NATIONWIDE HEALTH PROPERTIES INC
Form 10-K
February 18, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

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 1-9028

NATIONWIDE HEALTH PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	**95-3997619**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
610 Newport Center Drive, Suite 1150	
Newport Beach, California	**92660**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (949) 718-4400

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.10 Par Value	New York Stock Exchange

Series B Cumulative Convertible Preferred Stock,

$1.00 Par Value New York Stock Exchange

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

NONE

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨
Non-accelerated filer ¨ Small reporting company ¨

(Do not check if a small reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2008, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $2,993,577,000 based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at February 17, 2009**
Common Stock, $0.10 par value per share	102,353,721 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	**Parts Into Which Incorporated**
Proxy Statement for the Annual Meeting of Stockholders to be held on May 5, 2009 (Proxy Statement)	Part III

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NATIONWIDE HEALTH PROPERTIES, INC.

FORM 10-K

December 31, 2008

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PART I

Item 1. Business.

General

Nationwide Health Properties, Inc., a Maryland corporation incorporated on October 14, 1985, is a real estate investment trust (REIT) that invests primarily in healthcare related senior housing, long-term care properties and medical office buildings. Whenever we refer herein to NHP or to us or use the terms we or our, we are referring to Nationwide Health Properties, Inc. and its subsidiaries, unless the context otherwise requires.

Our operations are organized into two segments triple-net leases and multi-tenant leases. In the triple-net leases segment, we invest in healthcare related properties and lease the facilities to unaffiliated tenants under triple-net and generally master leases that transfer the obligation for all facility operating costs (including maintenance, repairs, taxes, insurance and capital expenditures) to the tenant. In the multi-tenant leases segment, we invest in healthcare related properties that have several tenants under separate leases in each building, thus requiring active management and responsibility for many of the associated operating expenses (although many of these are, or can effectively be, passed through to the tenants). As of December 31, 2008, the multi-tenant leases segment was comprised exclusively of medical office buildings. We did not invest in multi-tenant leases prior to 2006. In addition, but to a much lesser extent because we view the risks of this activity to be greater due to less favorable bankruptcy treatment and other factors, from time to time, we extend mortgage loans and other financing to tenants. For the twelve months ended December 31, 2008, approximately 93% of our revenues are derived from our leases, with the remaining 7% from our mortgage loans and other financing activities.

As of December 31, 2008, we had investments in 583 healthcare facilities and one land parcel located in 43 states, consisting of:

Consolidated facilities:

- 251 assisted and independent living facilities;
- 172 skilled nursing facilities;
- 10 continuing care retirement communities;
- 7 specialty hospitals;
- 19 triple-net medical office buildings, one of which is operated by a consolidated joint venture;

60 multi-tenant medical office buildings, 51 of which are operated by consolidated joint ventures; and

1 asset held for sale.

Unconsolidated facilities:

19 assisted and independent living facilities;

14 skilled nursing facilities;

1 continuing care retirement community; and

2 multi-tenant medical office buildings.

Mortgage loans secured by:

17 skilled nursing facilities;

9 assisted and independent living facilities;

1 medical office building; and

1 land parcel.

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As of December 31, 2008, our directly owned facilities, other than our multi-tenant medical office buildings, most of which are operated by our consolidated joint ventures, were operated by 84 different healthcare providers, including the following publicly traded companies:

	Number of Facilities Operated
Assisted Living Concepts, Inc.	4
Brookdale Senior Living, Inc.	96
Emeritus Corporation	6
Extendicare, Inc.	1
HEALTHSOUTH Corporation	2
Kindred Healthcare, Inc.	1
Sun Healthcare Group, Inc.	4

Two of our triple-net lease tenants, Brookdale Senior Living, Inc. (Brookdale) and Hearthstone Senior Services, L.P. (Hearthstone) each accounted for more than 10% of our revenues at December 31, 2008 and both may account for more than 10% of our revenues in 2009.

The following table summarizes our top five tenants, the number of facilities each operates and the percentage of our revenues received from each of these tenants as of the end of 2008, as adjusted for facilities acquired and disposed of during 2008:

Tenant	Number of Facilities Operated	Percentage of Revenue
Brookdale Senior Living, Inc.	96	15.2%
Hearthstone Senior Services, L.P.	32	10.6%
Wingate Healthcare, Inc.	19	6.1%
Beverly Enterprises	28	4.3%
Atria Senior Living Group	10	4.1%

Our leases have fixed initial rent amounts and generally contain annual escalators. Most of our leases contain non-contingent rent escalators for which we recognize income on a straight-line basis over the lease term. Certain leases contain escalators contingent on revenues or other factors, including increases based on changes in the Consumer Price Index. Such revenue increases are recognized over the lease term as the related contingencies occur. However, since the Consumer Price Index has recently trended negatively, we are likely to see much less, if any, internal growth from these rent escalators as long as deflationary conditions continue. We assess the collectibility of our rent receivables and we reserve against the receivable balances for any amounts that may not be recovered.

Our triple-net leased facilities are generally leased under triple-net leases that transfer the obligation for all facility operating costs (including maintenance, repairs, taxes, insurance and capital expenditures) to the tenant. Approximately 84% of these facilities are leased under master leases. In addition, the majority of these leases contain cross-collateralization and cross-default provisions tied to other leases with the same tenant, as well as grouped lease renewals and grouped purchase options. Leases covering 424 facilities are backed by security deposits consisting of irrevocable letters of credit or cash totaling $72.7 million. Leases covering 339 facilities contain provisions for property tax impounds, and leases covering 210 facilities contain provisions for capital expenditure impounds. Our multi-tenant facilities generally have several tenants under separate leases in each building, thus requiring active management and responsibility for many of the associated operating expenses (although many of these are, or can effectively be, passed through to the tenants).

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2008 Investment Activities

In February 2008, we entered into an agreement with Pacific Medical Buildings LLC (PMB) and certain of its affiliates to acquire up to 18 medical office buildings, including six that are currently in development, for $747.6 million, including the assumption of approximately $282.6 million of mortgage financing. In April 2008, we formed NHP/PMB L.P. (NHP/PMB), a limited partnership, to acquire properties from entities affiliated with PMB. During 2008, NHP/PMB acquired PMB s affiliates interests in nine of the 18 medical office buildings, including one property which is included in our triple-net leases segment and eight properties which are multi-tenant medical office buildings (one of which consisted of a 50% interest through a joint venture which is consolidated by NHP/PMB), for $232.2 million, including acquisition costs, which was paid in a combination of cash, the assumption of $120.8 million of mortgage financing and the issuance of 1,829,562 limited partnership units with a fair value at the date of issuance of $58.4 million. During 2008, we also acquired one of the 18 medical office buildings directly (not through NHP/PMB) for $14.7 million, including acquisition costs. Pursuant to the agreement with PMB, certain conditions must be met in order for us to be obligated to purchase the seven remaining medical office buildings. We recently elected to terminate the agreement with respect to one property after the conditions requiring us to close on such property were not met.

Additionally, we entered into another agreement with PMB pursuant to which we currently have the right, but not the obligation, to acquire up to approximately $1 billion of multi-tenant medical office buildings developed by PMB through April 2016.

During 2008, we acquired 18 assisted and independent living facilities, 11 skilled nursing facilities and 12 medical office buildings subject to triple-net master leases in 12 separate transactions for an aggregate investment of $163.0 million. We also funded $43.4 million in expansions, construction and capital improvements at certain facilities in accordance with existing lease provisions. Such expansions, construction and capital improvements generally result in an increase in the minimum rents earned by us on these facilities either at the time of funding or upon completion of the project.

During 2008, we acquired, out of bankruptcy, title to one skilled nursing facility securing a previously impaired mortgage loan with a net book value of $2.9 million which approximated our estimate of fair value of the facility and was allocated to land and building. Concurrent with acquiring title to the facility, we entered into a lease for this facility with a third party who was one of our existing tenants.

During 2008, we acquired the final multi-tenant medical office building of a seven building portfolio through our joint venture with McShane for $2.0 million. We also funded $2.1 million in capital improvements at certain facilities through our joint ventures with McShane and Broe.

During 2008, we also acquired, from an entity affiliated with PMB, a 44.95% investment in two multi-tenant medical office buildings for $3.5 million through PMB SB 399-401 East Highland LLC (PMB SB), an unconsolidated joint venture. Additionally, through our unconsolidated joint venture with a state pension fund, we exercised a purchase option of $21.8 million on one assisted and independent living facility and one skilled nursing facility in which the joint venture previously had leasehold interests. In connection with the purchase option exercise, the joint venture assumed $19.5 million of mortgage financing.

During 2008, we funded one mortgage loan secured by one skilled nursing facility in the amount of $6.8 million and one mortgage loan secured by one medical office building in the amount of $47.5 million. We also funded an additional $0.8 million on existing mortgage loans.

At December 31, 2008, we held 15 mortgage loans receivable secured by 17 skilled nursing facilities, nine assisted and independent living facilities, one medical office building and one land parcel. The mortgage loans receivable had an aggregate principal balance of $179.2 million which is reduced by aggregate deferred gains and discounts totaling $19.3 million, for a net book value of $159.9 million. The mortgage loans have individual outstanding balances ranging from $0.7 million to $47.5 million and maturities ranging from 2009 to 2024.

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Taxation

We believe we have operated in such a manner as to qualify for taxation as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and we intend to continue to operate in such a manner. If we qualify for taxation as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to stockholders. This treatment substantially eliminates the double taxation , that is, at the corporate and stockholder levels, that usually results from investment in the stock of a corporation. Please see the risk factors found under the heading Risks Related to Our Taxation as a REIT under the caption Risk Factors for more information.

Objectives and Policies

We are organized to invest in income-producing healthcare related facilities. At December 31, 2008, we had investments in 583 facilities located in 43 states, and we plan to invest in additional healthcare properties in the United States. Other than potentially utilizing joint ventures, we do not intend to invest in securities of, or interests in, persons engaged in real estate activities or to invest in securities of other issuers for the purpose of exercising control.

In evaluating potential investments, we consider such factors as:

- The geographic area, type of property and demographic profile;
- The location, construction quality, condition and design of the property;
- The expertise and reputation of the operator;
- The current and anticipated cash flow and its adequacy to meet operational needs and lease obligations;
- Whether the anticipated rent provides a competitive market return to NHP;
- The potential for capital appreciation;
- The tax laws related to real estate investment trusts;
- The regulatory and reimbursement environment in which the properties operate;
- Occupancy and demand for similar healthcare facilities in the same or nearby communities; and

An appropriate mix between private and government sponsored patients.

There are no limitations on the percentage of our total assets that may be invested in any one property. The Investment Committee of the board of directors or the board of directors may establish limitations as it deems appropriate from time to time. No limits have been set on the number of properties in which we will seek to invest, or on the concentration of investments in any one facility type or any geographic area. From time to time we may sell properties; however, we do not intend to engage in the purchase and sale, or turnover, of investments. We acquire our investments primarily for long-term income.

At December 31, 2008, we had one series of preferred stock with a liquidation preference totaling $74.9 million and $1.5 billion of indebtedness that is senior to our common stock. We may, in the future, issue additional debt or equity securities that will be senior to our common stock. During the past five years we have issued one series of preferred stock senior to our common stock, and while we do not have immediate plans to issue additional equity securities senior to our common stock, we may do so in the future.

In certain circumstances, we may make mortgage loans with respect to certain facilities secured by those facilities. At December 31, 2008, we held 15 mortgage loans secured by 17 skilled nursing facilities, nine assisted and independent living facilities, one medical office building and one land parcel. There are no limitations on the number or the amount of mortgages that may be placed on any one piece of property.

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We may incur additional indebtedness when, in the opinion of our management and board of directors, it is advisable. For short-term purposes we, from time to time, negotiate lines of credit or arrange for other short-term borrowings from banks or others. We arrange for long-term borrowings through public offerings or private placements to institutional investors.

In addition, we may incur additional mortgage indebtedness on real estate which we have acquired through purchase, foreclosure or otherwise. We may invest in properties subject to existing loans or secured by mortgages, deeds of trust or similar liens on the properties. We also may obtain non-recourse or other mortgage financing on unleveraged properties in which we have invested or may refinance properties acquired on a leveraged basis.

We will not, without the proper approval of a majority of the disinterested directors, acquire from or sell to any director, officer or employee of NHP or any affiliate thereof, as the case may be, any of our assets or other property. We provide to our stockholders annual reports containing audited financial statements and quarterly reports containing unaudited information, which are available upon request.

We do not have plans to underwrite securities of other issuers.

The policies set forth herein have been established by our board of directors and may be changed without stockholder approval.

Properties

Of the 583 facilities in which we have investments, as of December 31, 2008, we have direct ownership of:

251 assisted and independent living facilities;

172 skilled nursing facilities;

10 continuing care retirement communities;

7 specialty hospitals;

19 triple-net medical office buildings of which one is operated by a consolidated joint venture;

60 multi-tenant medical office buildings, 51 of which are operated by consolidated joint ventures; and

1 asset held for sale.

We also have indirect ownership of 36 facilities through our unconsolidated joint ventures and have mortgage loans secured by 27 facilities and one land parcel.

Our operations are organized into two segments triple-net leases and multi-tenant leases. In the triple-net leases segment, we invest in healthcare related properties and lease the facilities to unaffiliated tenants under triple-net and generally master leases that transfer the obligation for all facility operating costs (including maintenance, repairs, taxes, insurance and capital expenditures) to the tenant. In the multi-tenant leases segment, we invest in healthcare related properties that have several tenants under separate leases in each building, thus requiring active management and responsibility for many of the associated operating expenses (although many of these are, or can effectively be, passed through to the tenants). As of December 31, 2008, the multi-tenant leases segment was comprised exclusively of medical office buildings. See Note 24 Segment Information of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for more information about our business segments.

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Triple-net Leases

Our triple-net leases segment includes investments in the following types of facilities:

Senior Housing/Assisted and Independent Living Facilities

Assisted and independent living facilities offer studio, one bedroom and two bedroom apartments on a month-to-month basis primarily to elderly individuals, including those with Alzheimer s or related dementia, with various levels of assistance requirements. Assisted and independent living residents are provided meals and eat in a central dining area; assisted living residents may also be assisted with some daily living activities with programs and services that allow residents certain conveniences and make it possible for them to live as independently as possible; staff is also available when residents need assistance and for group activities. Services provided to residents who require more assistance with daily living activities, but who do not require the constant supervision skilled nursing facilities provide, include personal supervision and assistance with eating, bathing, grooming and administering medication. Charges for room, board and services are generally paid from private sources.

Long-Term Care/Skilled Nursing Facilities

Skilled nursing facilities provide rehabilitative, restorative, skilled nursing and medical treatment for patients and residents who do not require the high-technology, care-intensive, high-cost setting of an acute care or rehabilitative hospital. Treatment programs include physical, occupational, speech, respiratory and other therapeutic programs, including sub-acute clinical protocols such as wound care and intravenous drug treatment.

Continuing Care Retirement Communities

Continuing care retirement communities provide a broad continuum of care. At the most basic level, independent living residents might receive meal service, maid service or other services as part of their monthly rent. Services which aid in everyday living are provided to other residents, much like in an assisted living facility. At the far end of the spectrum, skilled nursing, rehabilitation and medical treatment are provided to residents who need those services. This type of facility consists of independent living units, dedicated assisted living units and licensed skilled nursing beds on one campus.

Specialty Hospitals

Rehabilitation hospitals provide inpatient and outpatient medical care to patients requiring high intensity physical, respiratory, neurological, orthopedic or other treatment protocols and for intermediate periods in their recovery. These programs are often the most effective in treating severe skeletal or neurological injuries and traumatic diseases such as stroke and acute arthritis.

Long-term acute care hospitals serve medically complex, chronically ill patients. These hospitals have the capability to treat patients who suffer from multiple systemic failures or conditions such as neurological disorders, head injuries, brain stem and spinal cord trauma, cerebral vascular accidents, chemical brain injuries, central nervous system disorders, developmental anomalies and cardiopulmonary disorders. Chronic patients are often dependent on technology for continued life support, such as mechanical ventilators, total parenteral nutrition, respiration or cardiac monitors and dialysis machines. While these patients suffer from conditions that require a high level of monitoring and specialized care, they may not necessitate the continued services of an intensive care unit. Due to their severe medical conditions, these patients generally are not clinically appropriate for admission to a skilled nursing facility or rehabilitation hospital.

Medical Office Buildings

Medical office buildings are typically on or near an acute care hospital campus. They usually house several different unrelated medical practices, although they can be associated with a large single-specialty or multi-specialty group. Tenants include physicians, dentists, psychologists, therapists and other healthcare providers, with space devoted to patient examination and treatment, diagnostic imaging, outpatient surgery and other outpatient services.

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The following table sets forth certain information regarding our owned triple-net leased facilities as of December 31, 2008:

Facility Location	Number of Facilities	Number of Beds/Units (1)	Square Footage (1)	Gross Real Estate Investment	2008 NOI (2)
				(Dollars in Thousands)	
Senior Housing/Assisted and Independent Living Facilities:					
Alabama	7	527		$ 44,840	$ 4,013
Arizona	3	236		27,056	2,635
Arkansas	1	32		2,150	231
California	17	2,090		131,598	19,865
Colorado	3	529		45,598	6,186
Connecticut	2	215		30,141	3,753
Florida	17	1,162		102,094	9,863
Georgia	3	293		21,053	1,921
Indiana	7	340		31,808	2,289
Kansas	6	283		16,419	1,837
Maryland	1	60		5,570	427
Massachusetts	1	98		18,903	1,013
Michigan	13	786		93,716	8,508
Minnesota	10	343		38,721	3,454
Mississippi	1	52		4,682	409
Missouri	4	77		1,904	56
Nevada	2	154		13,616	1,367
New Jersey	2	104		7,616	1,050
New Mexico	1	96		22,377	2,042
New York	3	406		44,267	5,307
North Carolina	10	582		108,773	9,163
North Dakota	1	48		6,302	475
Ohio	12	835		88,167	8,710
Oklahoma	4	205		22,033	2,142
Oregon	6	409		30,118	3,267
Pennsylvania	8	386		27,616	2,618
Rhode Island	3	274		30,290	2,877
South Carolina	3	117		8,357	580
South Dakota	4	183		21,257	1,899
Tennessee	14	1,398		119,281	8,902
Texas	28	2,210		289,681	26,616
Virginia	1	74		11,210	1,118
Washington	10	907		70,832	7,542
West Virginia	1	60		6,355	502
Wisconsin	42	2,171		180,364	16,412
Subtotals	251	17,742		1,724,765	169,049
Long-Term Care/Skilled Nursing Facilities:					
Arkansas	9	903		38,582	4,171
California	3	342		10,444	2,200
Connecticut	3	351		17,263	1,359
Florida	4	465		15,275	1,658
Georgia	1	100		4,342	355
Idaho	1	64		792	140

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Facility Location	Number of Facilities	Number of Beds/Units (1)	Square Footage (1)	Gross Real Estate Investment (Dollars in Thousands)	2008 NOI (2)
Illinois	2	210		5,549	622
Indiana	24	2,292		104,259	7,485
Kansas	6	425		11,309	1,331
Maryland	5	872		31,195	4,226
Massachusetts	15	2,079		174,265	15,664
Minnesota	3	513		27,620	2,327
Mississippi	1	120		4,467	487
Missouri	12	1,089		51,236	5,407
Nevada	1	140		4,389	779
New York	3	440		57,601	4,985
North Carolina	1	150		2,360	355
Ohio	5	733		28,458	3,044
Oklahoma	5	235		9,122	952
Pennsylvania	3	257		14,032	1,772
South Carolina	4	576		36,696	3,292
Tennessee	5	494		22,002	2,453
Texas	29	3,431		107,820	11,215
Utah	1	65		2,793	316
Virginia	6	843		28,690	3,815
Washington	7	711		44,531	4,074
West Virginia	4	326		15,143	1,977
Wisconsin	7	673		30,192	3,245
Wyoming	2	217		11,987	1,179
Subtotals	172	19,116		912,414	90,885
Continuing Care Retirement Communities:					
Arizona	1	228		12,887	1,570
Colorado	1	119		3,116	415
Florida	1	225		12,043	732
Maine	3	527		39,341	3,484
Massachusetts	1	171		14,655	1,549
Oklahoma	1	248		8,718	685
Tennessee	1	80		3,178	409
Texas	1	354		30,870	3,596
Subtotals	10	1,952		124,808	12,440
Specialty Hospitals:					
Arizona	2	116		17,071	2,480
California	2	84		39,394	3,796
Texas	3	103		19,316	1,923
Subtotals	7	303		75,781	8,199
Medical Office Buildings:					
Alabama	1		61,219	16,706	1,133
California	1		67,000	24,975	289
Florida	9		82,605	35,543	695
Indiana	4		55,814	15,724	1,163

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Facility Location	Number of Facilities	Number of Beds/Units (1)	Square Footage (1)	Gross Real Estate Investment	2008 NOI (2)
				(Dollars in Thousands)	
Maryland	1		5,538	1,717	34
Michigan	2		17,375	5,654	110
Texas	1		148,751	22,952	1,401
Subtotals	19		438,302	123,271	4,825
Total Owned Triple-Net Leased Facilities	459	39,113	438,302	$ 2,961,039	$ 285,398

(1) Assisted and independent living facilities are measured in units, continuing care retirement communities are measured in beds and units, skilled nursing facilities and specialty hospitals are measured by bed count and medical office buildings are measured by square footage.

(2) Net operating income (NOI) is a non-GAAP supplemental financial measure used to evaluate the operating performance of our facilities. We define NOI for our triple-net leases segment as rent revenues. For our multi-tenant leases segment, we define NOI as revenues minus medical office building operating expenses. In some cases, revenue for medical office buildings includes expense reimbursements for common area maintenance charges. NOI excludes interest expense and amortization of deferred financing costs, depreciation and amortization expense, general and administrative expense and discontinued operations. We present NOI as it effectively presents our portfolio on a net rent basis and provides relevant and useful information as it measures the operating performance at the facility level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess the property level performance of our properties. Furthermore, we believe that NOI provides investors relevant and useful information because it measures the operating performance of our real estate at the property level on an unleveraged basis. We believe that net income is the GAAP measure that is most directly comparable to NOI. However, NOI should not be considered as an alternative to net income as the primary indicator of operating performance as it excludes the items described above. Additionally, NOI as presented above may not be comparable to other REITs or companies as their definitions of NOI may differ from ours. See Note 24 to our consolidated financial statements for a reconciliation of net income to NOI.

The following table sets forth certain information regarding average rents for triple-net leased facilities owned by us as of December 31, 2008:

	2008		2007	
	Average Annualized Rent per Bed/Unit	Average Annualized Rent per Square Foot	Average Annualized Rent per Bed/Unit	Average Annualized Rent per Square Foot
Senior Housing/Assisted and Independent Living Facilities	$ 10,000	$	$ 9,000	$
Long-Term Care/Skilled Nursing Facilities	5,000		4,000	
Continuing Care Retirement Communities	6,000		6,000	
Specialty Hospitals	27,000		27,000	
Medical Office Buildings		11.01		6.06

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The following table sets forth certain information regarding lease expirations for our owned triple-net leased facilities as of December 31, 2008:

	Assisted & Independent		Skilled Nursing		Continuing Care		Other Triple-Net		Total Owned Triple-Net	
	Minimum Rent	Number of Facilities	Minimum Rent	Number of Facilities	Minimum Rent	Number of Facilities	Minimum Rent	Number of Facilities	Minimum Rent	Number of Facilities
	(Dollars in Thousands)									
2009	$ 701	5	$		$		$		$ 701	5
2010	4,671	7	8,297	18	551	1			13,519	26
2011			6,389	19					6,389	19
2012	7,586	8	4,332	8	1,511	1	1,800	1	15,229	18
2013	11,499	11	5,657	11	363	1			17,519	23
2014	8,346	12	4,109	8	4,872	3			17,327	23
2015	1,756	4	3,627	5			3,231	1	8,614	10
2016	11,046	10	13,235	26			4,037	6	28,318	42
2017	2,510	9	5,029	15			1,863	1	9,402	25
2018	1,335	2	2,794	8					4,129	10
Thereafter	107,972	184	34,126	54	4,103	4	5,539	17	151,740	259
	$ 157,422	252	$ 87,595	172	$ 11,400	10	$ 16,470	26	$ 272,887	460

In the triple-net leases segment, facilities are leased to single tenants. Revenues are received by us directly from the tenants in accordance with the lease terms which generally provide for annual rent escalators and transfer the obligation for all facility operating costs (including maintenance, repairs, taxes, insurance and capital expenditures) to the tenant. While occupancy information is relevant to the operations of the tenant, our revenues are not directly impacted by occupancy levels at the triple-net leased facilities.

Multi-Tenant Leases

As of December 31, 2008, our multi-tenant leases segment is comprised exclusively of medical office buildings.

The following table sets forth certain information regarding our owned multi-tenant leased facilities as of December 31, 2008:

Facility Location	Number of Facilities	Square Footage	Gross Real Estate Investment	2008 NOI (1)
			(Dollars in Thousands)	
Medical Office Buildings:				
California	6	337,983	$ 114,260	$ 6,250
Florida	1	37,413	6,350	214
Georgia	3	117,622	7,060	971
Illinois	12	375,194	36,148	5,085
Louisiana	8	393,908	23,675	2,824
Missouri	7	404,604	42,734	4,232
Nevada	2	145,149	38,572	1,271
Ohio	1	66,902	11,463	1,114
Oregon	1	104,856	31,218	1,431

South Carolina	2	109,704	13,153	1,241
Tennessee	1	56,973	3,954	690
Texas	6	157,327	7,433	397
Virginia	3	66,460	5,312	450
Washington	7	363,462	97,842	7,486
Total Owned Multi-Tenant Leased Facilities	60	2,737,557	$ 439,174	$ 33,656

(1) Net operating income (NOI) is a non-GAAP supplemental financial measure used to evaluate the operating performance of our facilities. We define NOI for our triple-net leases segment as rent revenues. For our multi-tenant leases segment, we define NOI as revenues minus medical office building operating expenses. In some cases, revenue for medical office buildings includes expense reimbursements for common area maintenance charges. NOI excludes interest

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expense and amortization of deferred financing costs, depreciation and amortization expense, general and administrative expense and discontinued operations. We present NOI as it effectively presents our portfolio on a net rent basis and provides relevant and useful information as it measures the operating performance at the facility level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess the property level performance of our properties. Furthermore, we believe that NOI provides investors relevant and useful information because it measures the operating performance of our real estate at the property level on an unleveraged basis. We believe that net income is the GAAP measure that is most directly comparable to NOI. However, NOI should not be considered as an alternative to net income as the primary indicator of operating performance as it excludes the items described above. Additionally, NOI as presented above may not be comparable to other REITs or companies as their definitions of NOI may differ from ours. See Note 24 to our consolidated financial statements for a reconciliation of net income to NOI.

Average annualized revenue per square foot for our multi-tenant leased medical office buildings owned as of December 31, 2008 was $22.02 per square foot and $8.63 per square foot for 2008 and 2007, respectively.

The following table sets forth certain information regarding lease expirations for our owned multi-tenant leased facilities as of December 31, 2008:

	Minimum Rent	Number of Leases
	(Dollars in Thousands)	
2009	$ 5,168	133
2010	6,111	146
2011	4,980	107
2012	5,680	92
2013	2,860	58
2014	2,456	17
2015	2,517	18
2016	4,022	17
2017	7,806	83
2018	2,200	18
Thereafter	14,382	26
	$58,182	715

Occupancy for our owned multi-tenant medical office buildings was 90.2% and 90.5% at December 31, 2008 and 2007, respectively.

Competition

We generally compete with other REITs, including HCP, Inc., Health Care REIT, Inc., Healthcare Realty Trust Incorporated, LTC Properties, Inc., Omega Healthcare Investors, Inc., Senior Housing Properties Trust and Ventas, Inc., real estate partnerships, healthcare providers and other investors, including, but not limited to, banks, insurance companies, pension funds, government sponsored entities, including the Department of Housing and Urban Development and Fannie Mae, and opportunity funds, in the acquisition, leasing and financing of healthcare facilities. The tenants that operate our healthcare facilities compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for patients based on quality of care, reputation, physical appearance of facilities, price, services offered, family preferences, physicians, staff and location. Our medical office buildings compete with other medical office buildings in their surrounding areas for tenants, including physicians, dentists, psychologists, therapists and other healthcare providers.

Regulation

Payments for healthcare services provided by the tenants of our facilities are received principally from four sources: private funds; Medicaid, a medical assistance program for the indigent, operated by individual states with the financial participation of the federal government; Medicare, a federal health insurance program for the aged, certain chronically disabled individuals, and persons with end-stage renal disease; and health and other

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insurance plans. While assisted and independent living facilities and medical office building tenants generally receive private funds, government revenue sources are the primary source of funding for most skilled nursing facilities and specialty hospitals and are subject to statutory and regulatory changes, administrative rulings, and government funding restrictions, all of which may materially increase or decrease the rates of payment to skilled nursing facilities and specialty hospitals and in some cases, the amount of additional rents payable to us under our leases. There is no assurance that payments under such programs will remain at levels comparable to the present levels or be sufficient to cover all the operating and fixed costs allocable to Medicaid and Medicare patients. Decreases in reimbursement levels could have an adverse impact on the revenues of the tenants of our skilled nursing facilities and specialty hospitals, which could in turn adversely impact their ability to make their monthly lease or debt payments to us. Changes in reimbursement levels have very little impact on our assisted and independent living facilities because virtually all of their revenues are paid from private funds.

There exist various federal and state laws and regulations prohibiting fraud and abuse by healthcare providers, including those governing reimbursements under Medicaid and Medicare as well as referrals and financial relationships. Federal and state governments are devoting increasing attention to anti-fraud initiatives. Our tenants may not comply with these current or future regulations, which could affect their ability to operate or to continue to make lease or mortgage payments.

Healthcare facilities in which we invest are also generally subject to federal, state and local licensure statutes and regulations and statutes which may require regulatory approval, in the form of a certificate of need (CON), prior to the addition or construction of new beds, the addition of services or certain capital expenditures. CON requirements generally apply to skilled nursing facilities and specialty hospitals. CON requirements are not uniform throughout the United States and are subject to change. In addition, some states have staffing and other regulatory requirements. We cannot predict the impact of regulatory changes with respect to licensure and CONs on the operations of our tenants.

Executive Officers of the Company

The table below sets forth the name, position and age of each executive officer of the Company. Each executive officer is appointed by the board of directors, serves at its pleasure and holds office until a successor is appointed, or until the earliest of death, resignation or removal. There is no family relationship among any of the named executive officers or with any director. All information is given as of February 18, 2009:

Name	Position	Age
Douglas M. Pasquale	President and Chief Executive Officer	54
Donald D. Bradley	Executive Vice President and Chief Investment Officer	53
Abdo H. Khoury	Executive Vice President and Chief Financial and Portfolio Officer	59

Douglas M. Pasquale President and Chief Executive Officer since April 2004 and a director since November 2003. Mr. Pasquale was Executive Vice President and Chief Operating Officer from November 2003 to April 2004. Mr. Pasquale served as the Chairman and Chief Executive Officer of ARV Assisted Living, an operator of assisted living facilities, from December 1999 to September 2003. From April 2003 to September 2003, Mr. Pasquale concurrently served as President and Chief Executive Officer of Atria Senior Living Group. From March 1999 to December 1999, Mr. Pasquale served as the President and Chief Executive Officer at ARV and he served as the President and Chief Operating Officer at ARV from June 1998 to March 1999. Previously, Mr. Pasquale served as President and Chief Executive Officer of Richfield Hospitality Services, Inc. and Regal Hotels International-North America, a hotel ownership and hotel management company, from 1996 to 1998, and as its Chief Financial Officer from 1994 to 1996. Mr. Pasquale is a member of the Executive Board of the American Seniors Housing Association (ASHA) and is a director of Alexander & Baldwin Inc. and Matson Navigation Company, Inc.

Donald D. Bradley Executive Vice President since March 2008 and Chief Investment Officer since July 2004. Mr. Bradley was a Senior Vice President from March 2001 to February 2008 and the General Counsel

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from March 2001 to June 2004. From January 2000 to February 2001, Mr. Bradley was engaged in various personal interests. Mr. Bradley was formerly the General Counsel of Furon Company, a NYSE-listed international, high performance polymer manufacturer from 1990 to December 1999. Previously, Mr. Bradley served as a Special Counsel of O Melveny & Myers LLP, an international law firm with which he had been associated since 1982. Mr. Bradley is a member of the Executive Board of ASHA.

Abdo H. Khoury Executive Vice President since March 2008 and Chief Financial and Portfolio Officer since July 2005. Mr. Khoury was a Senior Vice President from July 2005 to February 2008 and Chief Portfolio Officer from August 2004 to June 2005. Mr. Khoury served as the Executive Vice President of Operations of Atria Senior Living Group (formerly ARV Assisted Living, Inc.) from June 2003 to March 2004. From January 2001 to May 2003, Mr. Khoury served as President of ARV and he served as Chief Financial Officer at ARV from March 1999 to January 2001. From October 1997 to February 1999, Mr. Khoury served as President of the Apartment Division at ARV. From January 1991 to September 1997, Mr. Khoury ran Financial Performance Group, a business and financial consulting firm located in Newport Beach, California.

Employees

As of February 18, 2009, we had 33 employees.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports required by Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are electronically filed with the SEC. You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our annual, quarterly and current reports, and amendments to reports are also available, free of charge, on our website at www.nhp-reit.com, as soon as reasonably practicable after those reports are available on the SEC s website. These materials, together with our Governance Principles, Director Committee Charters and Business Code of Conduct & Ethics referenced below, are available in print to any stockholder who requests them in writing by contacting:

Nationwide Health Properties, Inc.

610 Newport Center Drive, Suite 1150

Newport Beach, California 92660

Attention: Abdo H. Khoury

Availability of Governance Principles and Board of Director Committee Charters

Our board of directors has adopted charters for its Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and Investment Committee. Our board of directors has also adopted Governance Principles. The Governance Principles and each of the charters are available on our website at www.nhp-reit.com.

Business Code of Conduct & Ethics

Our board of directors has adopted a Business Code of Conduct & Ethics, which applies to all employees, including our chief executive officer, chief financial and portfolio officer, chief investment officer, vice presidents and directors. The Business Code of Conduct & Ethics is posted on our website at www.nhp-reit.com. Our Audit Committee must approve any waivers of the Business Code of Conduct & Ethics. We presently intend to disclose any amendments and waivers, if any, of the Business Code of Conduct & Ethics on our website; however, if we change our intention, we will file any amendments or waivers with a current report on Form 8-K. There have been no waivers of the Business Code of Conduct & Ethics.

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Item 1A. Risk Factors.

Generally speaking, the risks facing our company fall into three categories: risks associated with the operations of our tenants, risks related to our operations and risks related to our taxation as a REIT. You should carefully consider the risks and uncertainties described below before making an investment decision in our company. These risks and uncertainties are not the only ones facing us and there may be additional matters that we are unaware of or that we currently consider immaterial. All of these could adversely affect our business, financial condition, results of operations and cash flows and, thus, the value of an investment in our company.

RISKS RELATING TO OUR TENANTS

Our financial position could be weakened and our ability to make distributions could be limited if any of our major tenants were unable to meet their obligations to us or failed to renew or extend their relationship with us as their lease terms expire or their mortgages mature, or if we were unable to lease or re-lease our facilities or make mortgage loans on economically favorable terms. We have no operational control over our tenants. There may end up being more serious tenant financial problems that lead to more extensive restructurings or tenant disruptions than we currently expect. This could be unique to a particular tenant or it could be more industry wide, such as further federal or state governmental reimbursement reductions in the case of our skilled nursing facilities as governments work through their budget deficits, continuing reduced occupancies or slow lease-ups for our assisted and independent living facilities or medical office buildings due to general economic and other factors and increases in insurance premiums, labor and other expenses. These adverse developments could arise due to a number of factors, including those listed below.

The global financial crisis could adversely impact the financial condition of our tenants, which could impair our tenants ability to meet their obligations to us.

The U.S. is experiencing a recession which is nearing the longest duration since the Great Depression. Continued concerns about the uncertainty over whether our economy will be adversely impacted by inflation, deflation or stagflation, and the systemic impact of energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining real estate market in the U.S. have contributed to increased market volatility and diminished expectations for the U.S. economy. This difficult operating environment may adversely impact the financial condition of our tenants. If these economic conditions continue, our tenants may be unable to meet their obligations to us and our business could be adversely affected.

The bankruptcy, insolvency or financial deterioration of our tenants could significantly delay our ability to collect unpaid rents or require us to find new operators for rejected facilities.

We are exposed to the risk that our tenants may not be able to meet their obligations, which may result in their bankruptcy or insolvency. This risk is more pronounced during weak economic conditions, such as those we are currently experiencing. Although our leases and loans provide us the right to evict a tenant, demand immediate repayment and other remedies, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. A tenant in bankruptcy may be able to restrict our ability to collect unpaid rent and interest during the bankruptcy proceeding.

Leases. If one of our lessees seeks bankruptcy protection, the lessee can either assume or reject the lease. Generally, the lessee is required to make rent payments to us during its bankruptcy until it rejects the lease. If the lessee assumes the lease, the court cannot

change the rental amount or any other lease provision that could financially impact us. However, if the lessee rejects the lease, the facility would be returned to us. In that event, if we were able to re-lease the facility to a new tenant only on unfavorable terms or after a significant delay, we could lose some or all of the associated revenue from that facility for an extended period of time.

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Mortgage Loans. If a tenant defaults under one of our mortgage loans, we may have to foreclose on the mortgage or protect our interest by acquiring title to a property and thereafter make substantial improvements or repairs in order to maximize the facility s investment potential. Tenants may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against an enforcement and/or bring claims for lender liability in response to actions to enforce mortgage obligations. If a tenant seeks bankruptcy protection, the automatic stay of the federal bankruptcy law would preclude us from enforcing foreclosure or other remedies against the tenant unless relief is obtained from the court. In addition, a tenant would not be required to make principal and interest payments while an automatic stay was in effect. High loan to value ratios or declines in the value of the facility may prevent us from realizing an amount equal to our mortgage loan upon foreclosure.

The receipt of liquidation proceeds or the replacement of a tenant that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the replacement of the tenant licensed to manage the facility. In some instances, we may take possession of a property that exposes us to successor liabilities and operating risks. These events, if they were to occur, could reduce our revenue and operating cash flow.

In addition, many of our leases contain non-contingent rent escalators for which we recognize income on a straight-line basis over the lease term. This method results in rental income in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset included in the caption Other assets on our balance sheets. At some point during the lease, depending on its terms, the cash rent payments eventually exceed the straight-line rent which results in the straight-line rent receivable asset decreasing to zero over the remainder of the lease term. We assess the collectibility of the straight-line rent that is expected to be collected in a future period, and, depending on circumstances, we may provide a reserve against the previously recognized straight-line rent receivable asset for a portion, up to its full value, that we estimate may not be recoverable. The balance of straight-line rent receivables at December 31, 2008, net of allowances was $21.2 million. To the extent any of the tenants under these leases become unable to pay the contracted cash rent, we may be required to write down the straight-line rents receivable from those tenants, which would reduce our net income.

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

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

Medicare, Medicaid and Private Payor Reimbursement. Those of our tenants who operate skilled nursing facilities and specialty hospitals derive a significant portion of their revenue from governmentally-funded reimbursement programs, such as Medicare and Medicaid. Failure to maintain certification and accreditation in these programs would result in a significant loss of funding from them. Moreover, federal and state governments have adopted and continue to consider various reform proposals to control and reduce healthcare costs. For example, the Balanced Budget Act of 1997(BBA) established a Prospective Payment System for Medicare skilled nursing facilities under which facilities are paid a federal per diem rate for most covered nursing facility services. Under this system, skilled nursing facilities are no longer assured of receiving reimbursement adequate to cover the costs of operating the facilities. Governmental concern regarding healthcare costs and their budgetary impact may result in significant reductions in payment to healthcare facilities, and future reimbursement rates

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for either governmental or private payors may not be sufficient to cover cost increases in providing services to patients. Although in 1999 the federal government enacted the Balance Budget Refinement Act (BBRA) to increase the per diem reimbursement rates for high acuity patients, this increase continues to challenge profitability by other cost-saving governmental payment methodologies such as, for example, that affecting bad debt reporting. The reimbursement of uncollectible Medicare coinsurance amounts for all beneficiaries (other than beneficiaries of both Medicare and Medicaid) is reduced from 100% to 70% for skilled nursing facility cost reporting periods beginning on or after October 1, 2005. The federal government agency that manages Medicare estimates that the change in treatment of bad debt will result in a decrease in payments to nursing facilities in an amount of $490 million from 2006 to 2010. The change in the rule for calculating bad debt may affect the liquidity or profitability of skilled nursing facilities, although to what affect continues to be difficult to predict. In addition, the proposed 2009 budget contains provisions that, if implemented, could reduce or slow the growth in Medicare reimbursement rates for skilled nursing facilities. In many instances, revenues from Medicaid programs are already insufficient to cover the actual costs incurred in providing care to those patients. Many of the states where our tenants reside report budget deficits that put future Medicaid funding at risk and may limit as well as decrease the number of Medicaid beds available to patients in the near future as well as in the long term. In addition, reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. Loss of certification or accreditation, or any changes in reimbursement policies that reduce reimbursement to levels that are insufficient to cover the cost of providing patient care, could cause the revenues of our tenants to decline, potentially jeopardizing their ability to meet their obligations to us. In that event, our revenues from those facilities could be reduced, which could in turn cause the value of our affected properties to decline. Governmental concern regarding specialty hospitals may result in reforms to the payments to those facilities and future reimbursement rates may change affecting the payment system for services provided by specialty hospitals.

Licensing and Certification. Our tenants and facilities are generally subject to regulatory and licensing requirements of federal, state and local authorities and are periodically audited by them to confirm compliance. Failure to obtain licensure or loss of licensure would prevent a facility, or in some cases, potentially all of a tenant s facilities in a state, from operating. Our skilled nursing facilities and specialty hospitals generally require governmental approval, often in the form of a certificate of need that generally varies by state and is subject to change, prior to the addition or construction of new beds, the addition of services or certain capital expenditures. Some of our facilities may not be able to satisfy current and future regulatory requirements and for this reason may be unable to continue operating in the future. In such event, our revenues from those facilities could be reduced or eliminated for an extended period of time. State licensing, as well as Medicare and Medicaid laws require operators of nursing homes and assisted living facilities to comply with extensive standards governing operations, including federal conditions of participation and state operating regulations. Federal and state agencies administering those laws regularly inspect our facilities and investigate complaints. Our tenants and their managers receive notices of potential sanctions and remedies from time to time, and such sanctions have been imposed from time to time on facilities operated by them. If they are unable to cure deficiencies which have been identified or which are identified in the future, such sanctions may be imposed and if imposed may adversely affect our tenants ability to operate and therefore pay rent to us.

Fraud and Abuse Laws and Regulations. There are various extremely complex federal and state laws and regulations governing a wide array of business referrals, relationships and arrangements that prohibit fraud by healthcare providers. These laws include (i) civil and criminal laws that prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments, (ii) certain federal and state anti-remuneration and fee-splitting laws (including, in the case of certain states, laws that extend to arrangements that do not involve items or services reimbursable under Medicare or Medicaid), such as the federal healthcare Anti-Kickback Statute and federal self-referral law (also known as the Stark law), which govern various types of financial arrangements among healthcare providers and others

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who may be in a position to refer or recommend patients to these providers (iii) the Civil Monetary Penalties law, which may be imposed by the U.S. Department of Health and Human Services (HHS) for certain fraudulent acts, (iv) federal and state patient privacy laws, such as the privacy and security provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and (v) certain state laws that prohibit the corporate practice of medicine. Many states have also adopted or are considering legislation to increase patient protections, such as criminal background checks on care providers and minimum staffing levels. Governments are devoting increasing attention and resources to anti-fraud initiatives against healthcare providers. In addition, certain laws, such as the Federal False Claims Act, allow for individuals to bring qui tam (or whistleblower) actions on behalf of the government for violations of fraud and abuse laws. These qui tam actions may be filed by present and former patients, nurses or other employees, or other third parties. The HIPAA and the Balanced Budget Act of 1997 expand the penalties for healthcare fraud, including broader provisions for the exclusion of providers from the Medicare and Medicaid programs. Further, under anti-fraud demonstration projects such as Operation Restore Trust, the Office of Inspector General of HHS, in cooperation with other federal and state agencies, has focused and may continue to focus on the activities of skilled nursing facilities in certain states in which we have properties. The violation of any of these regulations by a tenant may result in the imposition of criminal or civil fines or other penalties (including exclusion from the Medicare and Medicaid programs) that could jeopardize that tenant s ability to make lease or mortgage payments to us or to continue operating its facility. Under the Medicare Prescription Drug Improvement and Modernization Act of 2003, an 18-month moratorium was imposed on the ability of specialty hospitals to use the whole hospital exception to the Stark law. The moratorium, however, did not affect specialty hospitals in operation or under development as of November 18, 2003, because such hospitals were grandfathered under the moratorium. A number of organizations, including the Medical Payment Advisory Commission (MedPAC) and HHS, have studied the utilization, costs of service, quality of care and financial impact of specialty hospitals and their physician owners relative to community hospitals. Although the 18-month moratorium expired on June 8, 2005, HHS announced on June 9, 2005, that it would temporarily suspend the enrollment of new specialty hospitals so that it could analyze whether specialty hospitals meet the definition of hospital set forth in the Social Security Act and review the procedures used to qualify specialty hospitals for participation in the Medicare program. In February 2006, the Deficit Reduction Act of 2005 was enacted, which extended HHS suspension of new specialty hospital enrollment until the earlier of six months (which could be extended by two months) or the completion of a final HHS report on specialty hospitals. On August 8, 2006, HHS submitted to Congress its final report outlining the agency s plans to address physician ownership in specialty hospitals and simultaneously end the administrative moratorium on specialty hospital enrollment in the Medicare program. The final report details a variety of steps that HHS has already taken to address specialty hospital development, and announces additional steps that HHS intends to take in the future. Among those additional steps outlined by HHS are new requirements that hospitals disclose details about physician ownership and investment in their institutions. The added information will allow HHS to closely examine the relationships between physician investment and compensation. The final HHS report may result in legislation extending the moratorium on specialty hospitals or further restricting physician ownership of specialty hospitals. To the extent that any of our specialty hospital tenants have physician owners, those tenants may have to undergo significant ownership disclosures and structural changes if such legislation were passed.

Legislative Developments. Each year, legislative proposals are introduced or proposed in Congress, and in some state legislatures, that would effect major changes in the healthcare system, nationally or at the state level. Among the proposals under consideration are cost controls on state Medicaid reimbursements, hospital cost-containment initiatives by public and private payors, uniform electronic data transmission standards for healthcare claims and payment transactions, and higher standards to protect the security and privacy of health-related information. We cannot predict whether any proposals will be adopted or, if adopted, what effect, if any, these proposals would have on our tenants and, thus, our business.

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Two of the operators of our facilities each account for more than 10% of our revenues. If these operators experience financial difficulties, or otherwise fail to make payments to us, our revenues may significantly decline.

At December 31, 2008, as adjusted for facilities acquired and disposed of during that period, Brookdale and Hearthstone accounted for 15.2% and 10.6%, respectively, of our revenues. We cannot assure you that Brookdale or Hearthstone will have sufficient assets, income or access to financing to enable it to satisfy its obligations to us. Any failure by Brookdale or Hearthstone to effectively conduct its operations could have a material adverse effect on its business reputation or on its ability to attract and retain patients and residents in its properties. The failure or inability of Brookdale and/or Hearthstone to pay their obligations to us could materially reduce our revenues and net income, which could in turn reduce the amount of dividends we pay and cause our stock price to decline.

Hearthstone agreed to pay over the initial 15-year term of its lease Supplemental Rent equal to a specified percentage of Hearthstone s annual gross revenue. In accordance with the lease, payment of Supplemental Rent of $1.6 million for the first 24 months of the lease was deferred until June 2008, when it became payable in 12 monthly installments, and Supplemental Rent from June 2008 was to be paid quarterly starting in September 2008. Hearthstone has failed to pay the deferred Supplemental Rent of $133,000 per month. Hearthstone has notified us that it is currently unable to make such payments and has sought to renegotiate the terms of our lease. Although we have a $6.0 million letter of credit that secures Hearthstone s payment obligations to us (which we have not yet drawn on), it is possible that the letter of credit may not be sufficient to compensate us for all costs that may arise in connection with a modification of the lease or our pursuit of other remedies.

We may be unable to find another tenant for our properties if we have to replace Brookdale, Hearthstone or any of our other tenants.

We may have to find another tenant for the properties covered by one or more of our master lease agreements with Brookdale or Hearthstone or any of our other tenants upon the expiration of the terms of the applicable lease or upon a default by any such tenants. During any period that we are attempting to locate one or more tenants, there could be a decrease or cessation of rental payments on those properties. We cannot assure you that Brookdale or Hearthstone or any of our other tenants will elect to renew their respective leases with us upon expiration of the terms thereof, nor can we assure you that we will be able to locate another suitable tenant or, if we are successful in locating such a tenant, that the rental payments from that new tenant would not be significantly less than the existing rental payments. Our ability to locate another suitable tenant may be significantly delayed or limited by various state licensing, receivership, certificate of need or other laws, as well as by Medicare and Medicaid change-of-ownership rules. We also may incur substantial additional expenses in connection with any such licensing, receivership or change-of-ownership proceedings. Any such delays, limitations and expenses could materially delay or impact our ability to collect rent, to obtain possession of leased properties or otherwise to exercise remedies for tenant default and could have an adverse effect on our business.

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

Healthcare facilities are typically highly customized and may not be easily adapted to non-healthcare-related uses. The improvements generally required to conform a property to healthcare use, such as upgrading electrical, gas and plumbing infrastructure, are costly and often times tenant-specific. A new or replacement tenant may require different features in a property, depending on that tenant s particular operations. If a current tenant is unable to pay rent and vacates a property, we may incur substantial expenditures to modify a property before we are able to re-lease the space to another tenant. Also, if the property needs to be renovated to accommodate multiple tenants, we may incur substantial expenditures before we are able to re-lease the space. Consequently,

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our properties may not be suitable for lease to traditional office or other healthcare tenants without significant expenditures or renovations, which costs may materially adversely affect our business, results of operations and financial condition.

If our tenants are unable or unwilling to incur capital expenditures to maintain and improve our properties, our properties may cease to be competitive and our results of operations would be adversely impacted.

Capital expenditures to maintain and improve our properties are generally incurred by our tenants. If our tenants fail to pay for such expenditures, we may incur substantial costs to maintain or improve our properties, which could adversely affect our liquidity. If we fail to make such capital expenditures, our properties may become less attractive to tenants and our results of operations could be adversely impacted. Although some of our leases provide for impound accounts to reduce the risk of a tenant failing to make the requisite capital expenditures, many of our leases do not provide for such impound accounts and, for those that do, such accounts may not always be sufficient to protect us from loss.

Our tenants are faced with significant potential litigation and rising insurance costs that not only affect their ability to obtain and maintain adequate liability and other insurance, but also may affect their ability to pay their lease or mortgage payments and fulfill their insurance, indemnification and other obligations to us.

In some states, advocacy groups have been created to monitor the quality of care at skilled nursing facilities and assisted and independent living facilities, and these groups have brought litigation against operators. Also, in several instances, private litigation by skilled nursing facility patients or assisted and independent living facility covered residents or their families has resulted in very large damage awards for alleged abuses. The effect of this litigation and potential litigation has been to materially increase the costs of monitoring and reporting quality of care compliance incurred by our tenants. In addition, the cost of liability and medical malpractice insurance has increased and may continue to increase so long as the present litigation environment continues. This has affected the ability of some of our tenants to obtain and maintain adequate liability and other insurance and, thus, manage their related risk exposure. In addition to being unable to fulfill their insurance, indemnification and other obligations to us under their leases and mortgages and thereby potentially exposing us to those risks, this could cause our tenants to be unable to pay their lease or mortgage payments, potentially decreasing our revenues and increasing our collection and litigation costs. Moreover, to the extent we are required to foreclose on the affected facilities, our revenues from those facilities could be reduced or eliminated for an extended period of time.

In addition, we may in some circumstances be named as a defendant in litigation involving the actions of our tenants. In previous years, we have been named as a defendant in lawsuits for wrongful death. Although we have no involvement in the activities of our tenants and our standard leases generally require our tenants to indemnify and carry insurance to cover us in certain cases, a significant judgment against us in such litigation could exceed our and our tenants insurance coverage, which would require us to make payments to cover the judgment. We have purchased our own insurance as additional protection against such issues.

Increased competition has resulted in lower revenues for some operators and may affect their ability to meet their payment obligations to us.

The healthcare industry is highly competitive, and we expect that it may become more competitive in the future. Our tenants are competing 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. In addition, past overbuilding in the assisted and independent living market caused a slow-down in the fill rate of newly constructed buildings and a reduction in the monthly rate many newly built and previously existing facilities were able to obtain for their services and adversely impacted the occupancy of mature properties. This in

turn resulted in lower revenues for the operators of certain of our facilities and contributed to the financial difficulties of some operators. While we believe that overbuilt markets should reach stabilization in the next several years and are less of a problem today due to minimal development,

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we cannot be certain that the operators of all of our facilities will be able to achieve and maintain occupancy and rate levels that will enable them to meet all of their obligations to us. Our tenants are expected to encounter increased competition in the future, including through industry consolidation, that could limit their ability to attract residents or expand their businesses and therefore affect their ability to pay their lease or mortgage payments.

RISKS RELATING TO US AND OUR OPERATIONS

In addition to the tenant related risks discussed above, there are a number of risks directly associated with us and our operations.

We are subject to particular risks associated with real estate ownership, which could result in unanticipated losses or expenses.

Our business is subject to many risks that are associated with the ownership of real estate. For example, if our tenants do not renew their leases, we may be unable to re-lease the facilities at favorable rental rates. Other risks that are associated with real estate acquisition and ownership include, among other things, the following:

- general liability, property and casualty losses, some of which may be uninsured;
- the inability to purchase or sell our assets rapidly to respond to changing economic conditions, due to the illiquid nature of real estate and the real estate market;
- leases which are not renewed or are renewed at lower rental amounts at expiration;
- the exercise of purchase options by operators resulting in a reduction of our rental revenue;
- costs relating to maintenance and repair of our facilities and the need to make expenditures due to changes in governmental regulations, including the Americans with Disabilities Act;
- environmental hazards created by prior owners or occupants, existing tenants, mortgagors or other persons for which we may be liable;
- acts of God affecting our properties; and
- acts of terrorism affecting our properties.

We rely on external sources of capital to fund future capital needs, and continued turbulence in financial markets could impair our ability to meet maturing commitments or make future investments necessary to grow our business.

In order to qualify as a REIT under the Internal Revenue Code, we are required, among other things, to distribute each year to our stockholders at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and by excluding net capital gain. Because of this distribution requirement, we will not be able to fund, from cash retained from operations, all future capital needs, including capital needs to satisfy or refinance maturing commitments and to make investments. As a result, we rely on external sources of capital. If we are unable to obtain needed capital at all or only on unfavorable terms from these sources, we might not be able to make the investments needed to grow our business, or to meet our obligations and commitments as they mature, which could negatively affect the ratings of our debt and even, in extreme circumstances, affect our ability to continue operations. Our access to capital depends upon a number of factors over which we have little or no control, including rising interest rates, inflation and other general market conditions and the market s perception of our potential for future increases in earnings and cash distributions, as well as the market price of the shares of our capital stock.

Recent market and economic conditions have been unprecedented and challenging with tighter credit conditions and slower growth through the third and fourth quarters of 2008. Continued concerns about the

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systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining real estate market in the U.S. have contributed to diminished expectations for the U.S. economy and unprecedented levels of volatility in financial markets.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. We had $700 million available under our Credit Facility at December 31, 2008, and we have no current reason to believe that we will be unable to access the facility in the future. However, concern about the stability of the markets generally and the strength of borrowers specifically has led many lenders and institutional investors to reduce and, in some cases, cease to provide, funding to borrowers. In addition, the banks that are parties to the Credit Facility might have incurred losses or might have reduced capital reserves as a result of their prior lending to other borrowers, their holdings of certain mortgage securities or their other financial relationships, in part because of the general weakening of the U.S. economy and the increased financial instability of many borrowers. As a result, these banks might be or become capital constrained and might tighten their lending standards, or become insolvent. If they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from other borrowers within a short period of time, these banks might not be able to meet their funding commitments under our Credit Facility. If we were unable to access our Credit Facility it could result in an adverse effect on our liquidity and financial condition.

We have approximately $71.1 million of indebtedness that matures in 2009 and $71.3 million of indebtedness that matures in 2010. Additionally, some of our senior notes can be put to us prior to the stated maturity date. We have approximately $55.0 million of such senior notes that we may be required to repay in 2009 and none that we may be required to repay in 2010. If current market conditions continue, they may limit our ability to timely refinance maturing liabilities and access the capital markets to meet liquidity needs, resulting in a material adverse effect on our financial condition and results of operations.

Our plans for growth require regular access to the capital and credit markets. If capital is not available at an acceptable cost, it will significantly impair our ability to make future investments as acquisitions and development projects become difficult or impractical to pursue.

Our potential capital sources include:

Equity Financing. As with other publicly-traded companies, the availability of equity capital will depend, in part, on the market price of our common stock which, in turn, will depend upon various market conditions that may change from time to time. Among the market conditions and other factors that may affect the market price of our common stock are:

- the extent of investor interest;
- the reputation of REITs in general and the healthcare sector in particular and the attractiveness of REIT equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our financial performance and that of our operators;
- the contents of analyst reports about us and the REIT industry;

general stock and bond market conditions, including changes in interest rates on fixed income securities, which may lead prospective purchasers of our common stock to demand a higher annual yield from future distributions;

our failure to maintain or increase our dividend, which is dependent, to a large part, on growth of funds from operations which in turn depends upon increased revenues from existing investments, future investments and rental increases; and

other factors such as governmental regulatory action and changes in REIT tax laws.

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The market value of the equity securities of a REIT is generally based upon the market s perception of the REIT s growth potential and its current and potential future earnings and cash distributions. Our failure to meet the market s expectation with regard to future earnings and cash distributions likely would adversely affect the market price of our common stock.

Debt Financing/Leverage. Financing for our maturing commitments and future investments may be provided by borrowings under our bank line of credit, private or public offerings of debt, the assumption of secured indebtedness, mortgage financing on a portion of our owned portfolio or through joint ventures. We are subject to risks normally associated with debt financing, including the risks that our cash flow will be insufficient to service our debt or make distributions to our stockholders, that we will be unable to refinance existing indebtedness or that the terms of refinancing may not be as favorable as the terms of existing indebtedness or may include restrictive covenants that limit our flexibility in operating our business. If we are unable to refinance or extend principal payments due at maturity or pay them with proceeds from other capital transactions, our cash flow may not be sufficient in all years to pay distributions to our stockholders and to repay all maturing debt. Furthermore, if prevailing interest rates, changes in our debt ratings, or other factors at the time of refinancing, result in higher interest rates upon refinancing, the interest expense relating to that refinanced indebtedness would increase, which could reduce our profitability and the amount of dividends we are able to pay. Moreover, additional debt financing increases the amount of our leverage. The degree of leverage could have important consequences to stockholders, including affecting our investment grade ratings, our ability to obtain additional financing in the future for working capital, capital expenditures, investments, development or other general corporate purposes and making us more vulnerable to a downturn in business or the economy generally.

Joint Ventures. In appropriate circumstances, we may develop 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 the risks that:

- our co-venturers or partners might at any time have economic or other business interests or goals that are inconsistent with our business interests or goals;
- our co-venturers or partners may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives (including actions that may be inconsistent with our REIT status);
- our co-venturers or partners may have different objectives from us regarding the appropriate timing and pricing of any sale or refinancing of properties; and
- our co-venturers or partners might become bankrupt or insolvent.

Joint ventures require us to share decision-making authority with our co-venturers or partners, which limits our ability to control the properties in the joint ventures. Even when we have a controlling interest, certain major decisions may require partner approval.

Increasing consolidation at the operator or REIT level could increase competition and reduce our profitability.

Our business is highly competitive and it may become more competitive in the future. We compete with a number of healthcare REITs and other financing sources, some of which are larger and have a lower cost of capital than we do. If consolidation occurs at the REIT or operator level, it could result in fewer investment opportunities for us and/or reduced profitability on our investments.

There is no assurance that we will make distributions in the future.

We intend to continue to pay quarterly distributions to our stockholders consistent with our historical practice. However, our ability to pay distributions will be adversely affected if any of the risks described herein

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occur. Our payment of distributions is subject to compliance with restrictions contained in our unsecured bank credit facilities and our senior notes indentures. All distributions are made at the discretion of our board of directors and our future distributions will depend upon our earnings, our cash flows, our anticipated cash flows, our financial condition, maintenance of our REIT tax status and such other factors as our board of directors may deem relevant from time to time. There are no assurances of our ability to pay distributions in the future. In addition, our distributions in the past have included, and may in the future include, a return of capital.

A downgrade of our credit rating could impair our ability to obtain additional debt financing on favorable terms, if at all, and significantly reduce the trading price of our common stock.

We currently have the lowest investment grade credit ratings of Baa3 from Moody s Investors Service and BBB- from Standard & Poor s Ratings Service and Fitch Ratings on our senior unsecured debt securities. If any of these rating agencies downgrade our credit rating, or place our rating under watch or review for possible downgrade, this could make it more difficult or expensive for us to obtain additional debt financing, and the trading price of our common stock will likely decline. Factors that may affect our credit rating include, among other things, our financial performance, our success in raising sufficient equity capital, adverse changes in our debt and fixed charge coverage ratios, our capital structure and level of indebtedness and pending or future changes in the regulatory framework applicable to our operators and our industry. We cannot assure you that these credit agencies will not downgrade our credit rating in the future.

We have now, and may have in the future, exposure to contingent rent escalators and floating interest rates, both of which can have the effect of reducing our profitability.

We receive revenue primarily by leasing our assets under leases that are long-term triple-net leases in which the rental rate is generally fixed with annual rent escalations, subject to certain limitations. Certain leases contain escalators contingent on revenues or other factors, including increases based on changes in the Consumer Price Index. If our tenants revenues do not increase as a result of the weak economic conditions we are currently experiencing or other factors and/or the Consumer Price Index does not increase, our revenues may not increase. The Consumer Price Index decreased from December 2007 to December 2008. If the negative trend continues, revenue from leases containing escalators based on changes in the Consumer Price Index would not increase in 2009 which could reduce our profitability.

Certain of our debt obligations are floating-rate obligations with interest rate and related payments that vary with the movement of LIBOR or other indexes. The generally fixed rate nature of our revenue and the variable rate nature of certain of our interest obligations create interest rate risk. If interest rates increase, it could have the effect of reducing or further reducing our profitability or making our lease and other revenue insufficient to meet our obligations.

We have now, and may have in the future, exposure related to our leases and loans secured by letters of credit, some of which are issued by banks that may be affected by the severely distressed housing and credit markets or other factors.

As of December 31, 2008, leases covering 301 facilities and loans on 16 facilities were secured by irrevocable letters of credit totaling $56.4 million. In the event that any of the tenants or borrowers related to these facilities become unable to meet their obligations, we are entitled to draw down on the letters of credit an amount equal to the earned and unpaid obligations. Our access to funds under the letters of credit is dependent on the ability of the issuing banks to meet their funding commitments. These banks might have incurred losses or might have reduced capital reserves as a result of their prior lending to other borrowers, their holdings of certain mortgage securities or their other financial relationships, in part because of the general weakening of the U.S. economy and the increased financial instability of many borrowers. As a result, these banks might be or become capital constrained and might tighten their lending standards, or become insolvent. If they experience

shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from other borrowers

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within a short period of time, these banks might not be able to meet their funding commitments under our letters of credit. If an issuing bank has financial difficulties, we may be unable to draw down on a letter of credit, which could delay or reduce our ability to collect unpaid obligations and reduce our revenue and operating cash flow.

The failure of one or more of our insurance carriers could adversely impact our business.

We and our tenants insure against a wide range of risks through insurance. If the current global financial crisis were to affect the solvency of any carrier providing insurance to us or any of our tenants, it could result in their inability to make payments on insurance claims, which could have an adverse effect on our financial condition or that of our tenants. In addition, the failure of one or more insurance companies may increase the costs to renew existing insurance policies.

Unforeseen costs associated with investments in new properties could reduce our profitability.

Our business strategy contemplates future investments that may not prove to be successful. For example, we might encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and newly-acquired properties might require significant management attention that would otherwise be devoted to our ongoing business. If we issue equity securities or incur additional debt, or both, to finance future investments, it may reduce our per share financial results and/or increase our leverage. If we pursue new development projects, such projects would be subject to numerous risks, including risks of construction delays or cost overruns that may increase project costs, and new project commencement risks such as receipt of zoning, occupancy and other required governmental approvals and permits. Moreover, if we agree to provide funding to enable healthcare operators to build, expand or renovate facilities on our properties and the project is not completed, we could be forced to become involved in the development to ensure completion or we could lose the property. These costs may negatively affect our results of operations.

We may recognize impairment charges or losses on the sale of certain facilities.

From time to time, we classify certain facilities, including unoccupied buildings and land parcels, as assets held for sale. To the extent we are unable to sell these properties for book value, we may be required to take an impairment charge or loss on the sale, either of which would reduce our net income.

We may face competitive risks related to reinvestment of sale proceeds.

From time to time, we will have cash available from (1) the proceeds of sales of our securities, (2) principal payments on our loans receivable and (3) the sale of properties, including non-elective dispositions, under the terms of master leases or similar financial support arrangements. In order to maintain our current financial results, we must re-invest these proceeds, on a timely basis. We compete for real estate investments with a broad variety of potential investors. This competition for attractive investments may negatively affect our ability to make timely investments on terms acceptable to us. Delays in acquiring properties may negatively impact revenues and perhaps our ability to make distributions to stockholders.

Our success depends in part on our ability to retain key personnel, and if we are not successful in succession planning for our senior management team our business could be adversely impacted.

We depend on the efforts of our executive officers, particularly our President and Chief Executive Officer, Mr. Douglas M. Pasquale and our Executive Vice Presidents, Mr. Donald D. Bradley and Mr. Abdo H. Khoury. The loss of the services of these persons or the limitation of their availability could have an adverse impact on our operations. Although we have entered into employment and/or security agreements with certain of these executive officers, these agreements may not assure their continued service. In addition, if we are unsuccessful in our succession planning efforts, the continuity of our business and results of operations could be adversely impacted in the event that we are unable to retain one or more of these officers.

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As owners of real estate, we are subject to environmental laws that expose us to the possibility of having to pay damages to the government and costs of remediation if there is contamination on our property.

Under various laws, owners of real estate may be required to investigate and clean up hazardous substances present at a property, and may be held liable for property damage or personal injuries that result from environmental contamination. These laws also expose us to the possibility that we become liable to reimburse the government for damages and costs it incurs in connection with the contamination, regardless of whether we were aware of, or responsible for, the environmental contamination. We review environmental surveys of the facilities we own prior to their purchase. Based upon those surveys we do not believe that any of our properties are subject to material environmental contamination. However, environmental liabilities may be present in our properties and we may incur costs to remediate contamination that could have a material adverse effect on our business or financial condition.

If the holders of our senior notes exercise their rights to require us to repurchase their securities, we may have to make substantial payments, incur additional debt or issue equity securities to finance the repurchase.

Some of our senior notes grant the holders the right to require us, on specified dates, to repurchase their securities at a price equal to the principal amount of the notes to be repurchased, plus accrued and unpaid interest. If the holders of these securities elect to require us to repurchase their securities, we may be required to make significant payments, which would adversely affect our liquidity. Alternatively, we could finance the repurchase through the issuance of additional debt securities, which may have terms that are not as favorable as the securities we are repurchasing, or equity securities, which will dilute the interests of our existing stockholders.

Our debt instruments contain covenants that restrict our ability to engage in certain transactions and may impair our ability to respond to changing business and economic conditions.

Covenants under our Credit Facility and our senior notes may limit our management s discretion by restricting our ability to, among other things, incur additional debt, redeem our capital stock, enter into certain transactions with affiliates, pay dividends and make other distributions, make investments and other restricted payments and create liens. Any additional financing we may obtain could contain similar or more restrictive covenants. Our desire to comply with these covenants may in the future prevent us from taking certain actions that we would otherwise deem appropriate.

Our level of indebtedness may adversely affect our financial results.

As of December 31, 2008, we had total consolidated indebtedness of $1.5 billion and total assets of $3.5 billion. We expect to incur additional indebtedness in the future. The risks associated with financial leverage include:

- increasing our sensitivity to general economic and industry conditions;
- limiting our ability to obtain additional financing on favorable terms;

requiring a substantial portion of our cash flow to make interest and principal payments due on our indebtedness;

a possible downgrade of our credit rating; and

limiting our flexibility in planning for, or reacting to, changes in our business and industry.

The market price of our common stock has fluctuated, and could fluctuate significantly.

Stock markets, in general, and stock prices of participants in the healthcare industry, in particular, have recently experienced significant levels of volatility. Continued market volatility may adversely affect the market price of our common stock. As with other publicly traded securities, the trading price of our common stock

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depends on several factors, many of which are beyond our control, including: general market and economic conditions; the effects of direct governmental action in financial markets; prevailing interest rates; the market for similar securities issued by other REITs; our credit rating; and our financial condition and results of operations.

A decision by any of our significant stockholders to sell a substantial amount of our common stock could depress our stock price. Based on filings with the SEC and shareholder reporting services, as of December 31, 2008, five of our stockholders owned at least five percent of our common stock and held an aggregate of approximately 28.7% of our common stock. A decision by any of these stockholders to sell a substantial amount of our common stock could depress the trading price of our common stock.

Holders of our outstanding preferred stock have rights that are senior to the rights of holders of our common stock, have significant influence over our affairs, and their interests may differ from those of our other stockholders.

Our board of directors has the authority to designate and issue preferred stock that may have dividend, liquidation and other rights that are senior to those of our common stock. As of December 31, 2008, 749,184 shares of our Series B cumulative convertible preferred stock were outstanding. Holders of our preferred stock are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock, subject to limited exceptions. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common stock, holders of our preferred stock are entitled to receive a liquidation preference of $100 per share, plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common stock. In addition, holders of our preferred stock have the right to elect two additional directors to our board of directors if six quarterly preferred dividends are in arrears.

Compliance with changing government regulations may result in additional expenses.

Changing laws, regulations and standards, including those relating to corporate governance and public disclosure, new SEC regulations and New York Stock Exchange rules, may create create uncertainty for companies such as ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to our business practices. We are committed to maintaining high standards of compliance with all applicable laws, regulations and standards. As a result, our efforts to comply with evolving laws, regulations and standards may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

Our charter and bylaws and the laws of the state of our incorporation contain provisions that may delay, defer or prevent a change in control or other transactions that could provide stockholders with the opportunity to realize a premium over the then-prevailing market price for our common stock.

In order to protect us against the risk of losing our REIT status for U.S. federal income tax purposes, our charter and bylaws prohibit (i) the beneficial ownership by any single person of more than 9.9% of the issued and outstanding shares of our stock, by value or number of shares, whichever is more restrictive, and (ii) any transfer that would result in beneficial ownership of our stock by fewer than 100 persons. We have the right to redeem shares acquired or held in excess of the ownership limit. In addition, if any acquisition of our common or preferred stock violates the 9.9% ownership limit, the subject shares are automatically transferred to a trust temporarily for the benefit of a charitable beneficiary and,

ultimately, are transferred to a person whose ownership of the shares will not violate the ownership limit. Furthermore, where such transfer in trust would not

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prevent a violation of the ownership limits, the prohibited transfer is treated as void ab initio. The ownership limit may have the effect of delaying, deferring or preventing a change in control of our company and could adversely affect our stockholders ability to realize a premium over the market price for the shares of our common stock. Our board of directors has increased the ownership limit to 20% with respect to one of our stockholders, Cohen & Steers, Inc. (Cohen & Steers). Cohen & Steers beneficially owned 5.6 million of our shares, or approximately 5.5% of our common stock, as of December 31, 2008.

Our charter authorizes us to issue additional shares of common stock and one or more series of preferred stock and to establish the preferences, rights and other terms of any series of preferred stock that we issue. Although our board of directors has no intention to do so at the present time, it could establish a series of preferred stock that could delay, defer or prevent a transaction or a change in control that might involve the payment of a premium over the market price for our common stock or otherwise be in the best interests of our stockholders.

In addition, the laws of our state of incorporation and the following provisions of our charter may delay, defer or prevent a transaction that may be in the best interests of our stockholders:

- in certain circumstances, a proposed consolidation, merger, share exchange or transfer must be approved by a two-thirds vote of our preferred stockholders entitled to be cast on the matter;
- business combinations must be approved by 90% of the outstanding shares unless the transaction receives a unanimous vote or consent of our board of directors or is a combination solely with a wholly owned subsidiary; and
- the classification of our board of directors into three groups, with each group of directors being elected for successive three-year terms, may delay any attempt to replace our board.

As a Maryland corporation, we are subject to provisions of the Maryland Business Combination Act (MBCA) and the Maryland Control Share Acquisition Act (MCSA). The MBCA may prohibit certain future acquirors of 10% or more of our stock (entitled to vote generally in the election of directors) and their affiliates from engaging in business combinations with us for a period of five years after such acquisition, and then only upon recommendation by the board of directors with (1) a stockholder vote of 80% of the votes entitled to be cast (including two-thirds of the stock not held by the acquiror and its affiliates) or (2) if certain stringent fair price tests are met. The MCSA may cause acquirors of stock at levels in excess of 10%, 33% or 50% of the voting power of our stock to lose the voting rights of such stock unless voting rights are restored by vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes of stock held by the acquiring stockholder and our officers and employee directors.

RISKS RELATED TO OUR TAXATION AS A REIT

If we fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders.

We intend to operate in a manner that will allow us to qualify as a REIT for federal income tax purposes. Our continued qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT

income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Accordingly, there can be no assurance that the IRS will not contend that our interests in subsidiaries or other issuers will not cause a violation of the REIT requirements.

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If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of, and trading prices for, our common stock. Unless we were entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from qualified dividends payable to domestic stockholders that are individuals, trusts and estates has been reduced by legislation to 15% through the end of 2010. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, and state or local income, property and transfer taxes. For example, we have in the past acquired, and may in the future acquire, appreciated assets from a corporation that is not a REIT (i.e., a corporation taxable under subchapter C of the Internal Revenue Code) in a transaction in which we receive carry-over tax basis. If we subsequently dispose of those assets and recognize gain during the ten-year period following their acquisition, we may be subject to tax on such appreciation at the highest corporate income tax rate then applicable. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from that dealer property or inventory, we may hold some of our non-healthcare assets through taxable REIT subsidiaries, or TRSs, or other subsidiary corporations that will be subject to corporate-level income tax at regular rates. We will be subject to a 100% penalty tax on certain amounts if the economic arrangements among our tenants, our TRS and us are not comparable to similar arrangements among unrelated parties. Any of these taxes would decrease cash available for distribution to our stockholders.

Complying with REIT requirements with respect to our TRS limits our flexibility in operating or managing certain properties through our TRS.

A TRS may not directly or indirectly operate or manage a healthcare facility. For REIT qualification purposes, the definition of a healthcare facility means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which, immediately before the termination, expiration, default, or breach of the lease of or mortgage secured by such facility, was operated by a provider of such services which was eligible for participation in the Medicare program under Title XVIII of the Social Security Act with respect to such facility. If the IRS were to treat a subsidiary corporation of ours as directly or indirectly operating or managing a healthcare facility, such subsidiary would not qualify as a TRS, which could jeopardize our REIT qualification under the REIT gross asset tests.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, we continually must satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to

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our stockholders and the ownership of our stock. We may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income, asset-diversification or distribution requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make certain attractive investments.

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute gross income for purposes of both the 75% and 95% gross income tests, if certain requirements are met. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result, we might have to limit our use of advantageous hedging techniques or implement those hedges through one of our domestic TRSs. This could increase the cost of our hedging activities because our domestic TRSs would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear.

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.

Qualification as a REIT involves the application of highly technical and complex