty's and own credit risk for derivative instruments and other liabilities measured at fair value. The Company has elected the mid-market pricing expedient when determining fair value.

Earnings per Share

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

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). This update requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This update also simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. ASU 2016-01 is effective for fiscal years, and interim periods within, beginning after December 15, 2017. Early adoption is permitted only for certain disclosure requirements. The Company is evaluating the impact of the adoption of ASU 2016-01 on January 1, 2018 to its consolidated financial position or results of operations.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). ASU 2015-16 simplifies the accounting for adjustments made to provisional amounts recognized in a business combination by requiring the acquirer to (i) recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined, (ii) record, in the same period, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, and (iii) present separately or disclose the portion of the amount recorded in current-period earnings by line item that would have

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been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years, and interim periods within, beginning after December 15, 2015. Early adoption is permitted. The Company adopted ASU 2015-16 on January 1, 2016; the adoption of which did not have a material impact on its consolidated financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability (consistent with debt discounts). In August 2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting) (“ASU 2015-15”). ASU 2015-15 allows debt issuance costs related to line-of-credit agreements to be presented in the balance sheet as an asset. ASU 2015-03 and ASU 2015-15 are effective for fiscal years, and interim periods within, beginning after December 15, 2015. Early adoption is permitted. The Company early adopted ASU 2015-03 and ASU 2015-15 as of December 31, 2015 using the full retrospective method as required by these ASUs. As a result, \$39 million of total debt issuance costs previously reported within “other assets, net” were reclassified to their respective debt liability financial statement line items on the Company’s consolidated balance sheet as of December 31, 2014.

In February 2015, the FASB issued ASU No. 2015-2, Amendments to the Consolidation Analysis (“ASU 2015-02”). ASU 2015-02 requires amendments to both the VIE and voting interest entity (“VOE”) consolidation accounting models. The amendments (i) rescind the indefinite deferral of certain aspects of accounting standards relating to consolidations and provide a permanent scope exception for registered money market funds and similar unregistered money market funds, (ii) modify (a) the identification of variable interests (fees paid to a decision maker or service provider), (b) the VIE characteristics for a limited partnership or similar entity and (c) the primary beneficiary determination under the VIE model, and (iii) eliminate the presumption within the current VOE model that a general partner controls a limited partnership or similar entity. ASU 2015-02 is effective for fiscal years, and interim periods within, beginning after December 15, 2015. Early adoption is permitted. A reporting entity may apply the amendments in ASU 2015-02 using either a modified retrospective or retrospective method by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The Company adopted ASU 2015-02 on January 1, 2016; the adoption of which did not have a material impact to its consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”). This update changes the requirements for recognizing revenue. ASU 2014-09 provides guidance for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (“ASU 2015-14”). ASU 2015-14 defers the effective date of ASU 2014-09 by one year to fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted for annual periods, and interim periods within, beginning after December 15, 2016. The Company is evaluating the impact of the adoption of ASU 2014-09 on January 1, 2018 to its consolidated financial position or results of operations.

NOTE 3. Brookdale Lease Amendments and Terminations and the Formation of Two RIDEA Joint Ventures (“Brookdale Transaction”)

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

components:

- amended existing lease agreements on 153 HCP-owned senior housing communities previously leased and operated by Emeritus, that included the termination of embedded purchase options in these leases relating to 30 properties and future rent reductions;
- terminated existing lease agreements on 49 HCP-owned senior housing properties previously leased and operated by Emeritus, that included the termination of embedded purchase options in these leases relating to 19 properties. At closing, the Company contributed 48 of these properties to newly formed consolidated partnerships that are operated under a structure permitted by the Housing and Economic Recovery Act of 2008 (commonly referred to as “RIDEA”)

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(“RIDEA II”); the 49th property was contributed on January 1, 2015. Brookdale owns a 20% noncontrolling equity interest in the RIDEA II and manages the facilities on behalf of the partnership; and

- entered into new unconsolidated joint ventures that own 14 campuses of continuing care retirement communities (“CCRC”) in a RIDEA structure (collectively, the “CCRC JV”) with the Company owning a 49% equity interest and Brookdale owning a 51% equity interest. Brookdale manages these communities on behalf of this partnership.

Leases Amended on 153 Properties (“NNN Lease Restructuring”)

The Company and Brookdale entered into amended and restated triple-net master leases for 153 properties formerly leased to Emeritus. As part of the lease amendments, Brookdale forfeited purchase option rights related to 30 of these properties. The master leases have weighted average initial terms of 15 years, with two extension options that average 10 years each. While the total base rent for 2014 remained unchanged, these leases provide for reduced escalators beginning in 2015 compared to those which were in-place; the leases contain reduced rent payments of \$6.5 million in 2016 and \$7.5 million each subsequent year thereafter. All obligations under the amended and restated leases are guaranteed by Brookdale. In addition, the new leases include a purchase option in favor of Brookdale that was exercised with nine communities sold during 2015 for \$60 million in proceeds.

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

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

Lease Terminations of 49 Properties that were contributed to a RIDEA Structure (RIDEA II)

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

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

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

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

Continuing Care Retirement Communities Joint Venture

HCP and Brookdale formed new unconsolidated joint ventures, that owned 14 CCRC campuses at formation, in a RIDEA structure (“CCRC PropCo” and “CCRC OpCo”). HCP and Brookdale own 49% and 51%, respectively, of CCRC PropCo and CCRC OpCo, based on each company’s respective contributions. At closing, CCRC PropCo owned eight campuses

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that are leased to CCRC OpCo; CCRC OpCo owned six campuses and the operations of the campuses leased from CCRC PropCo. Brookdale manages the campuses of the CCRC JV under long-term management contracts.

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

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

Fair Value Measurement Techniques and Quantitative Information

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

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

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

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			EBITDAR Growth Rate	5.5%
			Discount Rate	8.00%-11.00%
Forfeited purchase options by Brookdale (benefiting HCP)	\$ (23,000)	Discounted Cash Flow	Capitalization Rates	7.50%-9.25%
			Discount Rate	10.50%-11.00%
			Exercise Probability	100.00%

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

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

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

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

NOTE 4. Other Real Estate Property Investments

Acquisition of Private Pay Senior Housing Portfolio ("RIDEA III")

On June 30, 2015, the Company and Brookdale acquired a portfolio of 35 private pay senior housing communities from Chartwell Retirement Residences, including two leasehold interests, representing 5,025 units. The portfolio was acquired in a RIDEA structure ("RIDEA III"), with Brookdale owning a 10% noncontrolling interest. Brookdale has operated these communities since 2011 and continues to manage the communities under a long-term management agreement, which is cancellable under certain conditions (subject to a fee if terminated within seven years from the acquisition date). The Company paid \$770 million in cash consideration, net of cash assumed, and assumed \$32 million of net liabilities and \$29 million of noncontrolling interests to acquire: (i) real estate with a fair value of \$771 million, (ii) lease-up intangible assets with a fair value of \$53 million and (iii) working capital of \$7 million. As a result of the acquisition, the Company recognized a net termination fee of \$8 million in rental and related revenues, which represents the termination value of the two leasehold interests. The lease-up intangible assets recognized were attributable to the value of the acquired underlying operating resident leases of the senior housing communities that were stabilized or nearly stabilized (i.e., resident occupancy above 80%). From the acquisition date to December 31, 2015, the Company recognized revenues and earnings of \$94 million and \$1 million, respectively, from RIDEA III. As of December 31, 2015, the purchase price allocation is preliminary and may be subject to change.

Pro Forma Results of Operations (Unaudited)

The following unaudited pro forma consolidated results of operations assume that the RIDEA III acquisition was completed as of January 1, 2013 (in thousands, except per share amounts):

	December 31, 2015	December 31, 2014	December 31, 2013
Revenues	\$ 2,638,192	\$ 2,454,039	\$ 2,287,638
Net (loss) income	(531,464)	954,540	996,976
Net (loss) income applicable to HCP, Inc.	(545,776)	938,387	981,610
Basic earnings per common share	\$ (1.18)	\$ 2.04	\$ 2.15
Diluted earnings per common share	(1.18)	2.04	2.15

2015 Other Real Estate Acquisitions

In addition to the RIDEA III acquisition discussed above, a summary of other real estate acquisitions for the year ended December 31, 2015 follows (in thousands):

Segment	Consideration			Assets Acquired(1)	
	Cash Paid/ Debt	Liabilities	Noncontrolling	Net	
	Settled	Assumed	Interest	Real Estate	Intangibles
Senior housing(2)	\$ 268,782	\$ 8,298	\$ 4,255	\$ 253,802	27,533
Post-acute/skilled nursing(2)	178,707	—	—	142,528	36,179
Life science	80,946	2,054	—	68,988	14,012
Medical office(3)	384,114	12,866	—	305,091	91,889
	\$ 912,549	\$ 23,218	\$ 4,255	\$ 770,409	\$ 169,613

(1) Amounts include preliminary purchase price allocations which may be subject to change.

(2) Includes £174 million (\$254 million) of the Company's HC-One Facility (see Note 7) converted to fee ownership in a portfolio of 36 care homes located throughout the United Kingdom ("U.K.") and includes £27 million (\$42 million) of a loan originated in May 2015 converted to fee ownership in two U.K. care homes.

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- (3) Includes \$225 million for a medical office building (“MOB”) portfolio acquisition completed in June 2015 and placed in HCP Ventures V, LLC (“HCP Ventures V”), of which in October 2015 the Company issued a 49% noncontrolling interest in HCP Ventures V for \$110 million (see Note 13).

2014 Real Estate Acquisitions

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

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

(1) Includes the acquisition of a \$147 million (£88 million) portfolio of 23 care homes in the UK.

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

Completed Developments

During the year ended December 31, 2014, the Company placed in service the following: (i) two life science facilities, (ii) a MOB and (iii) a post-acute/skilled nursing facility. These completed developments represented \$41 million of gross real estate on the Company’s consolidated balance sheets as of the date they were placed in service. There were no completed developments placed in service during the year ended December 31, 2015.

Construction, Tenant and Other Capital Improvements

A summary of the Company’s funding for construction, tenant and other capital improvements follows (in thousands):

Segment	Year Ended December 31,	
	2015	2014
Senior housing	\$ 131,405	\$ 45,586
Post-acute/skilled nursing	3,369	2,533
Life science	122,319	133,164
Medical office	131,021	90,027
Hospital	37	1,688
	\$ 388,151	\$ 272,998

NOTE 5. Dispositions of Real Estate and Discontinued Operations

During the year ended December 31, 2015, the Company sold the following: (i) nine senior housing facilities for \$60 million resulting from Brookdale's exercise of its purchase option received as part of the Brookdale Transaction, (ii) two parcels of land in its life science segment for \$51 million and (iii) a MOB for \$400,000.

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

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

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

The following table summarizes income from discontinued operations, impairments and gain on sales of real estate included in discontinued operations (dollars in thousands):

	Year Ended December 31,	
	2014	2013
Rental and related revenues	\$ 1,810	\$ 16,649
Depreciation and amortization expenses	—	5,862
Operating expenses	54	3,929
Other expense, net	20	979
Income before impairment losses and gain on sales of real estate, net of income taxes	\$ 1,736	\$ 5,879
Impairment losses on real estate	\$ —	\$ (1,372)
Gain on sales of real estate, net of income taxes	\$ 28,010	\$ 69,866
Number of properties included in discontinued operations	3	16

NOTE 6. Net Investment in Direct Financing Leases

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

	December 31,	
	2015	2014
Minimum lease payments receivable	\$ 26,283,392	\$ 24,182,525
Estimated residual values	3,900,679	4,126,426
Less unearned income	(23,462,022)	(21,028,617)
Net investment in direct financing leases before allowance	6,722,049	7,280,334
Allowance for DFL losses	(817,040)	—
Net investment in direct financing leases	\$ 5,905,009	\$ 7,280,334
Properties subject to direct financing leases	348	363

HCR ManorCare, Inc.

The Company acquired 334 post-acute, skilled nursing and assisted living facilities in its 2011 transaction with HCR ManorCare Inc. (“HCRMC”) and entered into a triple-net Master Lease and Security Agreement (the “Master Lease”) with a subsidiary (“Lessee”) of HCRMC.

As part of the Company's fourth quarter 2015 review process, including its internal rating evaluation, it assessed the collectibility of all contractual rent payments under the HCRMC amended master lease (the "Amended Master Lease"). The Company's evaluation included, but was not limited to, consideration of: (i) the continued decline in HCRMC's operating performance and fixed charge coverage ratio during the second half of 2015, with the most significant deterioration occurring during the fourth quarter, (ii) the reduced growth outlook for the post-acute/skilled nursing business and (iii) HCRMC's 2015 audited financial statements. The Company determined that the timing and amounts owed under the HCRMC DFL investments are no longer reasonably assured and assigned an internal rating of "Watch List" as of December 31, 2015. Further, the Company placed the HCRMC DFL investments on nonaccrual and will utilize the cash method of accounting in accordance with its policy (see Note 2).

As a result of assigning an internal rating of "Watch List" for its HCRMC DFL investments during the quarterly review process, the Company further evaluated the carrying amount of its HCRMC DFL investments. As a result of the significant decline in HCRMC's fixed charge coverage ratio in the fourth quarter of 2015, combined with a lower growth outlook for the post-acute/skilled nursing business, the Company determined that it is probable that its HCRMC DFL investments are

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impaired and the amount of the loss can be reasonably estimated. In the fourth quarter of 2015, the Company recorded an allowance for DFL losses (impairment charge) of \$817 million, reducing the carrying amount of its HCRMC DFL investments from \$6.0 billion to \$5.2 billion. See Note 17 for additional discussion of the impairment charge and related valuation assumptions.

In December 2015, the Company reduced the carrying amount of its equity investment in HCRMC to zero, and income will be recognized only if cash distributions are received from HCRMC; as a result, the Company will no longer recharacterize (eliminate) its proportional ownership share of income from DFLs to equity income from unconsolidated joint ventures (see Note 8).

The Company recognized HCRMC DFL income and HCRMC equity income as follows (in thousands):

	Year Ended		
	December 31,		
	2015	2014	2013
Cash income	\$ 482,770	\$ 519,280	\$ 502,354
DFL accretion, net	90,065	79,349	82,688
Total DFL income from HCRMC	\$ 572,835	\$ 598,629	\$ 585,042
DFL accretion income recharacterized to equity income	\$ 58,047	\$ 62,445	\$ 62,061
Equity loss from HCRMC	(7,324)	(9,270)	(6,460)
Total equity income from HCRMC	\$ 50,723	\$ 53,175	\$ 55,601

During the years ended December 31, 2015, 2014 and 2013, the Company recognized a total of \$148 million, \$142 million and \$145 million of accretion, net, respectively, related to its HCRMC DFL investments.

During the quarter ended March 31, 2015, the Company and HCRMC agreed to market for sale the real estate and operations associated with 50 non-strategic facilities that were under the Master Lease. HCRMC receives an annual rent reduction under the Master Lease based on 7.75% of the net sales proceeds received by HCP. During the year ended December 31, 2015, the Company completed sales of 22 non-strategic HCRMC facilities for \$219 million. Subsequent to December 31, 2015, the Company sold an additional 11 facilities, bringing the total facilities sold through February 8, 2016 to 33, with the remaining facility sales expected to close by mid-2016.

On March 29, 2015, certain subsidiaries of the Company entered into an amendment to the Master Lease (the "HCRMC Lease Amendment") effective April 1, 2015. The HCRMC Lease Amendment reduced initial annual rent by a net \$68 million from \$541 million to \$473 million. Commencing on April 1, 2016, the minimum rent escalation shall be reset to 3.0% for each lease year through the expiration of the initial term of each applicable pool of facilities. Prior to the HCRMC Lease Amendment, rent payments would have increased 3.5% on April 1, 2015 and 2016 and 3.0% thereafter. The initial term was extended five years to an average of 16 years, and the extension options' aggregate terms remained the same.

As consideration for the rent reduction, the Company received a Deferred Rent Obligation ("DRO") from the Lessee equal to an aggregate amount of \$525 million, which was allocated into two tranches: (i) a Tranche A DRO of \$275 million and (ii) a Tranche B DRO of \$250 million. Until the entire Tranche A DRO is paid in full, the Lessee will make rental payments equal to 6.9% of the outstanding amount (representing \$19 million) for the initial lease year (the "Tranche A Current Payment"), increased each year thereafter by 3.0%. Commencing on April 1, 2016, until the Tranche B DRO is paid in full, the outstanding principal balance of the Tranche B DRO will be increased annually by (i) 3.0% initially, (ii) 4.0% commencing on April 1, 2019, (iii) 5.0% commencing on April 1, 2020, and (iv) 6.0%

commencing on April 1, 2021 and for the remainder of its term. The DRO is due and payable on the earlier of (i) certain capital or liquidity events of HCRMC, including an initial public offering or sale, or (ii) March 31, 2029, which is not subject to any extensions. The HCRMC Lease Amendment also imposes certain restrictions on the Lessee and HCRMC until the DRO is paid in full, including with respect to the payment of dividends and the transfer of interest in HCRMC.

Additionally, HCRMC agreed to sell, and HCP agreed to purchase, nine post-acute facilities for an aggregate purchase price of \$275 million. The proceeds from the nine facilities are to be used to reduce the Tranche A DRO as the purchases are consummated. The closing of the purchases of these facilities are subject to certain customary conditions and approvals.

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Through December 31, 2015, HCRMC and HCP completed seven of the nine facility purchases for \$184 million. The purchases of the remaining two facilities are expected to occur by mid-2016. Following the purchase of a facility, the Lessee leases such facility from the Company pursuant to the Amended Master Lease. The nine facilities will contribute an aggregate of \$19 million of annual rent (subject to escalation) under the Amended Master Lease.

In March 2015, the Company recorded an impairment charge of \$478 million related to its HCRMC DFL investments. The impairment charge reduced the carrying value of the HCRMC DFL investments from \$6.6 billion to \$6.1 billion, based on the present value of the future lease payments effective April 1, 2015 under the Amended Master Lease discounted at the original DFL investments' effective lease rate (see Note 17).

See Note 8 for additional discussion of the Company's equity interest in HCRMC and the U.S. Department of Justice ("DOJ") action related to HCRMC.

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

Direct Financing Lease Internal Ratings

The following table summarizes the Company's internal ratings for net investment in DFLs at December 31, 2015 (dollars in thousands):

Investment Type	Carrying Amount	Percentage of DFL Portfolio	Internal Ratings		
			Performing DFLs	Watch List DFLs	Workout DFLs
Senior housing	\$ 1,788,764	30	\$ 261,261	\$ 1,527,503	\$ —
Post-acute/skilled nursing	3,992,354	68	—	3,992,354	—
Hospital	123,891	2	123,891	—	—
	\$ 5,905,009	100	\$ 385,152	\$ 5,519,857	\$ —

Beginning September 30, 2013, the Company placed a 14 property senior housing DFL (the "DFL Portfolio") on nonaccrual status and classified the DFL Portfolio on "Watch List" status. The Company determined that the collection of all rental payments was and continues to be no longer reasonably assured; therefore, rental revenue for the DFL Portfolio has been recognized on a cash basis. The Company re-assessed the DFL Portfolio for impairment on December 31, 2015 and determined that the DFL Portfolio was not impaired based on its belief that: (i) it was not probable that it will not collect all of the rental payments under the terms of the lease; and (ii) the fair value of the underlying collateral exceeded the DFL Portfolio's carrying amount. The fair value of the DFL Portfolio was estimated based on a discounted cash flow model, the inputs to which are considered to be a Level 3 measurement within the fair value hierarchy. Inputs to this valuation model include real estate capitalization rates, industry growth rates and operating margins, some of which influence the Company's expectation of future cash flows from the DFL Portfolio and, accordingly, the fair value of its investment. During the years ended December 31, 2015, 2014 and 2013, the Company recognized DFL income of \$15 million, \$19 million and \$24 million, respectively, and received cash payments of \$20 million, \$24 million and \$24 million, respectively, from the DFL Portfolio. The carrying value of the DFL Portfolio was \$366 million and \$370 million at December 31, 2015 and 2014, respectively.

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

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Future minimum lease payments contractually due under DFLs at December 31, 2015, were as follow (in thousands):

Year	Amount
2016	\$ 552,985
2017	545,307
2018	559,979
2019	576,206
2020	586,229
Thereafter	23,462,686
	\$ 26,283,392

NOTE 7. Loans Receivable

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

	December 31, 2015			2014		
	Real Estate Secured	Other Secured	Total	Real Estate Secured	Other Secured	Total
Mezzanine	\$ —	\$ 660,138	\$ 660,138	\$ —	\$ 799,064	\$ 799,064
Other	114,322	—	114,322	135,363	—	135,363
Unamortized premiums (discounts), fees and costs, net	961	(6,678)	(5,717)	—	(14,056)	(14,056)
Allowance for loan losses	—	—	—	—	(13,410)	(13,410)
	\$ 115,283	\$ 653,460	\$ 768,743	\$ 135,363	\$ 771,598	\$ 906,961

The following table summarizes the Company's internal ratings for loans receivable at December 31, 2015 (dollars in thousands):

Carrying	Percentage of Loan	Internal Ratings		
		Performing	Watch List	Workout

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Investment Type	Amount	Portfolio	Loans	Loans	Loans
Real estate secured	\$ 115,283	15	\$ 115,283	\$ —	\$ —
Other secured	653,460	85	653,460	—	—
	\$ 768,743	100	\$ 768,743	\$ —	\$ —

Real Estate Secured Loans

Following is a summary of loans receivable secured by real estate at December 31, 2015 (dollars in thousands):

Final Maturity Date	Number of Loans	Payment Terms	Principal Amount	Carrying Amount
2016	1	aggregate monthly interest-only payments, accrues interest at 8.5%, and secured by a senior housing facility in Pennsylvania(1)	\$ 15,135	\$ 15,244
2017	3	aggregate monthly interest-only payments, accrues interest at 8.5%, and secured by two senior housing facilities in New Jersey and Pennsylvania;(1) and aggregate monthly interest-only payments, accrues interest at LIBOR plus 6.0%, and secured by, among other things, the issuer's real estate assets	78,329	79,291
2018	1	monthly interest-only payments, accrues interest at 8.0% and secured by a senior housing facility in Pennsylvania(1)	20,078	20,748
	5		\$ 113,542	\$ 115,283

(1) Represents commitments to fund an aggregate of \$2 million for four development projects that are at or near completion as of December 31, 2015.

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At December 31, 2015, future contractual principal payments to be received on loans receivable secured by real estate are \$15 million in 2016, \$79 million in 2017 and \$20 million in 2018. During the year ended December 31, 2015, the Company recognized \$27 million in interest income related to loans secured by real estate. At December 31, 2015, the Company accrued \$1 million of interest receivables related to real estate secured loans.

In December 2015, the Company purchased £28 million (\$42 million) of Four Seasons Health Care's ("Four Seasons") £40 million senior secured term loan. The loan is secured by, among other things, the real estate assets of Four Seasons, and represents the most senior debt tranche. The loan bears interest at a rate of LIBOR plus 6.0% per annum and matures in December 2017.

Other Secured Loans

HC-One Facility

In November 2014, the Company was the lead investor in the financing for Formation Capital and Safanad's acquisition of NHP, a company that, at closing, owned 273 nursing and residential care homes representing over 12,500 beds in the U.K. principally operated by HC-One. The Company provided a loan facility (the "HC-One Facility"), secured by substantially all of NHP's assets, totaling £395 million, with £363 million (\$574 million) drawn at closing. The HC-One Facility has a five-year term and was funded by a £355 million draw on the Company's revolving line of credit facility that is discussed in Note 11. In February 2015, the Company increased the HC-One Facility by £108 million (\$164 million) to £502 million (\$795 million), in conjunction with HC-One's acquisition of Meridian Healthcare. In April 2015, the Company converted £174 million of the HC-One Facility into a sale-leaseback transaction for 36 nursing and residential care homes located throughout the U.K. (see Note 4). In September 2015, the Company amended and increased its commitment under the HC-One Facility by £11 million primarily for the funding of capital expenditures and a development project. As part of the amendments, the Company shortened the non-call period by 17 months and provided consent for (i) the pay down of £34 million from disposition proceeds without a prepayment premium and (ii) the spinoff of 36 properties into a separate joint venture. In return, the Company retained security over the spinoff properties for a period of two years. Through December 31, 2015, the Company received paydowns of £34 million (\$52 million).

Brookdale Receivable

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

Barchester Loan

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

Tandem Health Care Loan

On July 31, 2012, the Company closed a mezzanine loan facility to lend up to \$205 million to Tandem Health Care ("Tandem"), as part of the recapitalization of a post-acute/skilled nursing portfolio. The Company funded \$100 million (the "First Tranche") at closing and funded an additional \$102 million (the "Second Tranche") in June 2013. In May 2015, the Company increased and extended the mezzanine loan facility with Tandem to (i) fund \$50 million (the "Third

Tranche”) and \$5 million (the “Fourth Tranche”), which proceeds were used to repay a portion of Tandem’s existing senior and mortgage debt, respectively; (ii) extend its maturity to October 2018; and (iii) extend the prepayment penalty period to January 2017. The loans bear interest at fixed rates of 12%, 14%, 6% and 6% per annum for the First, Second, Third and Fourth Tranches, respectively. At December 31, 2015, the facility had an outstanding balance of \$256 million at an 11.5% blended interest rate and was subordinate to \$381 million of senior mortgage debt.

Delphis Operations, L.P. Loan

Through October 2015, the Company held a secured term loan made to Delphis Operations, L.P. (“Delphis” or the “Borrower”) that was collateralized by all of the assets of the Borrower. In October 2015, the Company received \$23 million in cash proceeds from the sale of Delphis’ collateral and recognized an impairment recovery of \$6 million for

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the amount received in excess of the loan's carrying value. The carrying value of the loan, net of an allowance for loan losses, was \$17 million at December 31, 2014. At December 31, 2014, the allowance related to the Company's senior secured term loan to Delphis was \$13 million with no additional allowances recognized during the year ended December 31, 2015. During the years ended December 31, 2015 and 2014, the Company received cash payments from the Borrower of \$23 million and \$1 million, respectively.

NOTE 8. Investments in and Advances to Unconsolidated Joint Ventures

The Company owns interests in the following entities that are accounted for under the equity method at December 31, 2015 (dollars in thousands):

Entity(1)	Segment	Carrying Amount	Ownership %
CCRC JV(2)	senior housing	\$ 465,179	49
HCRMC(3)	senior housing and post-acute/skilled nursing	—	9
MBK JV(4)	senior housing	34,131	50
HCP Ventures III, LLC	medical office	9,241	30
HCP Ventures IV, LLC	medical office and hospital	11,884	20
HCP Life Science(5)	life science	68,582	50-63
Vintage Park	senior housing	8,729	85
MBK Development JV(4)	senior housing	2,224	50
Suburban Properties, LLC	medical office	4,621	67
Advances to unconsolidated joint ventures, net		653	
		\$ 605,244	

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- (1) These entities are not consolidated because the Company does not control, through voting rights or other means, the joint ventures.
- (2) Includes two unconsolidated joint ventures in a RIDEA structure (CCRC PropCo and CCRC OpCo). See additional information regarding the CCRC JV and the Brookdale Transaction in Note 3.
- (3) In December 2015, September 2015 and December 2014, the Company recognized impairment charges of \$19 million, \$27 million and \$36 million, respectively. See Note 17 for additional information regarding the impairment charges; also, see Note 6 regarding the Company's related HCRMC DFL investments.
- (4) Includes two unconsolidated joint ventures in a RIDEA structure (PropCo and OpCo).
- (5) Includes three unconsolidated joint ventures between the Company and an institutional capital partner for which the Company is the managing member. HCP Life Science includes the following partnerships (and the Company's ownership percentage): (i) Torrey Pines Science Center, LP (50%); (ii) Britannia Biotech Gateway, LP (55%); and (iii) LASDK, LP (63%).

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

	December 31,	
	2015(1)	2014
Real estate, net	\$ 4,470,249	\$ 4,537,553
Goodwill and other assets, net	4,935,343	4,920,604
Assets held for sale	94,866	662,740
Total assets	\$ 9,500,458	\$ 10,120,897
Capital lease obligations and mortgage debt	\$ 6,575,531	\$ 6,733,943
Accounts payable and other	1,111,350	974,206
Liabilities and mortgage debt held for sale	6,318	505,703
Other partners' capital	1,163,501	1,281,413
HCP's capital(2)	643,758	625,632
Total liabilities and partners' capital	\$ 9,500,458	\$ 10,120,897

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- (1) Includes the financial information of Vintage Park, MBK JV and MBK Development JV, which were formed in January 2015, March 2015 and September 2015, respectively.
- (2) The combined basis difference of the Company's investments in these joint ventures of \$39 million, as of December 31, 2015, is primarily attributable to goodwill, real estate, capital lease obligations, deferred tax assets and lease-related net intangibles.

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	Year Ended December 31,		
	2015(1)	2014(2)	2013
Total revenues	\$ 4,464,317	\$ 4,284,747	\$ 4,189,793
Income (loss) from discontinued operations	38,071	(24,422)	(22,030)
Net loss(3)	(83,277)	(411,385)	(354,079)
HCP's share in earnings(3)	57,313	49,570	64,433
Fees earned by HCP	1,873	1,809	1,847
Distributions received by HCP	46,100	7,702	18,091

- (1) Includes the financial information of Vintage Park, MBK JV and MBK Development JV, which were formed in January 2015, March 2015 and September 2015, respectively.
- (2) Includes the financial information of the CCRC JV, which the Company formed in August 2014.
- (3) The net loss in 2015 includes \$79 million related to HCRMC's goodwill that was allocated to disposal groups that were sold. The net loss in 2014 includes impairments, net of the related tax benefit, of \$396 million related to HCRMC's deferred tax assets and trademark intangible assets. The impairments at HCRMC were the result of a continued shift in patient payor sources from Medicare to Medicare Advantage, which negatively impact reimbursement rates and length of stay for HCRMC's skilled nursing segment and a shift in HCRMC's marketing and branding strategy. The net loss in 2013 includes a charge of \$400 million related to recording of a valuation allowance that reduced the carrying value of HCRMC's deferred tax assets to an amount that is more likely than not to be realized as determined by HCRMC's management. HCRMC's goodwill, intangible assets and deferred tax assets were not previously considered in the Company's initial investments in the operations of HCRMC. Therefore, the related impairments and valuation allowance against the carrying value of the deferred tax assets do not impact the Company's recorded investment or impact on the Company's share of earnings from or its equity investment in HCRMC. However, the circumstances that led to HCRMC's management to reach the determination that it was necessary to reduce the carrying value of their deferred tax and trademark intangible assets in 2014 are consistent with the Company's determination that its equity investment in HCRMC was impaired in December 2014 (see Note 17). The Company's joint venture interest in HCRMC is accounted for using the equity method and results in an ongoing reduction of DFL income, proportional to HCP's ownership in HCRMC. The elimination of the respective proportional lease expense at the HCRMC level in substance results in \$58 million, \$62 million and \$62 million of DFL income that is recharacterized to the Company's share of earnings from HCRMC (equity income from unconsolidated joint ventures) for the years ended December 31, 2015, 2014 and 2013, respectively. See Note 6 for additional discussion.

CCRC JV

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

HCRMC

On April 20, 2015, the DOJ unsealed a previously filed complaint in the U.S. District Court for the Eastern District of Virginia against HCRMC and certain of its affiliates in three consolidated cases following a civil investigation arising out of three lawsuits filed by former employees of HCRMC under the qui tam provisions of the federal False Claims Act. The DOJ's complaint in intervention is captioned United States of America, ex rel. Ribik, Carson, and Slough v.

HCR ManorCare, Inc., ManorCare Inc., HCR ManorCare Services, LLC and Heartland Employment Services, LLC (Civil Action Numbers: 1:09cv13; 1:11cv1054; 1:14cv1228 (CMH/TCB)). The complaint alleges that HCRMC submitted claims to Medicare for therapy services that were not covered by the skilled nursing facility benefit, were not medically reasonable and necessary, and were not skilled in nature, and therefore not entitled to Medicare reimbursement. While this litigation is at an early stage and HCRMC has indicated that it believes the claims are unjust and it will vigorously defend against them, a significant adverse judgment against HCRMC or significant settlement obligation could impact the carrying value of the Company's investments in HCRMC's operations and/or DFLs investment further (see Notes 6 and 17).

The Company concluded that its equity investment in HCRMC was other-than-temporarily impaired as of September 30, 2015 and recorded an impairment charge of \$27 million (see Note 17). In December 2015, the Company concluded that its equity investment in HCRMC was other-than-temporarily impaired and recorded an impairment charge of \$19 million, and, prospectively, income will be recognized only if cash distributions are received from HCRMC (see Notes 6 and 17).

MBK JVs

On March 30, 2015, the Company and MBK Senior Living ("MBK"), a subsidiary of Mitsui & Co. Ltd, formed a new RIDEA joint venture ("MBK JV") that owns three senior housing facilities with the Company and MBK each owning a 50% equity interest. MBK manages these communities on behalf of the joint venture. The Company contributed \$27

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million of cash and MBK contributed the three senior housing facilities with a fair value of \$126 million, which were encumbered by \$78 million of mortgage debt at closing.

On September 25, 2015, the Company and MBK formed a new RIDEA joint venture (“MBK Development JV”) which acquired a \$3 million parcel of land for the purpose of developing a 74-unit class A senior housing facility in Santa Rosa, California. The parcel of land is located adjacent to the Oakmont Gardens independent living facility currently owned and operated by the MBK JV.

HCP Ventures III, LLC and HCP Ventures IV, LLC

On December 30, 2015, HCP Ventures III, LLC and HCP Ventures IV, LLC (“HCP Ventures IV”) sold 61 MOBs, three hospitals and a re-development property for total proceeds of \$634 million, recognizing gains on sales of real estate of \$59 million, of which the Company’s share was \$15 million. As part of these sales, the Company received aggregate distributions of \$45 million, including repayment of its loan receivable.

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NOTE 9. Intangibles

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

	December 31,	
	2015	2014
Intangible lease assets		
Lease-up intangibles	\$ 801,513	\$ 608,323
Above market tenant lease intangibles	155,048	163,146
Below market ground lease intangibles	57,899	58,939
Gross intangible lease assets	1,014,460	830,408
Accumulated depreciation and amortization	(400,233)	(349,395)
Net intangible lease assets	\$ 614,227	\$ 481,013

The remaining weighted average amortization period of intangible assets was 14 years at both December 31, 2015 and 2014.

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

	December 31,	
	2015	2014
Intangible lease liabilities		
Below market lease intangibles	\$ 204,662	\$ 203,374
Above market ground lease intangibles	6,121	6,121
Gross intangible lease liabilities	210,783	209,495
Accumulated depreciation and amortization	(135,510)	(124,772)
Net intangible lease liabilities	\$ 75,273	\$ 84,723

The remaining weighted average amortization period of intangible lease liabilities was nine years at both December 31, 2015 and 2014.

For the years ended December 31, 2015, 2014 and 2013, rental income includes additional revenues of \$4 million, \$3 million and \$9 million, respectively, from the amortization of net below market lease intangibles. For the years ended December 31, 2015, 2014 and 2013, operating expenses include additional expense of \$1 million each year from the amortization of net above market ground lease intangibles. For the years ended December 31, 2015, 2014 and 2013, depreciation and amortization expense includes additional expense of \$76 million, \$60 million and \$59 million, respectively, from the amortization of lease-up and non-compete agreement intangibles.

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

Intangible Intangible

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	Assets	Liabilities
2016	\$ 97,043	\$ 17,545
2017	84,552	15,118
2018	68,999	12,413
2019		