UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

or

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

For the transition period from ____________________to ____________________

Commission File number 1-8923

HEALTH CARE REIT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**34-1096634**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One SeaGate, Suite 1500, Toledo, Ohio	**43604**
(Address of principal executive office)	(Zip Code)

(Registrant's telephone number, including area code) (419) 247-2800

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☑ No o

As of April 30, 2005, the registrant had 53,483,623 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

CONSOLIDATED BALANCE SHEETS

HEALTH CARE REIT, INC. AND SUBSIDIARIES

	March 31 2005 (Unaudited)	December 31 2004 (Note)
	(In thousands)	
Assets		
Real estate investments:		
Real property owned		
Land	**$ 210,014**	$ 208,173
Buildings & improvements	**2,217,871**	2,176,327
Construction in progress	**26,699**	25,463
	2,454,584	2,409,963
Less accumulated depreciation	**(236,950)**	(219,536)
Total real property owned	**2,217,634**	2,190,427
Loans receivable		
Real property loans	**218,202**	213,067
Subdebt investments	**23,308**	43,739
	241,510	256,806
Less allowance for losses on loans receivable	**(5,561)**	(5,261)
	235,949	251,545
Net real estate investments	**2,453,583**	2,441,972
Other assets:		
Equity investments	**3,298**	3,298
Deferred loan expenses	**6,419**	6,958
Cash and cash equivalents	**17,429**	19,763
Receivables and other assets	**79,633**	77,652
	106,779	107,671
Total assets	**$ 2,560,362**	$ 2,549,643
Liabilities and stockholders' equity		
Liabilities:		
Borrowings under unsecured lines of credit arrangements	**$ 163,500**	$ 151,000
Senior unsecured notes	**875,000**	875,000
Secured debt	**169,506**	160,225
Accrued expenses and other liabilities	**17,951**	28,139
Total liabilities	**1,225,957**	1,214,364
Stockholders' equity:		
Preferred stock	**283,751**	283,751
Common stock	**53,314**	52,860
Capital in excess of par value	**1,152,670**	1,139,723
Treasury stock	**(1,766)**	(1,286)
Cumulative net income	**769,056**	745,817
Cumulative dividends	**(922,241)**	(884,890)
Accumulated other comprehensive income	**1**	1
Other equity	**(380)**	(697)
Total stockholders' equity	**1,334,405**	1,335,279
Total liabilities and stockholders' equity	**$ 2,560,362**	$ 2,549,643

NOTE: The consolidated balance sheet at December 31, 2004 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

See notes to unaudited consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

	Three Months Ended March 31	
	2005	2004
	(In thousands, except per share data)	
Revenues:		
Rental income	**$ 61,974**	$ 53,219
Interest income	**4,983**	5,713
Transaction fees and other income	**1,422**	713
	68,379	59,645
Expenses:		
Interest expense	**19,601**	18,148
Provision for depreciation	**20,298**	16,534
General and administrative	**4,017**	3,159
Loan expense	**863**	891
Provision for loan losses	**300**	300
	45,079	39,032
Income from continuing operations	**23,300**	20,613
Discontinued operations:		
Net gain (loss) on sales of properties	**(110)**	
Income (loss) from discontinued operations, net	**49**	312
	(61)	312
Net income	**23,239**	20,925
Preferred stock dividends	**5,436**	2,270
Net income available to common stockholders	**$ 17,803**	$ 18,655
Average number of common shares outstanding:		
Basic	**52,963**	50,580
Diluted	**53,454**	51,358
Earnings per share:		
Basic:		
Income from continuing operations available to common stockholders	**$ 0.34**	$ 0.36
Discontinued operations, net		0.01
Net income available to common stockholders	**$ 0.34**	$ 0.37
Diluted:		
Income from continuing operations available to common stockholders	**$ 0.33**	$ 0.35
Discontinued operations, net		0.01
Net income available to common stockholders	**$ 0.33**	$ 0.36
Dividends declared and paid per common share	**$ 0.60**	$ 0.585

See notes to unaudited consolidated financial statements

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

	Three Months Ended March 31, 2005								
	Preferred Stock	Common Stock	Capital In Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income	Other Equity	Total
					(In thousands)				
Balances at beginning of period	$283,751	$52,860	$1,139,723	$(1,286)	$745,817	$(884,890)	$ 1	$(697)	$1,335,279
Comprehensive income:									
Net income					23,239				23,239
Other comprehensive income:									
Unrealized gain (loss) on equity investments									0
Total comprehensive income									23,239
Proceeds from issuance of common shares from dividend reinvestment and stock incentive plans, net of forfeitures		454	12,947	(480)					12,921
Restricted stock amortization								184	184
Compensation expense related to stock options								133	133
Cash dividends paid:									
Common stock-$0.60 per share						(31,915)			(31,915)
Preferred stock, Series D-$0.492 per share						(1,969)			(1,969)
Preferred stock, Series E-$0.375 per share						(131)			(131)
Preferred stock, Series F-$0.477 per share						(3,336)			(3,336)
Balances at end of period	$283,751	$53,314	$1,152,670	$(1,766)	$769,056	$(922,241)	$ 1	$(380)	$1,334,405

	Three Months Ended March 31, 2004								
	Preferred Stock	Common Stock	Capital In Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income	Other Equity	Total
					(In thousands)				
Balances at beginning of period	$120,761	$50,298	$1,069,887	$ (523)	$660,446	$(749,166)	$ 1	$(2,025)	$1,149,679
Comprehensive income:									
Net income					20,925				20,925
Other comprehensive income:									
Unrealized gain (loss) on equity investments									0
Total comprehensive income									20,925
Proceeds from issuance of common shares from dividend reinvestment and stock incentive plans, net of forfeitures		718	20,914	(327)					21,305
Conversion of preferred stock	(1,130)	35	1,095						0
Restricted stock amortization								239	239
Compensation expense related to stock options								95	95
Cash dividends paid:									
Common stock-$0.585 per share						(29,610)			(29,610)
Preferred stock, Series D-$0.492 per share						(1,969)			(1,969)
Preferred stock, Series E-$0.375 per share						(301)			(301)
Balances at end of period	$119,631	$51,051	$1,091,896	$ (850)	$681,371	$(781,046)	$ 1	$(1,691)	$1,160,363

See notes to unaudited consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

	Three Months Ended March 31	
	2005	**2004**
	(In thousands)	
Operating activities		
Net income	**$ 23,239**	$ 20,925
Adjustments to reconcile net income to net cash provided from operating activities:		
Provision for depreciation	**20,396**	17,134
Amortization	**1,042**	1,118
Provision for loan losses	**300**	300
Rental income in excess of cash received	**(2,855)**	(6,664)
(Gain) loss on sales of properties	**110**	
Increase (decrease) in accrued expenses and other liabilities	**(7,871)**	(6,525)
Decrease (increase) in receivables and other assets	**(1,901)**	(3,338)
Net cash provided from (used in) operating activities	**32,460**	22,950
Investing activities		
Investment in real property	**(35,382)**	(85,390)
Investment in loans receivable and subdebt investments	**(14,113)**	(8,571)
Principal collected on loans receivable and subdebt investments	**23,412**	3,698
Proceeds from sales of properties	**9,188**	
Other	**60**	703
Net cash provided from (used in) investing activities	**(16,835)**	(89,560)
Financing activities		
Net increase (decrease) under unsecured lines of credit arrangements	**12,500**	
Principal payments on secured debt	**(6,323)**	(568)
Net proceeds from the issuance of common stock	**13,401**	21,632
Decrease (increase) in deferred loan expense	**(186)**	(7)
Cash distributions to stockholders	**(37,351)**	(31,880)
Net cash provided from (used in) financing activities	**(17,959)**	(10,823)
Increase (decrease) in cash and cash equivalents	**(2,334)**	(77,433)
Cash and cash equivalents at beginning of period	**19,763**	124,496
Cash and cash equivalents at end of period	**$ 17,429**	$ 47,063
Supplemental cash flow information-interest paid	**$ 26,817**	$ 25,187

See notes to unaudited consolidated financial statements

HEALTH CARE REIT, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered for a fair presentation have been included. Operating results for the three months ended March 31, 2005 are not necessarily an indication of the results that may be expected for the year ending December 31, 2005. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2004.

NOTE B – Real Estate Investments

During the three months ended March 31, 2005, we invested $35,382,000 in real property (including $1,001,000 of advances for construction in progress) and provided loan financings of $14,113,000. As of March 31, 2005, we had approximately $5,027,000 in unfunded construction commitments. Also during the three months ended March 31, 2005, we sold real property generating $9,188,000 of net proceeds and collected $2,981,000 and $20,431,000 as repayment of principal on loans receivable and subdebt investments, respectively.

NOTE C – Equity Investments

Equity investments, which consist of investments in private and public companies over which we do not have the ability to exercise influence, are accounted for under the cost method. Under the cost method of accounting, investments in private companies are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of earnings and additional investments. For investments in public companies that have readily determinable fair market values, we classify our equity investments as available-for-sale and, accordingly, record these investments at their fair market values with unrealized gains and losses included in accumulated other comprehensive income, a separate component of stockholders' equity. These investments represent a minimal ownership interest in these companies.

NOTE D – Distributions Paid to Common Stockholders

On February 22, 2005, we paid a dividend of $0.60 per share to stockholders of record on January 31, 2005. This dividend related to the period from October 1, 2004 through December 31, 2004.

NOTE E – Derivative Instruments

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We may elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to match our variable rate investments with comparable borrowings, but are also based on the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates.

In June 2000, the Financial Accounting Standards Board ("FASB") issued Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, which amends Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. Statement No. 133, as amended, requires companies to record derivatives at fair market value on the balance sheet as assets or liabilities.

On May 6, 2004, we entered into two interest rate swap agreements (the "Swaps") for a total notional amount of $100,000,000 to hedge changes in fair value attributable to changes in the LIBOR swap rate of $100,000,000 of fixed rate debt with a maturity date of November 15, 2013. The Swaps are treated as fair-value hedges for accounting purposes and we utilize the short-cut method in accordance with Statement No. 133, as amended. The Swaps are with highly rated counterparties in which we receive a fixed rate of 6.0% and pay a variable rate based on six-month LIBOR plus a spread. At March 31, 2005, the Swaps were reported at their fair value as a $1,890,000 other asset. For the three months ended March 31, 2005, we generated $410,000 of savings related to the Swaps that was recorded as a reduction in interest expense. We had no interest rate swap agreements outstanding at March 31, 2004.

The valuation of derivative instruments requires us to make estimates and judgments that affect the fair value of the instruments. Fair values for our derivatives are estimated by a third party consultant, which utilizes pricing models that consider forward yield curves and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates which may change in the future.

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE F – Discontinued Operations

During the three months ended March 31, 2005, we sold one assisted living facility and one parcel of land with carrying values of $9,298,000 for a net loss of $110,000. In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we have reclassified the income and expenses attributable to all properties sold subsequent to January 1, 2002 to discontinued operations. Expenses include an allocation of interest expense based on property carrying values and our weighted average cost of debt. The following illustrates the reclassification impact of Statement No. 144 as a result of classifying properties as discontinued operations for the periods presented (in thousands):

	Three Months Ended March 31	
	2005	2004
Revenues:		
Rental income	**$ 191**	$ 1,316
Expenses:		
Interest expense	**44**	404
Provision for depreciation	**98**	600
Income (loss) from discontinued operations, net	**$ 49**	$ 312

NOTE G – Contingent Liabilities

We guaranteed the payment of industrial revenue bonds for one assisted living facility, in the event that the owner defaulted upon its obligations. In consideration for this guaranty, we received and recognized fees annually related to this arrangement. At March 31, 2005, we were contingently liable for $3,195,000 under this guaranty. This guaranty expired on April 29, 2005.

We have an outstanding letter of credit issued for the benefit of certain insurance companies that provide workers’ compensation insurance to one of our tenants. Our obligation under the letter of credit matures in 2009. At March 31, 2005, our obligation under the letter of credit was $2,450,000.

As of March 31, 2005, we had approximately $5,027,000 of unfunded construction commitments.

NOTE H – Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes unrealized gains or losses on our equity investments. This item is included as a component of stockholders’ equity. We did not recognize any comprehensive income for the three months ended March 31, 2005 or 2004.

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE I – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended March 31	
	2005	2004
Numerator for basic and diluted earnings per share — net income available to common stockholders	**$ 17,803**	$ 18,655
Denominator for basic earnings per share — weighted average shares	**52,963**	50,580
Effect of dilutive securities:		
Employee stock options	**270**	547
Non-vested restricted shares	**221**	231
Dilutive potential common shares	**491**	778
Denominator for diluted earnings per share — adjusted weighted average shares	**53,454**	51,358
Basic earnings per share	**$ 0.34**	$ 0.37
Diluted earnings per share	**$ 0.33**	$ 0.36

The diluted earnings per share calculation excludes the dilutive effect of 173,000 options for the three months ended March 31, 2005 because the exercise prices were greater than the average market price. The diluted earnings per share calculation does not exclude the dilutive effect of any options for the three months ended March 31, 2004 because the exercise prices were not greater than the average market price. The Series E Cumulative Convertible and Redeemable Preferred Stock was not included in these calculations as the effect of the conversion was anti-dilutive for the periods presented.

NOTE J – Other Equity

Other equity consists of the following (in thousands):

	March 31 2005	December 31 2004
Accumulated compensation expense related to stock options	**$ 685**	$ 552
Unamortized restricted stock	**(1,065)**	(1,249)
	$ (380)	$ (697)

Unamortized restricted stock represents the unamortized value of restricted stock granted to employees and directors prior to January 1, 2003. Expense, which is recognized as the shares vest based on the market value at the date of the award, totaled $184,000 for the three months ended March 31, 2005 and $239,000 for the same period in 2004.

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, that we are required to adopt for fiscal years beginning after December 15, 2002, with transition provisions for certain matters. Statement No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Statement No. 148 amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Effective January 1, 2003, we commenced recognizing compensation expense in accordance with Statement No. 123, as amended, on a prospective basis. Accumulated option compensation expense represents the amount of amortized compensation costs related to stock options awarded to employees and directors subsequent to January 1, 2003. Expense, which is recognized as the options vest based on the market value at the date of the award, totaled $133,000 for the three months ended March 31, 2005 and $95,000 for the same period in 2004.

The following table illustrates the effect on net income available to common stockholders for the periods presented if we had applied the fair value recognition provisions of Statement No. 123, as amended, to stock-based compensation for options granted since 1995 but prior to adoption at January 1, 2003 (in thousands, except per share data):

	Three Months Ended March 31	
	2005	2004
Numerator:		
Net income available to common stockholders — as reported	**$ 17,803**	$ 18,655
Deduct: Stock based employee compensation expense determined under fair value based method for all awards	**45**	76
Net income available to common stockholders — pro forma	**$ 17,758**	$ 18,579
Denominator:		
Basic weighted average shares — as reported and pro forma	**52,963**	50,580
Effect of dilutive securities:		
Employee stock options — pro forma	**260**	530
Non-vested restricted shares	**221**	231
Dilutive potential common shares	**481**	761
Diluted weighted average shares — pro forma	**53,444**	51,341
Net income available to common stockholders per share — as reported		
Basic	**$ 0.34**	$ 0.37
Diluted	**0.33**	0.36
Net income available to common stockholders per share — pro forma		
Basic	**$ 0.34**	$ 0.37
Diluted	**0.33**	0.36

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

NOTE K – New Accounting Policies

We adopted the fair value-based method of accounting for share-based payments effective January 1, 2003 using the prospective method described in FASB Statement No. 148, Accounting for Stock-Based Compensation—Transition and Disclosure. Currently, we use the Black-Scholes-Merton option pricing model to estimate the value of stock option grants and expect to continue to use this acceptable option valuation model upon the required adoption of Statement No. 123(R) on January 1, 2006. Because Statement No. 123(R) must be applied not only to new awards but to previously granted awards that are not fully vested on the effective date of Statement No. 123(R), and because we adopted Statement No. 123 using the prospective transition method (which applied only to awards granted, modified or settled after the adoption date of Statement No. 123), compensation cost for some previously granted awards that were not recognized under Statement No. 123 will be recognized under Statement No. 123(R). However, had we adopted Statement No. 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement No. 123 as described in the disclosure of pro forma net income and earnings per share in Note J. We do not expect the adoption of Statement No. 123(R) to have a material impact on the consolidated financial statements.

NOTE L – Significant Changes and Events

On April 29, 2005, we closed on a public offering of $250,000,000 of 5.875% senior unsecured notes due May 2015 (the “2015 Notes”) at an effective yield of 5.913%. On May 3, 2005, we redeemed all of our outstanding $50,000,000 8.17% senior unsecured notes due March 2006 (the “2006 Notes”). On May 4, 2005, we completed a tender offer for $57,670,000 of our outstanding $100,000,000 7.625% senior unsecured notes due March 2008 (the “2008 Notes”). After completion of this tender offer, $42,330,000 of the 2008 Notes will remain outstanding. On May 4, 2005, we initiated the redemption of $122,500,000 of our outstanding $175,000,000 7.5% senior unsecured notes due August 2007 (the “2007 Notes”). After completion of this partial redemption, $52,500,000 of the 2007 Notes will remain outstanding. We will recognize one-time charges on the extinguishment of debt totaling approximately $17,500,000 to $18,000,000 in the second quarter of 2005 as a result of this activity. We intend to use the net proceeds from the public offering of our 2015 Notes to fund the tender offer and redemptions. Remaining net proceeds will be used to repay borrowings under our unsecured lines of credit arrangements.

We have a $30,000,000 unsecured line of credit with a consortium of three banks that expires May 31, 2005. We have a commitment letter from the lead bank to extend the maturity to May 31, 2006, increase the commitment to $40,000,000, eliminate the two participating banks and change the pricing to either the bank’s prime rate of interest or 1.3% plus the applicable LIBOR interest rate, at our option.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis is based primarily on the consolidated financial statements of Health Care REIT, Inc. for the periods presented and should be read together with the notes thereto contained in this Quarterly Report on Form 10-Q. Other important factors are identified in our Annual Report on Form 10-K for the year ended December 31, 2004, including factors identified under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Executive Overview

Business

Health Care REIT, Inc. is a self-administered, equity real estate investment trust that invests primarily in skilled nursing and assisted living facilities. We also invest in specialty care facilities. Founded in 1970, we were the first REIT to invest exclusively in health care facilities. As of March 31, 2005, long-term care facilities, which include skilled nursing and assisted living facilities, comprised approximately 94% of our investment portfolio. The following table summarizes our portfolio as of March 31, 2005:

Type of Facility	(1) Investments (in thousands)	Percentage of Investments	(2) Revenues (in thousands)	Percentage of Revenues	Number of Facilities	Number of Beds/Units	Investment per Bed/Unit (3)	Number of Operators (4)	Number of States (4)
Assisted Living Facilities	$ 1,346,442	55%	$ 36,130	53%	237	15,936	$ 84,806	32	33
Skilled Nursing Facilities	961,013	39%	27,953	41%	153	20,926	45,924	21	24
Specialty Care Facilities	157,334	6%	4,487	6%	8	1,111	141,615	5	5
Totals	$ 2,464,789	100%	$ 68,570	100%	398	37,973			

(1) Investments include real estate investments and credit enhancements which amounted to $2,459,144,000 and $5,645,000, respectively.

(2) Revenues include gross revenues and revenues from discontinued operations for the three months ended March 31, 2005.

(3) Investment per Bed/Unit was computed by using the total investment amount of $2,469,816,000 which includes real estate investments, credit enhancements and unfunded construction commitments for which initial funding has commenced which amounted to $2,459,144,000, $5,645,000 and $5,027,000, respectively.

(4) We have investments in properties located in 35 states and managed by 51 different operators.

Our primary objectives are to protect stockholders' capital and enhance stockholder value. We seek to pay consistent cash dividends to stockholders and create opportunities to increase dividend payments to stockholders as a result of annual increases in rental and interest income and portfolio growth. To meet these objectives, we invest primarily in long-term care facilities managed by experienced operators and diversify our investment portfolio by operator and geographic location.

Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals and interest earned on outstanding loans receivable. These items represent our primary source of liquidity to fund distributions and are dependent upon our operators' continued ability to make contractual rent and interest payments to us. To the extent that our operators experience operating difficulties and are unable to generate sufficient cash to make payments to us, there could be a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. To mitigate this risk, we monitor our investments through a variety of methods determined by the type of facility and operator. Our monitoring process includes review of monthly financial statements for each facility, quarterly review of operator credit, periodic facility inspections and review of covenant compliance relating to licensure, real estate taxes, letters of credit and other collateral. In monitoring our portfolio, our personnel use a proprietary database to collect and analyze facility-specific data. Additionally, we conduct extensive research to ascertain industry trends and risks. Through these monitoring and research efforts, we are typically able to intervene at an early stage and address payment risk, and in so doing, support both the collectibility of revenue and the value of our investment.

In addition to our monitoring and research efforts, we also structure our investments to help mitigate payment risk. We typically invest in or finance up to 90% of the appraised value of a property. Operating leases and loans are normally credit enhanced by guaranties and/or letters of credit. In addition, operating leases are typically structured as master leases and loans are generally cross-defaulted and cross-collateralized with other loans, operating leases or agreements between us and the operator and its affiliates. As of March 31, 2005, 84% of our real property was subject to master leases, 97% of our real estate investments were cross-defaulted with other investments relating to the same operator and 86% of our real property loans were cross-collateralized with other loans to the same operator.

For the three months ended March 31, 2005, rental income and interest income represented 91% and 7%, respectively, of total gross revenues (including revenues from discontinued operations). Prior to June 2004, our standard lease structure contained fixed annual rental escalators, which were generally recognized on a straight-line basis over the initial lease period. Beginning in June 2004, our new standard lease structure contains annual rental escalators that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the property. These escalators are not fixed, so no straight-line rent is recorded. Instead, rental income is recorded based on the contractual cash rental payments due for the period. This lease structure will initially generate lower revenues, net income and funds from operations compared to leases with fixed escalators that require straight-lining, but will enable us to generate additional organic growth and minimize non-cash straight-line rent over time. This change does not affect our cash flow or our ability to pay dividends. Our yield on loans receivable depends upon a number of factors, including the stated interest rate, the average principal amount outstanding during the term of the loan and any interest rate adjustments.

Depending upon the availability and cost of external capital, we anticipate making new facility investments. New investments are generally funded from temporary borrowings under our unsecured lines of credit arrangements, internally generated cash and the proceeds from sales of real property. Our investments generate internal cash from rent and interest receipts and principal payments on loans receivable. Permanent financing for future investments, which replaces funds drawn under the unsecured lines of credit arrangements, is expected to be provided through a combination of public and private offerings of debt and equity securities and the incurrence of secured debt. We believe our liquidity and various sources of available capital are sufficient to fund operations, meet debt service obligations (both principal and interest), make dividend distributions and finance future investments.

Depending upon market conditions, we believe that new investments will be available in the future with spreads over our cost of capital that will generate appropriate returns to our stockholders. We expect to complete approximately $200,000,000 of net new investments for the full year 2005. During the three months ended March 31, 2005, we completed $63,506,000 of gross new investments and had $28,765,000 of investment payoffs, resulting in net investments of $34,741,000. Although no additional investment payoffs appear highly likely at this time, we anticipate the potential repayment of certain loans receivable and the possible sale of additional real property. To the extent that loan repayments and real property sales exceed new investments, our revenues and cash flows from operations could be adversely affected. We expect to reinvest the proceeds from any loan repayments and real property sales in new investments. To the extent that new investment requirements exceed our available cash on hand, we expect to borrow under our unsecured lines of credit arrangements. At March 31, 2005, we had $17,429,000 of cash and cash equivalents and $176,500,000 of available borrowing capacity under our unsecured lines of credit arrangements.

Key Transactions in 2005

We have completed the following key transactions to date in 2005:

- our Board of Directors increased our quarterly dividend to $0.62 per share, which represents a two cent increase from the quarterly dividend of $0.60 paid for 2004. The dividend declared for the quarter ended March 31, 2005 represents the 136th consecutive dividend payment;

- we completed $63,506,000 of gross investments and had $28,765,000 of investment payoffs; and

- we issued $250,000,000 of 5.875% senior unsecured notes due May 2015 at an effective yield of 5.913% in April 2005. We intend to use proceeds from this offering to fund: (a) a redemption of all of our outstanding $50,000,000 8.17% senior unsecured notes due March 2006; (b) a redemption of $122,500,000 of our outstanding $175,000,000 7.5% senior unsecured notes due August 2007; and (c) a public tender offer for $57,670,000 of our outstanding $100,000,000 7.625% senior unsecured notes due March 2008.

Key Performance Indicators, Trends and Uncertainties

We utilize several key performance indicators to evaluate the various aspects of our business. These indicators are discussed below and relate to operating performance, concentration risk and credit strength. Management uses these key performance indicators to facilitate internal and external comparisons to our historical operating results, in making operating decisions and for budget planning purposes.

Operating Performance. We believe that net income available to common stockholders (“NICS”) is the most appropriate earnings measure. Other useful supplemental measures of our operating performance include funds from operations (“FFO”) and funds available for distribution (“FAD”); however, these supplemental measures are not defined by U.S. generally accepted accounting principles (“U.S. GAAP”). Please refer to the section entitled “Non-GAAP Financial Measures” for further discussion of FFO and FAD and for reconciliations of FFO and FAD to NICS. NICS, FFO, FAD and their relative per share amounts are widely used by investors and analysts in the valuation, comparison and investment recommendations of companies. The following table reflects the recent historical trends for our operating performance measures (dollars in thousands, except per share data):

	Three Months Ended				
	March 31 2004	June 30 2004	September 30 2004	December 31 2004	March 31 2005
Net income available to common stockholders	$ 18,655	$ 19,207	$ 19,004	$ 15,767	$ 17,803
Funds from operations	35,789	35,760	37,893	37,299	38,309
Funds available for distribution	29,125	33,291	34,891	35,642	35,454
Per share data (fully diluted):					
Net income available to common stockholders	$ 0.36	$ 0.37	$ 0.37	$ 0.30	$ 0.33
Funds from operations	0.70	0.69	0.73	0.71	0.72
Funds available for distribution	0.57	0.64	0.67	0.68	0.66

Concentration Risk. We evaluate our concentration risk in terms of asset mix, investment mix, operator mix and geographic mix. Concentration risk is a valuable measure in understanding what portion of our investments could be at risk if certain sectors were to experience downturns. Asset mix measures the portion of our investments that are real property. In order to qualify as an equity REIT, at least 75% of our real estate investments must be real property whereby each property, which includes the land, buildings, improvements and related rights, is owned by us and leased to an operator pursuant to a long-term operating lease. Investment mix measures the portion of our investments that relate to our various facility types. We invest primarily in long-term care facilities. Operator mix measures the portion of our investments that relate to our top five operators. We try to limit our top five operators to 50% of our total real estate investments. Geographic mix measures the portion of our investments that relate to our top five states. We try to limit our top five states to 50% of our total real estate investments. The following table reflects our recent historical trends of concentration risk:

	Period Ended				
	March 31 2004	June 30 2004	September 30 2004	December 31 2004	March 31 2005
Asset mix:					
Real property	87%	88%	89%	90%	90%
Loans receivable	11%	10%	9%	9%	9%
Subdebt investments	2%	2%	2%	1%	1%
Investment mix:					
Assisted living facilities	58%	57%	57%	54%	55%
Skilled nursing facilities	34%	36%	37%	39%	39%
Specialty care facilities	8%	7%	6%	7%	6%
Operator mix:					
Emeritus Corporation	11%	11%	15%	15%	15%
Southern Assisted Living, Inc.	10%	10%	9%	8%	8%
Commonwealth Communities L.L.C.	10%	10%	8%	8%	8%
Delta Health Group, Inc.			8%	7%	7%
Home Quality Management, Inc.	9%	9%	8%	7%	7%
Life Care Centers of America, Inc.	6%	6%			
Remaining operators	54%	54%	52%	55%	55%
Geographic mix:					
Florida	9%	11%	16%	15%	15%
Massachusetts	14%	14%	12%	14%	15%
North Caorlina	10%	10%	9%	8%	8%
Ohio	6%	6%		6%	6%
Tennessee	7%	7%	6%		6%
Texas			7%	6%	
Remaining states	54%	52%	50%	51%	50%

Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to book capitalization (“DBCR”) and debt to market capitalization (“DMCR”). The leverage ratios indicate how much of our balance sheet capitalization is related to long-term debt. We expect to maintain a DBCR between 40% and 50% and a DMCR between 30% and 40%. Our coverage ratios include interest coverage ratio (“ICR”) and fixed charge coverage ratio (“FCR”). The coverage ratios indicate our ability to service interest and fixed charges (interest plus preferred dividends). We expect to maintain an ICR in excess of 3.00 times and an FCR in excess of 2.50 times. The coverage ratios are based on earnings before interest, taxes, depreciation and amortization

("EBITDA") which is discussed in further detail, and reconciled to net income, below in "Non-GAAP Financial Measures." Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. The following table reflects the recent historical trends for our credit strength measures:

	Three Months Ended				
	March 31 2004	June 30 2004	September 30 2004	December 31 2004	March 31 2005
Debt to book capitalization ratio	47%	47%	45%	47%	48%
Debt to market capitalization ratio	32%	36%	34%	34%	38%
Interest coverage ratio	3.11x	3.31x	3.31x	3.25x	3.26x
Fixed charge coverage ratio	2.78x	2.93x	2.87x	2.53x	2.56x

We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative of future results. Our expected results may not be achieved and actual results may differ materially from our expectations. Factors that may cause actual results to differ from expected results are described in more detail in "Forward-Looking Statements and Risk Factors" and other sections of this Quarterly Report on Form 10-Q. Management regularly monitors economic and other factors to develop strategic and tactical plans designed to improve performance and maximize our competitive position. Our ability to achieve our financial objectives is dependent upon our ability to effectively execute these plans and to appropriately respond to emerging economic and company-specific trends. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2004, under the headings "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of these risk factors.

Portfolio Update

Payment coverages in our portfolio continue to improve. Our overall payment coverage is at 1.84 times and represents an increase of six basis points from the prior quarter. The table below is a summary of the key performance measures for our portfolio. Census and payor mix data reflects the three months ended December 31, 2004. Coverage data reflects the 12 months ended December 31, 2004.

		Payor Mix			Coverage Data	
	Census	Private	Medicare	Medicaid	Before Management Fees	After Management Fees
Assisted Living Facilities	88%	85%	0%	15%	1.47x	1.25x
Skilled Nursing Facilities	87%	16%	14%	70%	2.15x	1.64x
Specialty Care Facilities	61%	23%	42%	35%	3.00x	2.37x
				Weighted Averages	1.84x	1.48x

Assisted Living Portfolio. At March 31, 2005, our assisted living portfolio was comprised of 237 facilities with 15,936 units and an investment balance of $1,346,442,000. The stabilized portfolio was comprised of 232 facilities with 15,186 units, an investment balance of $1,297,760,000, and payment coverage of 1.47 times, an increase of two basis points from the prior quarter. Our fill-up and construction properties remained within our stated goal of having no more than 10% to 15% of the portfolio in construction and fill-up.

Skilled Nursing Portfolio. At March 31, 2005, our skilled nursing portfolio was comprised of 153 facilities with 20,926 beds and an investment balance of $961,013,000. Average occupancies have risen from a low of 81% in the third quarter of 2000 to 87% in the fourth quarter of 2004. Our payment coverage remains strong at 2.15 times, an increase of four basis points from the prior quarter.

Specialty Care Portfolio. At March 31, 2005, our specialty care portfolio was comprised of eight facilities with 1,111 beds and an investment balance of $157,334,000. Our payment coverage remains strong at 3.00 times, an increase of 31 basis points from the prior quarter.

Corporate Governance

Maintaining investor confidence and trust has become increasingly important in today's business environment. Health Care REIT, Inc.'s Board of Directors and management are strongly committed to policies and procedures that reflect the highest level of ethical business practices. Our corporate governance guidelines provide the framework for our business operations and emphasize our commitment to increase stockholder value while meeting all applicable legal requirements. In March 2004, the Board of Directors adopted its Corporate Governance Guidelines. These guidelines meet the listing standards adopted by the New York Stock Exchange and are available on our Web site at www.hcreit.com and from us upon written request sent to the Vice President and Corporate Secretary, Health Care REIT, Inc., One SeaGate, Suite 1500, P.O. Box 1475, Toledo, Ohio, 43603-1475.

On July 30, 2002, President George W. Bush signed into law the Sarbanes-Oxley Act of 2002 (“SOX”). SOX is designed to protect investors by improving the accuracy and reliability of corporate disclosures. SOX directed the Securities and Exchange Commission (“SEC”) to promulgate all necessary rules and regulations. We believe we are in compliance with the applicable provisions of SOX and the rules of the SEC adopted under SOX as well as the listing guidelines of the NYSE relating to corporate governance. Beginning with the Annual Report on Form 10-K for the year ended December 31, 2004, we have provided the required annual report on management’s assessment of the effectiveness of the Company’s internal control over financial reporting. To date, we have incurred costs (both internal and external) related to SOX Section 404 (Management Assessment of Internal Controls) and other corporate governance compliance initiatives and we anticipate that we will incur additional costs. These costs are included in general and administrative expenses.

Liquidity and Capital Resources

Sources and Uses of Cash

Our primary sources of cash include rent and interest receipts, borrowings under unsecured lines of credit arrangements, public and private offerings of debt and equity securities, proceeds from the sales of real property and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property acquisitions, loan advances and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows and are discussed in further detail below. The following is a summary of our sources and uses of cash flows (dollars in thousands):

	Three Months Ended		Change	
	Mar. 31, 2005	Mar. 31, 2004	$	%
Cash and cash equivalents at beginning of period	$ 19,763	$ 124,496	$(104,733)	-84%
Cash provided from (used in) operating activities	32,460	22,950	9,510	41%
Cash provided from (used in) investing activities	(16,835)	(89,560)	72,725	-81%
Cash provided from (used in) financing activities	(17,959)	(10,823)	(7,136)	66%
Cash and cash equivalents at end of period	$ 17,429	$ 47,063	$ (29,634)	-63%

Operating Activities. The increase in net cash provided from operating activities is primarily attributable to increases in net income as adjusted for an increase in the provision for depreciation and a reduction in rental income in excess of cash receipts. Net income and the provision for depreciation increased primarily as a result of net new real property investments. See the discussion of investing activities below for additional details. To the extent that we acquire or sell additional properties in the future, our provision for depreciation will change accordingly. The reduction in rental income in excess of cash receipts is primarily attributable to our new standard lease structure with contingency-based rental increasers on new acquisitions subsequent to June 2004 as discussed above in “Business.”

Investing Activities. The decrease in net cash used in investing activities is primarily attributable to a decrease in real property investments and an increase in principal collected on loans receivable and subdebt investments. At March 31, 2005, 90% of our real estate investments were real property investments. The investment activity during the three months ended March 31, 2005 was approximately 80% real property investments and 20% loans. Investments for the three months ended March 31, 2005 included the acquisition of three assisted living facilities and one skilled nursing facility for $41,801,000. These acquisitions included the assumption of debt totaling $15,603,000, resulting in $26,198,000 of cash disbursed for the acquisitions. The remaining $9,184,000 of real property investments relates primarily to funding of construction and renovations on existing facilities. Of this amount, $1,236,000 related to construction advances on three assisted living facilities. For the same period in 2004, we acquired two assisted living facilities and 10 skilled nursing facilities for $74,021,000. The prior year acquisitions included no assumption of debt. In addition, we advanced $11,369,000 relating to construction and renovations on existing facilities. Of this amount, $3,361,000 related to construction advances on three assisted living facilities. The increase in principal collected on loans receivable and subdebt investments is primarily attributable to the $19,466,000 payoff of a subdebt investment in March 2005. We did not have any loan payoffs during the same period in 2004.

Financing Activities. The increase in net cash used in financing activities is primarily attributable to changes related to our long-term debt, common stock issuances and cash distributions to stockholders. For the three months ended March 31, 2005, we had a net increase of $12,500,000 on our unsecured lines of credit arrangements as compared to no change for the same period in 2004. This was partially offset by an increase in our principal payments on secured debt which was primarily due to the payoff of $5,695,000 of mortgages in March 2005. Principal payments on secured debt for the same period in 2004 were only regularly scheduled mortgage amortization payments.

The change in common stock issuances is primarily attributable to our dividend reinvestment and stock purchase plan (“DRIP”). In May 2003, we instituted our enhanced DRIP. Existing stockholders, in addition to reinvesting dividends, may purchase up to $5,000 of common stock per month at a discount. Previously, stockholders could only purchase once per quarter. During the three months ended March 31, 2004, we issued 474,000 shares of common stock pursuant to our DRIP, which generated net proceeds of $17,072,000. During the three months ended March 31, 2005, we issued 292,000 shares of common stock pursuant to our DRIP, which generated net proceeds of approximately $9,893,000. As of April 30, 2005, we had an effective registration statement on file with the Securities and Exchange Commission under which we may issue up to 6,314,213 shares of common stock pursuant to our DRIP. As of April 30, 2005, 4,280,145 shares of common stock remained available for issuance under this registration statement.

In order to qualify as a REIT for federal income tax purposes, we must distribute at least 90% of our taxable income (excluding capital gains) to our stockholders. During the three months ended March 31, 2005, we paid dividends totaling $31,915,000 (or $0.60 per share) and $5,436,000 to holders of our common stock and preferred stock, respectively. For the same period in 2004, we paid dividends totaling $29,610,000 (or $0.585 per share) and $2,270,000 to holders of our common stock and preferred stock, respectively. The increase in common stock and preferred stock dividends is primarily attributable to the increase in common stock and preferred stock outstanding as discussed below in “Results of Operations.”

Off-Balance Sheet Arrangements

We guaranteed the payment of industrial revenue bonds for one assisted living facility in the event that the owner defaulted upon its obligations. In consideration for this guaranty, we received and recognized fees annually related to this arrangement. At March 31, 2005, we were contingently liable for $3,195,000 under this guaranty. This guaranty expired on April 29, 2005.

We have an outstanding letter of credit issued for the benefit of certain insurance companies that provide workers’ compensation insurance to one of our tenants. Our obligation under the letter of credit matures in 2009. At March 31, 2005, our obligation under the letter of credit was $2,450,000.

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to match our variable rate investments with comparable borrowings, but are also based on the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. As of March 31, 2005, we participated in two interest rate swap agreements related to our long-term debt. Our interest rate swaps are discussed below in “Contractual Obligations.”

Contractual Obligations

The following table summarizes our payment requirements under contractual obligations as of March 31, 2005 (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	2005	2006-2007	2008-2009	Thereafter
Unsecured lines of credit arrangements (1)	$ 340,000	$ 30,000	$ 310,000	$ 0	$ 0
Senior unsecured notes	875,000		225,000	100,000	550,000
Secured debt	169,506	2,370	18,575	44,594	103,967
Contractual interest obligations	550,664	58,853	154,741	107,997	229,073
Capital lease obligations					
Operating lease obligations	15,595	1,337	2,341	1,857	10,060
Purchase obligations	59,928	11,375	33,772	4,500	10,281
Other long-term liabilities					
Total contractual obligations	$ 2,010,693	$ 103,935	$ 744,429	$ 258,948	$ 903,381

(1) Unsecured lines of credit arrangements reflected at 100% capacity.

We have an unsecured credit arrangement with a consortium of eight banks providing for a revolving line of credit (“revolving credit”) in the amount of $310,000,000, which expires on May 15, 2006 (with the ability to extend for one year at our discretion if we are in compliance with all covenants). The agreement specifies that borrowings under the revolving credit are subject to interest payable in periods no longer than three months at either the agent bank’s prime rate of interest or 1.3% plus the applicable LIBOR interest rate, at our option (4.175% at March 31, 2005). In addition, we pay a commitment fee based on an annual rate of 0.325% and an annual agent’s fee of $50,000. Principal is due upon expiration of the agreement. We have another unsecured line of credit arrangement with a consortium of three banks for a total of $30,000,000, which expires May 31, 2005. Borrowings under this line of credit are subject to interest at either the lead bank's prime rate of interest (5.75% at March 31, 2005) or 2.0% plus the applicable LIBOR interest rate, at our option, and are due on demand. We have received a commitment letter from the lead bank to extend the maturity to May 31, 2006, increase the commitment to $40,000,000, eliminate the two participating banks and change the pricing to either the bank's prime rate of interest or 1.3% plus the applicable LIBOR interest rate, at our option. At March 31, 2005, we had $163,500,000 outstanding under the unsecured lines of credit arrangements and estimated total contractual interest obligations of $7,435,000. Contractual interest obligations are estimated based on the assumption that the balance of $163,500,000 at March 31, 2005 is constant until maturity at interest rates in effect at March 31, 2005.

At March 31, 2005, we had $875,000,000 of senior unsecured notes outstanding with fixed annual interest rates ranging from 6% to 8.17%, payable semi-annually. Total contractual interest obligations on senior unsecured notes totaled $371,774,000 at March 31, 2005. Additionally, we have 32 mortgage loans totaling $169,506,000, collateralized by health care facilities, with fixed annual interest rates ranging from 6.18% to 12%, payable monthly. The carrying values of the health care properties securing the mortgage loans totaled $237,751,000 at March 31, 2005. Total contractual interest obligations on mortgage loans totaled $134,555,000 at March 31, 2005.

On April 29, 2005, we closed on a public offering of $250,000,000 of 5.875% senior unsecured notes due May 2015 (the "2015 Notes") at an effective yield of 5.913%. On May 3, 2005, we redeemed all of our outstanding $50,000,000 8.17% senior unsecured notes due March 2006 (the "2006 Notes"). On May 4, 2005, we completed a tender offer for $57,670,000 of our outstanding $100,000,000 7.625% senior unsecured notes due March 2008 (the "2008 Notes"). After completion of this tender offer, $42,330,000 of the 2008 Notes will remain outstanding. On May 4, 2005, we initiated the redemption of $122,500,000 of our outstanding $175,000,000 7.5% senior unsecured notes due August 2007 (the "2007 Notes"). After completion of this partial redemption, $52,500,000 of the 2007 Notes will remain outstanding. We will recognize one-time charges on the extinguishment of debt totaling approximately $17,500,000 to $18,000,000 in the second quarter of 2005 as a result of this activity. We intend to use the net proceeds from the public offering of our 2015 Notes to fund the tender offer and redemptions. Remaining net proceeds will be used to repay borrowings under our unsecured lines of credit arrangements.

On May 6, 2004, we entered into two interest rate swap agreements (the "Swaps") for a total notional amount of $100,000,000 to hedge changes in fair value attributable to changes in the LIBOR swap rate of $100,000,000 of fixed rate debt with a maturity date of November 15, 2013. The Swaps are treated as fair-value hedges for accounting purposes and we utilize the short-cut method in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The Swaps are with highly rated counterparties in which we receive a fixed rate of 6% and pay a variable rate based on six-month LIBOR plus a spread. At March 31, 2005, total contractual interest obligations were estimated to be $36,900,000 based on interest rates in effect at March 31, 2005.

At March 31, 2005, we had operating lease obligations of $15,595,000 relating to our office space, six assisted living facilities and three skilled nursing facilities.

Purchase obligations are comprised of unfunded construction commitments and contingent purchase obligations. At March 31, 2005, we had outstanding construction financings of $27,184,000 ($26,699,000 for leased properties and $485,000 for construction loans) and were committed to providing additional financing of approximately $5,027,000 to complete construction. At March 31, 2005, we had contingent purchase obligations totaling $54,901,000. These contingent purchase obligations primarily relate to deferred acquisition fundings. Deferred acquisition fundings are contingent upon a tenant satisfying certain conditions in the lease. Upon funding, amounts due from the tenant are increased to reflect the additional investment in the property.

Capital Structure

As of March 31, 2005, we had stockholders' equity of $1,334,405,000 and a total outstanding debt balance of $1,208,006,000, which represents a debt to total book capitalization ratio of 48%. Our ratio of debt to market capitalization was 38% at March 31, 2005. For the three months ended March 31, 2005, our coverage ratio of EBITDA to interest was 3.26 to 1.00 and our coverage ratio of EBITDA to fixed charges was 2.56 to 1.00. Also, at March 31, 2005, we had $17,429,000 of cash and cash equivalents and $176,500,000 of available borrowing capacity under our unsecured lines of credit arrangements.

Our debt agreements contain various covenants, restrictions and events of default. Among other things, these provisions require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of March 31, 2005, we were in compliance with all of the covenants under our debt agreements. None of our debt agreements contain provisions for acceleration that could be triggered by our debt ratings. However, under our unsecured lines of credit arrangements, the ratings on our senior unsecured notes are used to determine the fees and interest payable.

Our senior unsecured notes are rated Baa3 (stable), BBB- (stable) and BBB- (positive) by Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings, respectively. We plan to manage the Company to maintain investment grade status with a capital structure consistent with our current profile. Any downgrades in terms of ratings or outlook by any or all of the noted rating agencies could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition.

As of April 30, 2005, we had an effective shelf registration statement on file with the SEC under which we may issue up to $106,794,619 of securities including debt securities, common and preferred stock, depositary shares, warrants and units. We filed a new registration statement with the SEC on December 1, 2004 for the issuance of securities to replace the existing shelf registration and we anticipate that this new shelf registration will be effective in the first half of 2005 for the aggregate amount of $831,794,619 of securities, which includes the $106,794,619 of securities available under the existing shelf registration. Also, as of April 30, 2005, we had an effective registration statement on file in connection with our enhanced DRIP program under which we may issue up to 6,314,213 shares of common stock. As of April 30, 2005, 4,280,145 shares of common stock remained available for issuance under this registration statement. Depending upon market conditions, we anticipate issuing securities under our registration statements to invest in additional health care facilities and to repay borrowings under our unsecured lines of credit arrangements.

Results of Operations

Net income available to common stockholders for the three months ended March 31, 2005 totaled $17,803,000, or $0.33 per diluted share, as compared with $18,655,000, or $0.36 per diluted share, for the same period in 2004. Net income available to common stockholders decreased from the prior year primarily due to increases in interest expense, provision for depreciation, general and administrative expenses and preferred stock dividends, offset by an increase in total rental income. These changes are discussed in further detail below. Net income available to common stockholders decreased on a per share basis primarily due to the dollar decrease noted above and an increase in outstanding shares. On a fully diluted basis, average common shares outstanding for the three months ended March 31, 2005 were 53,454,000, a 4% increase from 51,358,000 for the same period in 2004. The increase in fully diluted average common shares outstanding is primarily the result of common stock issuances pursuant to our DRIP, issuances pursuant to stock option exercises and conversions of preferred stock into common stock, which amounted to 1,351,000, 531,000 and 334,000, respectively, for the period from April 1, 2004 to March 31, 2005.

FFO for the three months ended March 31, 2005 totaled $38,309,000, or $0.72 per diluted share, as compared with $35,789,000, or $0.70 per diluted share, for the same period in 2004. The increase in FFO is primarily due to an increase in total rental income offset by increases in interest expense, general and administrative expenses and preferred stock dividends. These changes are discussed in further detail below. FAD for the three months ended March 31, 2005 totaled $35,454,000, or $0.66 per diluted share, as compared to $29,125,000, or $0.57 per diluted share, for the same period in 2004. The increase in FAD is primarily due to an increase in total rental income as adjusted for a decrease in rental income in excess of cash received offset by increases in interest expense, general and administrative expenses and preferred stock dividends. These changes are discussed in further detail below. Please refer to the discussion of “Non-GAAP Financial Measures” below for further information regarding FFO and FAD and for reconciliations of FFO and FAD to NICS.

EBITDA for the three months ended March 31, 2005 totaled $64,887,000, as compared with $58,166,000 for the same period in 2004. The increase in EBITDA is primarily due to increases in net income as adjusted for increases in interest expense and provision for depreciation. Our coverage ratio of EBITDA to total interest was 3.26 times for the three months ended March 31, 2005 as compared with 3.11 times for the same period in 2004. Our coverage ratio of EBITDA to fixed charges was 2.56 times for the three months ended March 31, 2005 as compared with 2.78 times for the same period in 2004. Our interest coverage ratio improved from the prior year primarily due to the fact that EBITDA increased 12%, whereas total interest only increased by 7% from 2004. The increase in interest expense is discussed in further detail below. Our fixed charge coverage ratio declined from the prior year primarily due to the increase in preferred stock dividends, which is discussed in further detail below. Please refer to the discussion of “Non-GAAP Financial Measures” below for further information regarding EBITDA and a reconciliation of EBITDA to net income.

Revenues were comprised of the following (dollars in thousands):

	Three Months Ended		Change	
	Mar. 31, 2005	Mar. 31, 2004	$	%
Rental income	$ 61,974	$ 53,219	$ 8,755	16%
Interest income	4,983	5,713	(730)	-13%
Transaction fees and other income	1,422	713	709	99%
Totals	$ 68,379	$ 59,645	$ 8,734	15%

The increase in gross revenues is primarily attributable to increased rental income resulting from the acquisitions of new properties for which we receive rent offset by sales of real property. During the period April 1, 2004 to March 31, 2005, we acquired 23 assisted living facilities and 43 skilled nursing facilities for $486,671,000. During that same period, we sold four assisted living facilities, two skilled nursing facilities, one specialty care facility and one parcel of land with carrying values of $47,008,000. On a net basis, this represents the addition of 58 revenue producing facilities totaling $439,663,000.

As discussed above, prior to June 2004, our standard lease structure contained fixed annual rental escalators, which were generally recognized on a straight-line basis over the minimum lease period. Beginning in June 2004, our new standard lease structure contains annual rental escalators that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the property. These escalators are not fixed, so no straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period. While this change does not affect our cash flow or our ability to pay dividends, it is anticipated that we will generate additional organic growth and minimize non-cash straight-line rent over time. If gross operating revenues at our facilities and/or the Consumer Price Index do not increase, a portion of our revenues may not continue to increase. Sales of real property would offset revenue increases and, to the extent that they exceed new acquisitions, could result in decreased revenues. Our leases could renew above or below current rent rates, resulting in an increase or decrease in rental income. As of March 31, 2005, we had no leases expiring prior to March 2009.

Interest income decreased from 2004 primarily due to a decrease in the balance of outstanding loans and non-recognition of interest income related to loans on non-accrual. Transaction fees and other income increased primarily due to a $750,000 assignment consent fee received in the first quarter of 2005 relating to a payoff which did not occur. There was no such fee in the prior year.

Expenses were comprised of the following (dollars in thousands):

	Three Months Ended		Change	
	Mar. 31, 2005	Mar. 31, 2004	$	%
Interest expense	$ 19,601	$ 18,148	$ 1,453	8%
Provision for depreciation	20,298	16,534	3,764	23%
General and administrative	4,017	3,159	858	27%
Loan expense	863	891	(28)	-3%
Provision for loan losses	300	300	0	0%
Totals	$ 45,079	$ 39,032	$ 6,047	15%

The increase in total expenses is primarily attributable to increases in interest expense, provision for depreciation and general and administrative expenses. The increase in interest expense is primarily due to higher average borrowings under our unsecured lines of credit arrangements which was partially offset by savings generated from interest rate swap agreements. During the three months ended March 31, 2005, we had an average daily outstanding balance of $140,544,000 under our unsecured lines of credit arrangements compared to $0 during the same period in 2004. If we borrow under our unsecured lines of credit arrangements, issue additional senior unsecured notes or assume additional secured debt, our interest expense will increase.

On May 6, 2004, we entered into two interest rate swap agreements (the “Swaps”) for a total notional amount of $100,000,000 to hedge changes in fair value attributable to changes in the LIBOR swap rate of $100,000,000 of fixed rate debt with a maturity date of November 15, 2013. The Swaps are treated as fair-value hedges for accounting purposes and we utilize the short-cut method in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The Swaps are with highly rated counterparties in which we receive a fixed rate of 6.0% and pay a variable rate based on six-month LIBOR plus a spread. For the three months ended March 31, 2005, we generated $410,000 of savings related to our Swaps that was recorded as a reduction of interest expense. We had no interest rate swap agreements outstanding at March 31, 2004.

We capitalize certain interest costs associated with funds used to finance the construction of properties owned directly by us. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest that approximates our cost of financing. Our interest expense is reduced by the amount capitalized. Capitalized interest for the three months ended March 31, 2005 and 2004 totaled $265,000 and $137,000, respectively.

The provision for depreciation increased primarily as a result of additional investments in properties owned directly by us offset by sales of real property. See the discussion of rental income above for additional details. To the extent that we acquire or dispose of additional properties in the future, our provision for depreciation will change accordingly.

General and administrative expenses as a percentage of revenues (including revenues from discontinued operations) for the three months ended March 31, 2005, were 5.86% as compared with 5.18% for the same period in 2004. The increase from 2004 is primarily related to costs associated with our initiatives to attract and retain appropriate personnel to achieve our business objectives and to costs associated with various professional service fees (including costs associated with SOX compliance).

Loan expense and the provision for loan losses are consistent with the prior year. The provision for loan losses is related to our critical accounting estimate for the allowance for loan losses and is discussed below in “Critical Accounting Policies.”

Other items were comprised of the following (dollars in thousands):

	Three Months Ended		Change	
	Mar. 31, 2005	Mar. 31, 2004	$	%
Gain (loss) on sales of properties	$ (110)	$ 0	$ (110)	n/a
Discontinued operations, net	49	312	(263)	-84%
Preferred dividends	(5,436)	(2,270)	(3,166)	139%
Totals	$ (5,497)	$ (1,958)	$ (3,539)	181%

During the three months ended March 31, 2005, we sold properties with carrying values of $9,298,000 for a net loss of $110,000. These properties generated $49,000 of income after deducting depreciation and interest expense from rental revenue for the three months ended March 31, 2005. All properties sold subsequent to January 1, 2004 generated $312,000 of income after deducting depreciation and interest expense from rental revenue for the three months ended March 31, 2004. Please refer to Note F of our unaudited consolidated financial statements for further discussion.

The increase in preferred dividends is primarily due to the issuance of 7,000,000 shares of 7.625% Series F Cumulative Redeemable Preferred Stock in September 2004.

Non-GAAP Financial Measures

We believe that net income, as defined by U.S. GAAP, is the most appropriate earnings measurement. However, we consider FFO and FAD to be useful supplemental measures of our operating performance. Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient. In response, the National Association of Real Estate Investment Trusts (“NAREIT”) created FFO as a supplemental measure of operating performance for REITs that excludes historical cost depreciation from net income. FFO, as defined by NAREIT, means net income, computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FAD represents FFO excluding the non-cash straight-line rental adjustments.

EBITDA stands for earnings before interest, taxes, depreciation and amortization. Additionally, we exclude the non-cash provision for loan losses in calculating EBITDA. We believe that EBITDA, along with net income and cash flow provided from operating activities, is an important supplemental measure because it provides additional information to assess and evaluate the performance of our operations. Additionally, restrictive covenants in our long-term debt arrangements contain financial ratios based on EBITDA. We primarily utilize EBITDA to measure our interest coverage ratio, which represents EBITDA divided by total interest, and our fixed charge coverage ratio, which represents EBITDA divided by fixed charges. Fixed charges include total interest and preferred dividends.

FFO, FAD and EBITDA are financial measures that are widely used by investors, equity and debt analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. Management uses these financial measures to facilitate internal and external comparisons to our historical operating results, in making operating decisions and for budget planning purposes. Additionally, FFO and FAD are internal evaluation metrics utilized by the Board of Directors to evaluate management. FFO, FAD and EBITDA do not represent net income or cash flow provided from operating activities as determined in accordance with U.S. GAAP and should not be considered as alternative measures of profitability or liquidity. Finally, FFO, FAD and EBITDA, as defined by us, may not be comparable to similarly entitled items reported by other real estate investment trusts or other companies.

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The table below reflects the reconciliation of FFO to net income available to common stockholders, the most directly comparable U.S. GAAP measure, for the periods presented. The provision for depreciation includes provision for depreciation from discontinued operations. Amounts are in thousands except for per share data.

	Three Months Ended				
	March 31 2004	June 30 2004	September 30 2004	December 31 2004	March 31 2005
FFO Reconciliation:					
Net income available to common stockholders	$ 18,655	$ 19,207	$ 19,004	$ 15,767	$ 17,803
Provision for depreciation	17,134	17,682	18,889	20,310	20,396
Loss (gain) on sales of properties		(1,129)		1,272	110
Prepayments fees				(50)	
Funds from operations	$ 35,789	$ 35,760	$ 37,893	$ 37,299	$ 38,309
Average common shares outstanding:					
Basic	50,580	51,232	51,538	52,326	52,963
Diluted	51,358	51,828	52,008	52,784	53,454
Per share data:					
Net income available to common stockholders					
Basic	$ 0.37	$ 0.37	$ 0.37	$ 0.30	$ 0.34
Diluted	0.36	0.37	0.37	0.30	0.33
Funds from operations					
Basic	$ 0.71	$ 0.70	$ 0.74	$ 0.71	$ 0.72
Diluted	0.70	0.69	0.73	0.71	0.72

The table below reflects the reconciliation of FAD to net income available to common stockholders, the most directly comparable U.S. GAAP measure, for the periods presented. The provision for depreciation includes provision for depreciation from discontinued operations. Amounts are in thousands except for per share data.

	Three Months Ended				
	March 31 2004	June 30 2004	September 30 2004	December 31 2004	March 31 2005
FAD Reconciliation:					
Net income available to common stockholders	$ 18,655	$ 19,207	$ 19,004	$ 15,767	$ 17,803
Provision for depreciation	17,134	17,682	18,889	20,310	20,396
Loss (gain) on sales of properties		(1,129)		1,272	110
Prepayments fees				(50)	
Rental income in excess of cash received	(6,664)	(2,469)	(3,002)	(1,657)	(2,855)
Funds available for distribution	$ 29,125	$ 33,291	$ 34,891	$ 35,642	$ 35,454
Average common shares outstanding:					
Basic	50,580	51,232	51,538	52,326	52,963
Diluted	51,358	51,828	52,008	52,784	53,454
Per share data:					
Net income available to common stockholders					
Basic	$ 0.37	$ 0.37	$ 0.37	$ 0.30	$ 0.34
Diluted	0.36	0.37	0.37	0.30	0.33
Funds available for distribution					
Basic	$ 0.58	$ 0.65	$ 0.68	$ 0.68	$ 0.67
Diluted	0.57	0.64	0.67	0.68	0.66

The table below reflects the reconciliation of EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. The provision for depreciation and interest expense includes provision for depreciation and interest expense from discontinued operations. Amortization includes amortization of deferred loan expenses, restricted stock and stock options. Dollars are in thousands.

	Three Months Ended				
	March 31 2004	June 30 2004	September 30 2004	December 31 2004	March 31 2005
EBITDA Reconciliation:					
Net income	$ 20,925	$ 21,429	$ 21,807	$ 21,209	$ 23,239
Interest expense	18,552	17,366	17,896	18,742	19,645
Capitalized interest	137	199	254	285	265
Provision for depreciation	17,134	17,682	18,889	20,310	20,396
Amortization	1,118	1,092	1,021	1,016	1,042
Provision for loan losses	300	300	300	300	300
EBITDA	$ 58,166	$ 58,068	$ 60,167	$ 61,862	$ 64,887
Interest Coverage Ratio:					
Interest expense	$ 18,552	$ 17,366	$ 17,896	$ 18,742	$ 19,645
Capitalized interest	137	199	254	285	265
Total interest	18,689	17,565	18,150	19,027	19,910
EBITDA	$ 58,166	$ 58,068	$ 60,167	$ 61,862	$ 64,887
Interest coverage ratio	3.11x	3.31x	3.31x	3.25x	3.26x
Fixed Charge Coverage Ratio:					
Total interest	$ 18,689	$ 17,565	$ 18,150	$ 19,027	$ 19,910
Preferred dividends	2,270	2,222	2,803	5,442	5,436
Total fixed charges	20,959	19,787	20,953	24,469	25,346
EBITDA	$ 58,166	$ 58,068	$ 60,167	$ 61,862	$ 64,887
Fixed charge coverage ratio	2.78x	2.93x	2.87x	2.53x	2.56x

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions. Management considers an accounting estimate or assumption critical if:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and

- the impact of the estimates and assumptions on financial condition or operating performance is material.

Management has discussed the development and selection of its critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the disclosure presented below relating to them. Management believes the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate and are not reasonably likely to change in the future. However, since these estimates require assumptions to be made that were uncertain at the time the estimate was made, they bear the risk of change. If actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations, liquidity and/or financial condition. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2004 for further information on significant accounting policies that impact us. There have been no material changes to these policies in 2005.

The following table presents information about our critical accounting policies, as well as the material assumptions used to develop each estimate:

Nature of Critical Accounting Estimate	Assumptions/Approach Used
Allowance for Loan Losses We maintain an allowance for loan losses in accordance with Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended, and SEC Staff Accounting Bulletin No. 102, Selected Loan Loss Allowance Methodology and Documentation Issues. The allowance for loan losses is maintained at a level believed adequate to absorb potential losses in our loans receivable. The determination of the allowance is based on a quarterly evaluation of all outstanding loans. If this evaluation indicates that there is a greater risk of loan charge-offs, additional allowances or placement on non-accrual status may be required. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due as scheduled according to the contractual terms of the original loan agreement. Consistent with this definition, all loans on non-accrual are deemed impaired. To the extent circumstances improve and the risk of collectibility is diminished, we will return these loans to full accrual status.	The determination of the allowance is based on a quarterly evaluation of all outstanding loans, including general economic conditions and estimated collectibility of loan payments and principal. We evaluate the collectibility of our loans receivable based on a combination of factors, including, but not limited to, delinquency status, historical loan charge-offs, financial strength of the borrower and guarantors and value of the underlying property. For the three months ended March 31, 2005 we recorded $300,000 as provision for loan losses, resulting in an allowance for loan losses of $5,561,000 relating to loans with outstanding balances of $41,497,000 at March 31, 2005. Also at March 31, 2005, we had loans with outstanding balances of $35,862,000 on non-accrual status.
Depreciation and Useful Lives Substantially all of the properties owned by us are leased under operating leases and are recorded at cost. The cost of our real property is allocated to land, buildings, improvements and intangibles in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. The allocation of the acquisition costs of properties is based on appraisals commissioned from independent real estate appraisal firms.	We compute depreciation on our properties using the straight-line method based on their estimated useful lives which range from 15 to 40 years for buildings and five to 15 years for improvements. For the three months ended March 31, 2005, we recorded $16,468,000 and $3,928,000 as provision for depreciation relating to buildings and improvements, respectively. The average useful life of our buildings and improvements was 30.8 years and 9.4 years, respectively, at March 31, 2005.
Impairment of Long-Lived Assets We review our long-lived assets for potential impairment in accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets. An impairment charge must be recognized when the carrying value of a long-lived asset is not recoverable. The carrying value is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If it is determined that a permanent impairment of a long-lived asset has occurred, the carrying value of the asset is reduced to its fair value and an impairment charge is recognized for the difference between the carrying value and the fair value.	The net book value of long-lived assets is reviewed quarterly on a property by property basis to determine if there are indicators of impairment. These indicators may include anticipated operating losses at the property level, the tenant's inability to make rent payments, a decision to dispose of an asset before the end of its estimated useful life and changes in the market that may permanently reduce the value of the property. If indicators of impairment exist, then the undiscounted future cash flows from the most likely use of the property are compared to the current net book value. This analysis requires us to determine if indicators of impairment exist and to estimate the most likely stream of cash flows to be generated from the property during the period the property is expected to be held. We did not record any impairment charges for the three months ended March 31, 2005.

Nature of Critical Accounting Estimate	Assumptions/Approach Used
Fair Value of Derivative Instruments The valuation of derivative instruments is accounted for in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (“SFAS133”), as amended by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. SFAS133, as amended, requires companies to record derivatives at fair market value on the balance sheet as assets or liabilities.	The valuation of derivative instruments requires us to make estimates and judgments that affect the fair value of the instruments. Fair values for our derivatives are estimated by a third party consultant, which utilizes pricing models that consider forward yield curves and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates which may change in the future. At March 31, 2005, we participated in two interest rate swap agreements related to our long-term debt. At March 31, 2005, the swaps were reported at their fair value as a $1,890,000 other asset. For the three months ended March 31, 2005, we generated $410,000 of savings related to our swaps that was recorded as a reduction in interest expense.
Revenue Recognition Revenue is recorded in accordance with Statement of Financial Accounting Standards No. 13, Accounting for Leases, and SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements, as amended (“SAB101”). SAB101 requires that revenue be recognized after four basic criteria are met. These four criteria include persuasive evidence of an arrangement, the rendering of service, fixed and determinable income and reasonably assured collectibility. If the collectibility of revenue is determined incorrectly, the amount and timing of our reported revenue could be significantly affected. Interest income on loans is recognized as earned based upon the principal amount outstanding subject to an evaluation of collectibility risk. Prior to June 2004, our standard lease structure contained fixed annual rental escalators, which were generally recognized on a straight-line basis over the initial lease period. Beginning in June 2004, our new standard lease structure contains annual rental escalators that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the property. These escalators are not fixed, so no straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period.	We evaluate the collectibility of our revenues and related receivables on an on-going basis. We evaluate collectibility based on assumptions and other considerations including, but not limited to, the certainty of payment, payment history, the financial strength of the investment’s underlying operations as measured by cash flows and payment coverages, the value of the underlying collateral and guaranties and current economic conditions. If our evaluation indicates that collectibility is not reasonably assured, we may place an investment on non-accrual or reserve against all or a portion of current income as an offset to revenue. For the three months ended March 31, 2005 we recognized $4,983,000 of interest income and $62,165,000 of rental income, including discontinued operations. Rental income includes $2,855,000 of straight-line rental income. At March 31, 2005, our straight-line receivable balance was $65,780,000. Also at March 31, 2005, we had loans with outstanding balances of $35,862,000 on non-accrual status.

Forward-Looking Statements and Risk Factors

This Quarterly Report on Form 10-Q may contain “forward-looking” statements as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements concern the possible expansion of our portfolio; the performance of our operators and properties; our ability to enter into agreements with new viable tenants for properties that we take back from financially troubled tenants, if any; our ability to make distributions; our policies and plans regarding investments, financings and other matters; our tax status as a real estate investment trust; our ability to appropriately balance the use of debt and equity; our ability to access capital markets or other sources of funds; and our ability to meet our earnings guidance. When we use words such as “may,” “will,” “intend,” “should,” “believe,” “expect,” “anticipate,” “estimate” or similar expressions, we are making forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Our expected results may not be achieved, and actual results may differ materially from expectations. This may be a result of various factors, including, but not limited to: the status of the economy; the status of capital markets, including prevailing interest rates; serious issues facing the health care industry, including compliance with, and changes to, regulations and payment policies and operators’ difficulty in obtaining and maintaining adequate liability and other insurance; changes in financing terms; competition within the health care and senior housing industries; negative developments in the operating results or financial condition of operators, including, but not limited to, their ability to pay rent and repay loans; our ability to transition or sell facilities with a profitable result; operator bankruptcies; government regulations affecting Medicare and Medicaid reimbursement rates; liability claims and insurance costs for our operators; unanticipated difficulties and/or expenditures relating to future acquisitions; environmental laws affecting our properties; delays in reinvestment of sales proceeds; changes in rules or practices governing our financial reporting; and structure related factors, including REIT qualification, anti-takeover provisions and key management personnel. Other important factors are identified in our Annual Report on Form 10-K for the year ended December 31, 2004, including factors identified under the headings “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Finally, we assume no obligation to update or revise any forward-looking statements or to update the reasons why actual results could differ from those projected in any forward-looking statements.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We seek to mitigate the effects of fluctuations in interest rates by matching the terms of new investments with new long-term fixed rate borrowings to the extent possible. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to match our variable rate investments with comparable borrowings, but are also based on the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. The following section is presented to provide a discussion of the risks associated with potential fluctuations in interest rates.

We historically borrow on our unsecured lines of credit arrangements to make acquisitions of, loans to, or to construct health care facilities. Then, as market conditions dictate, we will issue equity or long-term fixed rate debt to repay the borrowings under the unsecured lines of credit arrangements.

A change in interest rates will not affect the interest expense associated with our fixed rate debt. Interest rate changes, however, will affect the fair value of our fixed rate debt. A 1% increase in interest rates would result in a decrease in fair value of our senior unsecured notes by approximately $26,667,000 at March 31, 2005 ($30,443,000 at March 31, 2004). Changes in the interest rate environment upon maturity of this fixed rate debt could have an effect on our future cash flows and earnings, depending on whether the debt is replaced with other fixed rate debt, variable rate debt, or equity or repaid by the sale of assets.

On May 6, 2004, we entered into two interest rate swap agreements (the “Swaps”) for a total notional amount of $100,000,000 to hedge changes in fair value attributable to changes in the LIBOR swap rate of $100,000,000 of fixed rate debt with a maturity date of November 15, 2013. The Swaps are treated as fair-value hedges for accounting purposes and we utilize the short-cut method in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The Swaps are with highly rated counterparties in which we receive a fixed rate of 6.0% and pay a variable rate based on six-month LIBOR plus a spread. At March 31, 2005, the Swaps were reported at their fair value as a $1,890,000 other asset. A 1% increase in interest rates would result in a decrease in fair value of our Swaps by approximately $7,226,000 at March 31, 2005. We had no interest rate swap agreements outstanding at March 31, 2004.

Our variable rate debt, including our unsecured lines of credit arrangements, is reflected at fair value. At March 31, 2005, we had $163,500,000 outstanding related to our variable rate debt and assuming no changes in outstanding balances, a 1% increase in interest rates would result in increased annual interest expense of $1,635,000. At March 31, 2004, we did not have any borrowings outstanding related to our variable rate debt and assuming no changes in outstanding balances, a 1% increase in interest rates would have had no effect on annual interest expense.

We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of refinancing may not be as favorable as the terms of current indebtedness. The majority of our borrowings were completed under indentures or contractual agreements that limit the amount of indebtedness we may incur. Accordingly, in the event that we are unable to raise additional equity or borrow money because of these limitations, our ability to acquire additional properties may be limited.

We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of refinancing may not be as favorable as the terms of current indebtedness. The majority of our borrowings were completed under indentures or contractual agreements that limit the amount of indebtedness we may incur. Accordingly, in the event that we are unable to raise additional equity or borrow money because of these limitations, our ability to acquire additional properties may be limited.

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Item 4. ***Controls and Procedures***

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by us in the reports we file with or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2005 through January 31, 2005	13,860	$ 34.64		
February 1, 2005 through February 28, 2005				
March 1, 2005 through March 31, 2005				
Totals	13,860	$ 34.64		

(1) During the three months ended March 31, 2005, the only securities purchased by the Company were shares of common stock held by employees who tendered owned shares to satisfy the tax withholding on the lapse of certain restrictions on restricted stock.

(2) No shares were purchased as part of publicly announced plans or programs.

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Item 6. ***Exhibits***

12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTH CARE REIT, INC.

Date:	May 10, 2005	By: /s/ GEORGE L. CHAPMAN George L. Chapman, Chairman and Chief Executive Officer (Principal Executive Officer)
Date:	May 10, 2005	By: /s/ RAYMOND W. BRAUN Raymond W. Braun, President and Chief Financial Officer (Principal Financial Officer)
Date:	May 10, 2005	By: /s/ PAUL D. NUNGESTER, JR. Paul D. Nungester, Jr., Controller (Principal Accounting Officer)

EXHIBIT 12

STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS

TO FIXED CHARGES AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS (UNAUDITED)

	Year Ended December 31					Three Months Ended March 31	
	2000	2001	2002	2003	2004	2004	2005
				(dollars in thousands)			
Earnings:							
Income from continuing operations before extraordinary items (1)	$ 57,933	$ 53,261	$ 61,499	$ 74,252	$ 84,602	$ 20,613	$ 23,300
Fixed charges	38,866	34,644	44,644	59,833	76,824	19,580	20,773
Capitalized interest	(3,079)	(841)	(170)	(1,535)	(875)	(137)	(265)
Equity (earnings) losses in less than 50% owned subsidiary	(318)	(332)	(15)	(270)			
Earnings	$ 93,402	$ 86,732	$ 105,958	$ 132,280	$ 160,551	$ 40,056	$ 43,808
Fixed charges:							
Interest expense (2)	$ 34,622	$ 32,028	$ 42,101	$ 55,377	$ 72,556	$ 18,552	$ 19,645
Capitalized interest	3,079	841	170	1,535	875	137	265
Amortization of loan expenses	1,165	1,775	2,373	2,921	3,393	891	863
Fixed charges	$ 38,866	$ 34,644	$ 44,644	$ 59,833	$ 76,824	$ 19,580	$ 20,773
Consolidated ratio of earnings to fixed charges	2.40	2.50	2.37	2.21	2.09	2.05	2.11
Earnings:							
Income from continuing operations before extraordinary items (1)	$ 57,933	$ 53,261	$ 61,499	$ 74,252	$ 84,602	$ 20,613	$ 23,300
Fixed charges	38,866	34,644	44,644	59,833	76,824	19,580	20,773
Capitalized interest	(3,079)	(841)	(170)	(1,535)	(875)	(137)	(265)
Equity (earnings) losses in less than 50% owned subsidiary	(318)	(332)	(15)	(270)			
Earnings	$ 93,402	$ 86,732	$ 105,958	$ 132,280	$ 160,551	$ 40,056	$ 43,808
Combined fixed charges and preferred stock dividends:							
Interest expense (2)	$ 34,622	$ 32,028	$ 42,101	$ 55,377	$ 72,556	$ 18,552	$ 19,645
Capitalized interest	3,079	841	170	1,535	875	137	265
Amortization of loan expenses	1,165	1,775	2,373	2,921	3,393	891	863
Fixed charges	38,866	34,644	44,644	59,833	76,824	19,580	20,773
Preferred stock dividends	13,490	13,505	12,468	9,218	12,737	2,270	5,436
Combined fixed charges and preferred stock dividends	$ 52,356	$ 48,149	$ 57,112	$ 69,051	$ 89,561	$ 21,850	$ 26,209
Consolidated ratio of earnings to combined fixed charges and preferred stock dividends	1.78	1.80	1.86	1.92	1.79	1.83	1.67

(1) In accordance with FASB Statement No. 144, we have reclassified the income and expenses attributable to the properties sold subsequent to January 1, 2002 to discontinued operations.

(2) For purposes of this statement, interest expense consists of interest on all indebtedness including amounts allocated to discontinued operations, in accordance with FASB Statement No. 144.

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, **George L. Chapman**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Health Care REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2005

/s/ GEORGE L. CHAPMAN
George L. Chapman,
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, **Raymond W. Braun**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Health Care REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2005

/s/ RAYMOND W. BRAUN
Raymond W. Braun,
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

I, George L. Chapman, the Chief Executive Officer of Health Care REIT, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended March 31, 2005 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GEORGE L. CHAPMAN
George L. Chapman,
Chief Executive Officer
Date: May 10, 2005

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

I, Raymond W. Braun, the Chief Financial Officer of Health Care REIT, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended March 31, 2005 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RAYMOND W. BRAUN
Raymond W. Braun,
Chief Financial Officer
Date: May 10, 2005

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.