

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 June 30, 2011

or

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

For the transition period from _____ to _____

Commission File number 1-8923

HEALTH CARE REIT, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

34-1096634

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

4500 Dorr Street, Toledo, Ohio

(Address of principal executive office)

43615

(Zip Code)

(419) 247-2800

(Registrant's telephone number, including area code)

(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 the filing requirements for at least the past 90 days. Yes No

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

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

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

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

As of July 31, 2011, the registrant had 177,446,904 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

	June 30, 2011 (Unaudited)	December 31, 2010 (Note)
	(In thousands)	
Assets		
Real estate investments:		
Real property owned:		
Land and land improvements	\$ 983,746	\$ 727,050
Buildings and improvements	11,497,863	7,627,132
Acquired lease intangibles	347,662	258,079
Real property held for sale, net of accumulated depreciation	18,202	23,441
Construction in progress	212,161	356,793
Gross real property owned	13,059,634	8,992,495
Less accumulated depreciation and amortization	(968,289)	(836,966)
Net real property owned	12,091,345	8,155,529
Real estate loans receivable:		
Real estate loans receivable	326,651	436,580
Less allowance for losses on loans receivable	(1,692)	(1,276)
Net real estate loans receivable	324,959	435,304
Net real estate investments	12,416,304	8,590,833
Other assets:		
Equity investments	250,933	237,107
Goodwill	51,207	51,207
Deferred loan expenses	48,808	32,960
Cash and cash equivalents	328,758	131,570
Restricted cash	42,497	79,069
Receivables and other assets	342,154	328,988
Total other assets	1,064,357	860,901
Total assets	\$ 13,480,661	\$ 9,451,734
Liabilities and equity		
Liabilities:		
Borrowings under unsecured line of credit arrangement	\$ —	\$ 300,000
Senior unsecured notes	4,429,992	3,034,949
Secured debt	1,889,873	1,125,906
Capital lease obligations	83,794	8,881
Accrued expenses and other liabilities	325,550	244,345
Total liabilities	6,729,209	4,714,081
Redeemable noncontrolling interests	18,410	4,553
Equity:		
Preferred stock	1,010,417	291,667
Common stock	177,290	147,155
Capital in excess of par value	6,314,692	4,932,468
Treasury stock	(13,493)	(11,352)
Cumulative net income	1,795,448	1,676,196
Cumulative dividends	(2,682,479)	(2,427,881)
Accumulated other comprehensive income (loss)	(10,145)	(11,099)
Other equity	6,460	5,697
Total Health Care REIT, Inc. stockholders' equity	6,598,190	4,602,851
Noncontrolling interests	134,852	130,249
Total equity	6,733,042	4,733,100
Total liabilities and equity	\$ 13,480,661	\$ 9,451,734

NOTE: The consolidated balance sheet at December 31, 2010 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

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**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
HEALTH CARE REIT, INC. AND SUBSIDIARIES**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
(In thousands, except per share data)				
Revenues:				
Rental income	\$ 239,703	\$ 141,764	\$ 406,848	\$ 274,761
Resident fees and services	123,149	—	194,435	—
Interest income	12,866	9,335	24,575	18,383
Other income	5,341	2,650	8,165	3,646
Total revenues	<u>381,059</u>	<u>153,749</u>	<u>634,023</u>	<u>296,790</u>
Expenses:				
Interest expense	83,961	35,478	142,347	63,403
Property operating expenses	100,197	11,970	164,126	23,761
Depreciation and amortization	110,382	44,037	183,186	84,042
Transaction costs	13,738	752	49,803	8,466
General and administrative	19,562	11,878	37,276	28,700
Loss (gain) on extinguishment of debt	—	7,035	—	25,072
Provision for loan losses	168	—	416	—
Total expenses	<u>328,008</u>	<u>111,150</u>	<u>577,154</u>	<u>233,444</u>
Income from continuing operations before income taxes and income from unconsolidated joint ventures	53,051	42,599	56,869	63,346
Income tax (expense) benefit	(211)	(188)	(340)	(273)
Income from unconsolidated joint ventures	971	1,828	2,514	2,596
Income from continuing operations	53,811	44,239	59,043	65,669
Discontinued operations:				
Gain (loss) on sales of properties	30,224	3,314	56,380	10,033
Impairment of assets	—	—	(202)	—
Income (loss) from discontinued operations, net	2,173	3,511	2,797	7,056
Discontinued operations, net	<u>32,397</u>	<u>6,825</u>	<u>58,975</u>	<u>17,089</u>
Net income	86,208	51,064	118,018	82,758
Less: Preferred stock dividends	17,353	5,484	26,033	10,993
Less: Net income (loss) attributable to noncontrolling interests(1)	(992)	(66)	(1,234)	307
Net income attributable to common stockholders	<u>\$ 69,847</u>	<u>\$ 45,646</u>	<u>\$ 93,219</u>	<u>\$ 71,458</u>
Average number of common shares outstanding:				
Basic	176,445	123,808	165,755	123,541
Diluted	177,488	124,324	166,458	124,059
Earnings per share:				
Basic:				
Income from continuing operations attributable to common stockholders	\$ 0.21	\$ 0.31	\$ 0.20	\$ 0.44
Discontinued operations, net	0.18	0.06	0.36	0.14
Net income attributable to common stockholders*	<u>\$ 0.40</u>	<u>\$ 0.37</u>	<u>\$ 0.56</u>	<u>\$ 0.58</u>
Diluted:				
Income from continuing operations attributable to common stockholders	\$ 0.21	\$ 0.31	\$ 0.20	\$ 0.44
Discontinued operations, net	0.18	0.05	0.35	0.14
Net income attributable to common stockholders*	<u>\$ 0.39</u>	<u>\$ 0.37</u>	<u>\$ 0.56</u>	<u>\$ 0.58</u>
Dividends declared and paid per common share	\$ 0.715	\$ 0.68	\$ 1.405	\$ 1.36

* Amounts may not sum due to rounding

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

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CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

HEALTH CARE REIT, INC. AND SUBSIDIARIES

(in thousands)

	Six Months Ended June 30, 2011									
	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncontrolling Interests	Total
Balances at beginning of period	\$ 291,667	\$ 147,155	\$ 4,932,468	\$ (11,352)	\$ 1,676,196	\$ (2,427,881)	\$ (11,099)	\$ 5,697	\$ 130,249	\$ 4,733,100
Comprehensive income:										
Net income (loss)					119,252				(1,396)	117,856
Other comprehensive income:										
Unrealized gain (loss) on equity investments							86			86
Cash flow hedge activity							868			868
Total comprehensive income										118,810
Contributions by noncontrolling interests			6,017						22,226	28,243
Distributions to noncontrolling interests									(16,227)	(16,227)
Amounts related to issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		1,385	69,524	(2,141)				(888)		67,880
Proceeds from issuance of common stock		28,750	1,328,996							1,357,746
Proceeds from issuance of preferred stock	718,750		(22,313)							696,437
Option compensation expense								1,651		1,651
Cash dividends paid:										
Common stock cash dividends						(228,565)				(228,565)
Preferred stock cash dividends						(26,033)				(26,033)
Balances at end of period	\$ 1,010,417	\$ 177,290	\$ 6,314,692	\$ (13,493)	\$ 1,795,448	\$ (2,682,479)	\$ (10,145)	\$ 6,460	\$ 134,852	\$ 6,733,042

	Six Months Ended June 30, 2010									
	Preferred Stock	Common Stock	Capital in Excess of Par Value	Treasury Stock	Cumulative Net Income	Cumulative Dividends	Accumulated Other Comprehensive Income (Loss)	Other Equity	Noncontrolling Interests	Total
Balances at beginning of period	\$ 288,683	\$ 123,385	\$ 3,900,666	\$ (7,619)	\$ 1,547,669	\$ (2,057,658)	\$ (2,891)	\$ 4,804	\$ 10,412	\$ 3,807,451
Comprehensive income:										
Net income (loss)					82,451				307	82,758
Other comprehensive income:										
Unrealized gain (loss) on equity investments							(137)			(137)
Cash flow hedge activity							(5,498)			(5,498)
Total comprehensive income										77,123
Contributions by noncontrolling interests									2,271	2,271
Distributions to noncontrolling interests									(2,594)	(2,594)
Amounts related to issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		1,080	44,290	(3,696)				(243)		41,431
Conversion of preferred stock	(2,273)	55	2,218							—
Equity component of convertible debt			(9,689)							(9,689)
Option compensation expense								1,194		1,194
Cash dividends paid:										
Common stock cash dividends						(169,069)				(169,069)
Preferred stock cash dividends						(10,993)				(10,993)
Balances at end of period	\$ 286,410	\$ 124,520	\$ 3,937,485	\$ (11,315)	\$ 1,630,120	\$ (2,237,720)	\$ (8,526)	\$ 5,755	\$ 10,396	\$ 3,737,125

See notes to unaudited consolidated financial statements

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**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
HEALTH CARE REIT, INC. AND SUBSIDIARIES**

	Six Months Ended June 30,	
	2011	2010
	(In thousands)	
Operating activities		
Net income	\$ 118,018	\$ 82,758
Adjustments to reconcile net income to net cash provided from (used in) operating activities:		
Depreciation and amortization	185,821	91,032
Other amortization expenses	7,900	8,047
Provision for loan losses	416	—
Impairment of assets	202	—
Stock-based compensation expense	7,274	8,747
Loss (gain) on extinguishment of debt	—	25,072
Income from unconsolidated joint ventures	(2,514)	(2,596)
Rental income in excess of cash received	(9,304)	(4,530)
Amortization related to above (below) market leases, net	(1,056)	(1,296)
Loss (gain) on sales of properties	(56,380)	(10,033)
Increase (decrease) in accrued expenses and other liabilities	38,416	5,552
Decrease (increase) in receivables and other assets	(47,195)	(11,247)
Net cash provided from (used in) operating activities	241,598	191,506
Investing activities		
Investment in real property, net of cash acquired	(3,370,597)	(389,873)
Capitalized interest	(6,979)	(12,352)
Investment in real estate loans receivable	(28,467)	(41,784)
Other investments, net of payments	1,743	(10,051)
Principal collected on real estate loans receivable	138,396	9,420
Contributions to unconsolidated joint ventures	(779)	(174,574)
Distributions from unconsolidated joint ventures	1,069	—
Decrease (increase) in restricted cash	42,023	(36,418)
Proceeds from sales of real property	208,692	54,492
Net cash provided from (used in) investing activities	(3,014,899)	(601,140)
Financing activities		
Net increase (decrease) under unsecured lines of credit arrangements	(300,000)	66,000
Proceeds from issuance of senior unsecured notes	1,381,086	932,412
Payments to extinguish senior unsecured notes	—	(495,542)
Net proceeds from the issuance of secured debt	58,470	79,127
Payments on secured debt	(13,081)	(7,704)
Net proceeds from the issuance of common stock	1,421,495	37,560
Net proceeds from the issuance of preferred stock	696,437	—
Decrease (increase) in deferred loan expenses	(11,603)	(1,887)
Contributions by noncontrolling interests ⁽¹⁾	9,087	2,271
Distributions to noncontrolling interests ⁽¹⁾	(16,804)	(2,594)
Cash distributions to stockholders	(254,598)	(180,062)
Net cash provided from (used in) financing activities	2,970,489	429,581
Increase (decrease) in cash and cash equivalents	197,188	19,947
Cash and cash equivalents at beginning of period	131,570	35,476
Cash and cash equivalents at end of period	<u>\$ 328,758</u>	<u>\$ 55,423</u>
Supplemental cash flow information:		
Interest paid	\$ 112,711	\$ 71,027
Income taxes paid	31	149

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Business

Health Care REIT, Inc., an S&P 500 company with headquarters in Toledo, Ohio, is an equity real estate investment trust (“REIT”) that invests in senior housing and health care real estate. Our full service platform also offers property management and development services to our customers. As of June 30, 2011, our broadly diversified portfolio consisted of 868 properties in 45 states. Founded in 1970, we were the first real estate investment trust to invest exclusively in health care facilities. More information is available on our website at www.hcreit.com.

2. Accounting Policies and Related Matters

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 necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2011 are not necessarily an indication of the results that may be expected for the year ending December 31, 2011. 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, 2010, as updated by our Current Report on Form 8-K filed May 10, 2011.

New Accounting Standards

In April 2011, FASB issued ASU No. 2011-02, A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring (“TDR”). It intended to provide additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. Early adoption is permitted. We are continuing to evaluate the impact of adoption of this ASU.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, “Statement of Comprehensive Income” (“ASU 2011-05”), which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 will only impact the company’s financial presentation as the company currently presents items of other comprehensive income in the statement of changes in equity. ASU 2011-05 will be effective for our fiscal year beginning January 1, 2012.

3. Real Property Acquisition and Development

Genesis Acquisition

On April 1, 2011, we completed the acquisition of substantially all of the real estate assets (147 properties) of privately-owned Genesis HealthCare Corporation. The total purchase price of approximately \$2,475,144,000 is comprised of the \$2,400,000,000 cash consideration and the fair value of capital lease obligations totaling approximately \$75,144,000 and has been allocated on a preliminary basis in the amounts of \$144,091,000 to land and land improvements and \$2,331,053,000 to buildings and improvements. We funded the cash consideration and other associated costs of the acquisition primarily through the proceeds of the offerings of common stock, preferred stock and senior unsecured notes completed in March 2011. Effective April 1, 2011, we began leasing the acquired facilities to Genesis pursuant to a master lease. In addition to rent, the triple net master lease requires Genesis to pay all operating costs, utilities, real estate taxes, insurance, building repairs, maintenance costs and all obligations under the ground leases. All obligations under the master lease have been guaranteed by FC-GEN Operations Investment, LLC, which was spun-off by Genesis prior to closing the acquisition. The initial term is fifteen years. Genesis has one option to renew for an additional term of fifteen years. The master lease provides that the base rent for the first year is \$198,000,000 and will increase at least 1.75% but no more than 3.50% (subject to CPI changes) for each of the years two through six during the initial term and at least 1.50% but no more than 3.00% per year thereafter (subject to CPI changes). We expect to recognize rental income based on the minimum rent escalators during the initial term.

The following unaudited pro forma consolidated results of operations have been prepared as if the Genesis acquisition had occurred as of January 1, 2010 based on the preliminary purchase price allocations discussed above. Amounts are in thousands, except per share data:

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Six Months Ended June 30,	
	2011	2010
Revenues	\$ 689,630	\$ 408,005
Income from continuing operations attributable to common stockholders	\$ 50,550	\$ 73,928
Income from continuing operations attributable to common stockholders per share:		
Basic	\$ 0.29	\$ 0.49
Diluted	\$ 0.29	\$ 0.48

Silverado Partnership

During the three months ended March 31, 2011, we completed the formation of our partnership with Silverado Senior Living, Inc. to own and operate a portfolio of 18 combination senior housing and care communities located in California, Texas, Arizona and Utah. We own a 95.4% partnership interest and Silverado owns the remaining 4.6% interest and continues to manage the communities. The partnership owns and operates six communities previously owned by us and 12 additional communities previously owned by Silverado. The transaction took advantage of the structure authorized by the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA"). The results of operations for this partnership have been included in our consolidated results of operations beginning as of January 1, 2011 and are a component of our senior housing operating segment. Consolidation is based on a combination of ownership interest and operational decision-making control authority.

In conjunction with the formation of the partnership, we contributed \$163,368,000 of cash and the six properties previously owned by us. Silverado contributed the remaining 12 properties to the partnership and the secured debt relating to these properties in exchange for its 4.6% interest in the partnership. The six properties are recorded at their historical carrying values and the noncontrolling interest was established based on such values. The difference between the fair value of the consideration received relating to these properties and the historical allocation of the 4.6% noncontrolling interest was recorded in capital in excess of par value. The total purchase price for the 12 communities acquired has been allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values in accordance with the company's accounting policies. Such allocations have not been finalized as we await final asset valuations and, as such, the allocation of the purchase consideration included in the accompanying Consolidated Balance Sheet at June 30, 2011 is preliminary and subject to adjustment. The 4.6% noncontrolling interest relating to the acquired 12 properties is also reflected at estimated fair value. The following table presents the preliminary allocation of the purchase price to assets acquired and liabilities assumed, based on their estimated fair values (in thousands):

Land and land improvements	\$ 11,170
Buildings and improvements	173,841
Acquired lease intangibles	19,305
Investment in unconsolidated subsidiary	14,960
Cash and cash equivalents	4,084
Total assets acquired	223,360
Secured debt	60,667
Total liabilities assumed	60,667
Capital in excess of par	6,017
Noncontrolling interests	7,836
Net assets acquired	<u>\$ 148,840</u>

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Benchmark Partnership

During the three months ended March 31, 2011, we completed the formation of our partnership with Benchmark Senior Living to own and operate a portfolio of 34 senior housing communities located in New England. We own a 95% partnership interest and Benchmark owns the remaining 5% interest and continues to manage the communities. The 34 communities included in the partnership were previously owned by The GPT Group and Benchmark. The transaction took advantage of the structure authorized by RIDEA. The results of operations for this partnership have been included in our consolidated results of operations beginning as of March 28, 2011 and are a component of our senior housing operating segment. Consolidation is based on a combination of ownership interest and operational decision-making control authority.

In conjunction with the formation of the partnership, we contributed \$380,278,000 of cash and the partnership assumed the secured debt relating to these properties. Benchmark contributed the 34 properties to the partnership and the secured debt relating to these properties in exchange for its 5% interest in the partnership. The total purchase price for the communities acquired has been allocated to the tangible and identifiable intangible assets and liabilities based upon their respective fair values in accordance with the company's accounting policies. Such allocations have not been finalized as we await final asset valuations and, as such, the allocation of the purchase consideration included in the accompanying Consolidated Balance Sheet at June 30, 2011 is preliminary and subject to adjustment. The 5% noncontrolling interest relating to the acquired properties is also reflected at estimated fair value. The following table presents the preliminary allocation of the purchase price to assets acquired and liabilities assumed, based on their estimated fair values (in thousands):

Land and land improvements	\$ 60,440
Buildings and improvements	792,394
Acquired lease intangibles	68,980
Cash and cash equivalents	28,258
Restricted cash	5,451
Total assets acquired	955,523
Secured debt	524,989
Accrued expenses and other liabilities	17,412
Entrance fee liability	13,269
Total liabilities assumed	555,670
Noncontrolling interests	19,575
Net assets acquired	<u>\$ 380,278</u>

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Real Property Investment Activity

The following is a summary of our real property investment activity for the periods presented (in thousands):

	Six Months Ended			
	June 30, 2011		June 30, 2010	
	Properties	Amount	Properties	Amount
Real property acquisitions:				
Senior housing operating	46	\$ 1,126,130	—	\$ —
Senior housing triple-net	165	2,849,603	10	109,492
Medical facilities	6	65,599	19	246,582
Land parcels	1	6,770	—	—
Total acquisitions	218	4,048,102	29	356,074
Less: Assumed debt		(721,632)		(117,892)
Assumed other items, net ⁽¹⁾		(147,500)		(31,690)
Cash disbursed for acquisitions		3,178,970		206,492
Construction in progress additions:				
Senior housing triple-net		75,999		50,726
Medical facilities		124,150		129,568
Total construction in progress additions		200,149		180,294
Less: Capitalized interest		(6,979)		(11,983)
Accruals ⁽²⁾		(30,736)		(5,775)
Cash disbursed for construction in progress		162,434		162,536
Capital improvements to existing properties		29,193		20,845
Total cash invested in real property		<u>\$ 3,370,597</u>		<u>\$ 389,873</u>

(1) Includes \$75,144,000 of capital lease obligations.

(2) Represents non-cash accruals for amounts to be paid in future periods relating to properties that converted in the period noted above.

The following is a summary of the construction projects that were placed into service and began generating revenues during the periods presented:

	Six Months Ended	
	June 30, 2011	June 30, 2010
Development projects:		
Senior housing triple-net	\$ —	\$ 269,260
Medical facilities	325,563	110,481
Total development projects	325,563	379,741
Expansion projects	19,218	1,502
Total construction in progress conversions	<u>\$ 344,781</u>	<u>\$ 381,243</u>

Transaction costs for the six months ended June 30, 2011 primarily represent costs incurred with the Genesis, Silverado and Benchmark transactions (including due diligence costs, fees for legal and valuation services, and termination of a pre-existing relationship computed based on the fair value of the assets acquired), lease termination fees and costs incurred in connection with the new property acquisitions.

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Real Estate Intangibles

The following is a summary of our real estate intangibles, excluding those classified as held for sale, as of the dates indicated (dollars in thousands):

	June 30, 2011	December 31, 2010
Assets:		
In place lease intangibles	\$ 269,915	\$ 182,030
Above market tenant leases	24,480	24,089
Below market ground leases	46,992	46,992
Lease commissions	6,275	4,968
Gross historical cost	347,662	258,079
Accumulated amortization	(91,591)	(49,145)
Net book value	<u>\$ 256,071</u>	<u>\$ 208,934</u>
Weighted-average amortization period in years	17.2	18.2
Liabilities:		
Below market tenant leases	\$ 57,695	\$ 57,261
Above market ground leases	5,020	5,020
Gross historical cost	62,715	62,281
Accumulated amortization	(18,523)	(15,992)
Net book value	<u>\$ 44,192</u>	<u>\$ 46,289</u>
Weighted-average amortization period in years	12.5	14.0

5. Dispositions, Assets Held for Sale and Discontinued Operations

During the six months ended June 30, 2011, we sold 38 properties for net gains of \$56,380,000. At June 30, 2011, we had one medical facility and three senior housing triple-net facilities that satisfied the requirements for held for sale treatment and such properties were properly recorded at the lesser of their estimated fair values less costs to sell or carrying values. During the six months ended June 30, 2011, we recorded an impairment charge of \$202,000 related to two senior housing triple-net facilities to adjust the carrying values to estimated fair values less costs to sell based on current sales price expectations. The following is a summary of our real property disposition activity for the periods presented (in thousands):

	Six Months Ended	
	June 30, 2011	June 30, 2010
Real property dispositions:		
Senior housing triple-net	\$ 117,074	\$ 38,361
Medical facilities	35,238	7,568
Total dispositions	152,312	45,929
Add: Gain on sales of real property	56,380	10,033
Seller financing on sales of real property	—	(1,470)
Proceeds from real property sales	<u>\$ 208,692</u>	<u>\$ 54,492</u>

We have reclassified the income and expenses attributable to all properties sold and attributable to properties held for sale at June 30, 2011 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 as a result of classifying properties as discontinued operations for the periods presented (in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Rental income	\$ 4,486	\$ 10,030	\$ 9,403	\$ 21,139
Expenses:				
Interest expense	812	2,072	1,756	4,132
Property operating expenses	830	1,033	2,215	2,961
Provision for depreciation	671	3,414	2,635	6,990
Income (loss) from discontinued operations, net	\$ 2,173	\$ 3,511	\$ 2,797	\$ 7,056

6. Real Estate Loans Receivable

The following is a summary of our real estate loan activity for the periods presented (in thousands):

	Six Months Ended					
	June 30, 2011			June 30, 2010		
	Senior Housing Triple-net	Medical Facilities	Totals	Senior Housing Triple-net	Medical Facilities	Totals
Advances on real estate loans receivable:						
Investments in new loans	\$ 11,807	\$ —	\$ 11,807	\$ 8,617	\$ 15,799	\$ 24,416
Draws on existing loans	8,824	7,836	16,660	18,838	—	18,838
Sub-total	20,631	7,836	28,467	27,455	15,799	43,254
Less: Seller financing on property sales	—	—	—	—	(1,470)	(1,470)
Net cash advances on real estate loans	20,631	7,836	28,467	27,455	14,329	41,784
Receipts on real estate loans receivable:						
Loan payoffs	129,860	—	129,860	1,599	—	1,599
Principal payments on loans	5,164	3,372	8,536	7,705	116	7,821
Total receipts on real estate loans	135,024	3,372	138,396	9,304	116	9,420
Net advances (receipts) on real estate loans	\$ (114,393)	\$ 4,464	\$ (109,929)	\$ 18,151	\$ 14,213	\$ 32,364

We recorded \$416,000 of provision for loan losses during the six months ended June 30, 2011, resulting in an allowance for loan losses of \$1,692,000 relating to real estate loans with outstanding balances of \$9,287,000, all of which were on non-accrual status at June 30, 2011.

7. Investments in Unconsolidated Joint Ventures

During the six months ended June 30, 2010, we entered into a joint venture investment with Forest City Enterprises (NYSE:FCE.A and FCE.B). We acquired a 49% interest in a seven-building life science campus located in University Park in Cambridge, MA, which is immediately adjacent to the campus of the Massachusetts Institute of Technology. Six buildings closed on February 22, 2010 and the seventh closed on June 30, 2010. The portfolio is 100% leased. In connection with these transactions, we invested \$174,692,000 of cash which is recorded as an equity investment on the balance sheet. Our share of the non-recourse secured debt assumed by the joint venture was approximately \$156,729,000 with weighted-average interest rates of 7.1%. The aggregate remaining unamortized basis difference of our investment in this joint venture of \$11,304,000 at June 30, 2011 is primarily attributable to real estate and related intangible assets and will be amortized over the life of the related properties and included in the reported amount of income from unconsolidated joint ventures.

In December 2010, we entered into a strategic joint venture relationship with a national medical office building company. In connection with this transaction, we invested \$21,321,000 of cash which is recorded as an equity investment on the balance sheet. Our share of the non-recourse secured debt assumed by the joint venture relationship was approximately \$24,609,000 with weighted-average interest rates of 6.06%. During the first six months of 2011, we invested an additional \$729,000 and assumed our share of non-recourse secured debt of approximately \$3,668,000 with a weighted average interest rate of 4.5% for completion of construction in two medical office buildings. The aggregate remaining unamortized basis difference of our investment in this joint venture of \$231,000 at June 30, 2011 is primarily attributable to real estate and related intangible assets and will be amortized over the life of the related properties and included in the reported amount of income from unconsolidated joint ventures.

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In addition, in January 2011, we completed the formation of a partnership with Silverado Senior Living, Inc. See Note 3 for additional information.

The results of operations for these investments have been included in our consolidated results of operations from the date of acquisition by the joint venture and are reflected in our income statement as income from unconsolidated joint ventures.

8. Customer Concentration

The following table summarizes certain information about our customer concentration as of June 30, 2011 (dollars in thousands):

	Number of Properties ⁽²⁾	Total Investment ⁽²⁾	Percent of Investment ⁽³⁾
Concentration by investment:⁽¹⁾			
Genesis HealthCare Corporation	148	\$ 2,479,070	20%
Benchmark Senior Living, LLC	34	908,290	7%
Merrill Gardens, LLC	38	709,874	6%
Senior Living Communities, LLC	12	606,056	5%
Brandywine Senior Living, LLC	19	605,383	5%
Remaining portfolio	604	7,109,323	57%
Totals	<u>855</u>	<u>\$ 12,417,996</u>	<u>100%</u>

(1) All of our top five customers are in our senior housing triple-net segment, except for Benchmark and Merrill Gardens, which are in our senior housing operating segment.

(2) Excludes our share of unconsolidated joint venture investments. Please see Note 7 for additional information.

(3) Investments with our top five customers comprised 32% of total investments at December 31, 2010.

9. Borrowings Under Line of Credit Arrangement and Related Items

At June 30, 2011, we had an unsecured line of credit arrangement with a consortium of sixteen banks in the amount of \$1,150,000,000. On January 24, 2011, we provided notice to KeyBank National Association, as administrative agent, of our desire to extend the line of credit. Under the terms of the loan agreement, we had the right to extend the revolving line of credit for one year if we were in compliance with all covenants and paid an extension fee of \$1,725,000. As a result of the extension, the line of credit was set to expire on August 6, 2012. Borrowings under the agreement were subject to interest payable in periods no longer than three months at either the agent bank's prime rate of interest or the applicable margin over LIBOR interest rate, at our option (0.79% at June 30, 2011). The applicable margin was based on certain of our debt ratings and was 0.6% at June 30, 2011. In addition, we paid a facility fee annually to each bank based on the bank's commitment amount. The facility fee depended on certain of our debt ratings and was 0.15% at June 30, 2011. We also paid an annual agent's fee of \$50,000. Principal was due upon expiration of the agreement. In July 2011, we expanded and extended the facility. See Note 18 for additional information.

The following information relates to aggregate borrowings under the unsecured line of credit arrangement for the periods presented (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance outstanding at quarter end	\$ —	\$206,000	\$ —	\$206,000
Maximum amount outstanding at any month end	\$20,000	\$431,000	\$495,000	\$431,000
Average amount outstanding (total of daily principal balances divided by days in period)	\$ 253	\$293,505	\$158,856	\$288,337
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	n/a	1.63%	2.17%	1.55%

10. Senior Unsecured Notes and Secured Debt

We have \$4,429,992,000 of senior unsecured notes with annual stated interest rates ranging from 3.00% to 8.00%. The carrying amounts of the senior unsecured notes represent the par value of \$4,464,930,000 adjusted for any unamortized premiums or discounts and other basis adjustments related to hedging the debt with derivative instruments. See Note 11 for further discussion regarding derivative instruments.

During the three months ended December 31, 2006, we issued \$345,000,000 of 4.75% senior unsecured convertible notes due December 2026. The notes are convertible, in certain circumstances, into cash and, if applicable, shares of common stock at an initial

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conversion rate of 20.8833 shares per \$1,000 principal amount of notes, which represents an initial conversion price of approximately \$47.89 per share. In general, upon conversion, the holder of each note would receive, in respect of the conversion value of such note, cash up to the principal amount of such note and common stock for the note's conversion value in excess of such principal amount. In addition, on each of December 1, 2011, December 1, 2016 and December 1, 2021, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest. During the three months ended March 31, 2009, we extinguished \$5,000,000 of these notes and recognized a gain of \$446,000. During the six months ended June 30, 2010, we extinguished \$214,412,000 of these notes, recognized a loss of \$8,837,000 and paid \$18,552,000 to reacquire the equity component of convertible debt. As of June 30, 2011, we had \$125,588,000 of these notes outstanding.

In July 2007, we issued \$400,000,000 of 4.75% senior unsecured convertible notes due July 2027. The notes are convertible, in certain circumstances, into cash and, if applicable, shares of our common stock at an initial conversion rate of 20.0000 shares per \$1,000 principal amount of notes, which represents an initial conversion price of approximately \$50.00 per share. In general, upon conversion, the holder of each note would receive, in respect of the conversion value of such note, cash up to the principal amount of such note and common stock for the note's conversion value in excess of such principal amount. In addition, on each of July 15, 2012, July 15, 2017 and July 15, 2022, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest. During the three months ended March 31, 2009, we extinguished \$5,000,000 of these notes and recognized a gain of \$594,000. During the six months ended June 30, 2010, we extinguished \$226,914,000 of these notes, recognized a loss of \$16,235,000 and paid \$21,062,000 to reacquire the equity component of convertible debt. As of June 30, 2011, we had \$168,086,000 of these notes outstanding.

During the year ended December 31, 2010, we issued \$494,403,000 of 3.00% senior unsecured convertible notes due December 2029. The notes are convertible, in certain circumstances, into cash and, if applicable, shares of common stock at an initial conversion rate of 19.5064 shares per \$1,000 principal amount of notes, which represents an initial conversion price of approximately \$51.27 per share. In general, upon conversion, the holder of each note would receive, in respect of the conversion value of such note, cash up to the principal amount of such note and common stock for the note's conversion value in excess of such principal amount. In addition, on each of December 1, 2014, December 1, 2019 and December 1, 2024, holders may require us to purchase all or a portion of their notes at a purchase price in cash equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest. In connection with this issuance, we recognized \$29,925,000 of equity component of convertible debt.

During the three months ended June 30, 2010, we issued \$450,000,000 of 6.125% senior unsecured notes due 2020, generating net proceeds of \$446,328,000. During the three months ended September 30, 2010, we issued \$450,000,000 of 4.70% senior unsecured notes due 2017, generating net proceeds of \$445,768,000. During the three months ended March 31, 2011, we issued \$400,000,000 of 3.625% senior unsecured notes due 2016, \$600,000,000 of 5.25% senior unsecured notes due 2022 and \$400,000,000 of 6.50% senior unsecured notes due 2041, generating net proceeds of \$1,381,086,000.

We have secured debt totaling \$1,889,873,000, collateralized by owned properties, with annual interest rates ranging from 4.60% to 10.00%. The carrying amounts of the secured debt represent the par value of \$1,869,129,000 adjusted for any unamortized fair value adjustments on loan assumptions. The carrying values of the properties securing the debt totaled \$3,215,570,000 at June 30, 2011. During the six months ended June 30, 2010, we assumed \$106,140,000 of first mortgage loans principal with an average rate of 7.35% secured by 17 properties. During the six months ended June 30, 2011, we assumed \$689,876,000 of first mortgage loans principal with an average rate of 5.388% secured by 35 properties. During the six months ended June 30, 2011, we issued \$58,470,000 of first mortgage loans principal with an average rate of 5.78% secured by 32 properties.

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements 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 June 30, 2011, we were in compliance with all of the covenants under our debt agreements.

At June 30, 2011, the annual principal payments due on these debt obligations are as follows (in thousands):

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	Senior Unsecured Notes(1)	Secured Debt (1)	Totals
2011	\$ —	\$ 14,545	\$ 14,545
2012	76,853	101,796	178,649
2013	300,000	274,860	574,860
2014	—	186,539	186,539
2015	250,000	181,087	431,087
Thereafter	3,838,077	1,110,302	4,948,379
Totals	\$ 4,464,930	\$ 1,869,129	\$ 6,334,059

(1) Amounts represent principal amounts due and do not include unamortized premiums/discounts or other fair value adjustments as reflected on the balance sheet.

11. 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 manage the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. Derivates are recorded at fair 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 of our derivatives are estimated by pricing models that consider the forward yield curves and discount rates. Such amounts and the recognition of such amounts are subject to significant estimates that may change in the future.

The following is a summary of the fair value of our derivative instruments (dollars in thousands):

	Balance Sheet Location	Fair Value	
		June 30, 2011	December 31, 2010
Cash flow hedge interest rate swaps	Other liabilities	\$ 1,414	\$ 482

Cash Flow Hedges

For instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (“OCI”), and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings. Approximately \$1,983,000 of losses, which are included in accumulated other comprehensive income (“AOCI”), are expected to be reclassified into earnings in the next 12 months.

The following presents the impact of derivative instruments on the statement of operations and OCI for the periods presented (dollars in thousands):

	Location	Three Months Ended		Six Months Ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Gain (loss) on interest rate swap recognized in OCI (effective portion)	n/a	\$949	\$(4,962)	\$1,841	\$(7,016)
Gain (loss) reclassified from AOCI into income (effective portion)	Interest expense	563	(794)	973	(1,598)
Gain (loss) recognized in income (ineffective portion and amount excluded from effectiveness testing)	Realized loss	—	—	—	—

On August 7, 2009, we entered into an interest rate swap (the “August 2009 Swap”) for a total notional amount of \$52,198,000 to hedge seven years of interest payments associated with long-term LIBOR based borrowings. This swap was terminated on September 30, 2010 for a cash payment of \$6,645,000 which has been deferred and included as a component of accumulated other comprehensive income. The effective portion is being amortized over the remaining term of the original swap as an adjustment to the yield on our LIBOR-based debt. The August 2009 Swap had an effective date of August 12, 2009 and a maturity date of September 1, 2016. The August 2009 Swap had the economic effect of fixing \$52,198,000 at 3.93% plus a credit spread for seven years. The August 2009 Swap

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had been designated as a cash flow hedge and we expected it to be highly effective at offsetting changes in cash flows of interest payments on \$52,198,000 of long-term debt due to changes in the LIBOR swap rate.

On September 28, 2009, we entered into an interest rate swap (the "September 2009 Swap") for a total notional amount of \$48,155,000 to hedge seven years of interest payments associated with long-term LIBOR based borrowings. This swap was terminated on September 30, 2010 for a cash payment of \$4,365,000 which has been deferred and included as a component of accumulated other comprehensive income. The effective portion is being amortized over the remaining term of the original swap as an adjustment to the yield on our LIBOR-based debt. The September 2009 Swap had an effective date of September 30, 2009 and a maturity date of October 1, 2016. The September 2009 Swap had the economic effect of fixing \$48,155,000 at 3.2675% plus a credit spread for seven years. The September 2009 Swap had been designated as a cash flow hedge and we expected it to be highly effective at offsetting changes in cash flows of interest payments on \$48,155,000 of long-term debt due to changes in the LIBOR swap rate.

On December 31, 2010, we assumed an interest rate swap (the "December 2010 Swap") for a total notional amount of \$12,650,000 to hedge interest payments associated with long-term LIBOR based borrowings. The December 2010 Swap has an effective date of December 31, 2010 and a maturity date of December 31, 2013. The December 2010 Swap has the economic effect of fixing \$12,650,000 at 5.50% plus a credit spread through the swap's maturity. In January 2011, the December 2010 Swap was designated as a cash flow hedge and we expect it to be highly effective at offsetting changes in cash flows of interest payments on \$12,650,000 of long-term debt due to changes in the LIBOR swap rate.

On April 15, 2011, we assumed three interest rate swaps (the "April 2011 Swaps") for a total notional amount of \$33,795,000 to hedge interest payments associated with long-term LIBOR based borrowings. One swap with an effective date of December 20, 2010 and a maturity date of September 1, 2013 has the economic effect of fixing \$13,095,000 of debt at 3.05%. The other two swaps have an effective date of October 15, 2010 and a maturity date of December 31, 2012 and have the economic effect of fixing \$20,700,000 of debt at 2.73%. In June 2011, the April swaps were designated as cash flow hedges and we expect them to be highly effective at offsetting changes in cash flows of interest payments on \$33,795,000 of long-term debt due to changes in the LIBOR swap rate.

Fair Value Hedges

For derivative instruments that are designated as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged risk are recognized in current earnings. There were no outstanding fair value hedges at June 30, 2011 or December 31, 2010.

12. Commitments and Contingencies

We have two outstanding letters of credit issued for the benefit of certain insurance companies that provide workers' compensation insurance to one of our operators. Our obligation to provide the letters of credit terminates in 2013. At June 30, 2011, our obligation under the letters of credit was \$4,200,000.

We have an outstanding letter of credit issued for the benefit of certain insurance companies that provide liability and property insurance to one of our tenants. Our obligation to provide the letter of credit terminates in 2013. At June 30, 2011, our obligation under the letter of credit was \$1,000,000.

We have an outstanding letter of credit issued for the benefit of a city in Wisconsin that secures the completion and installation of certain public improvements by one of our tenants in connection with the development of a property. Our obligation to provide the letter of credit terminates in October 2013. At June 30, 2011, our obligation under the letter of credit was \$215,000.

We have an outstanding letter of credit issued for the benefit of a village in Illinois that secures the completion and installation of certain public improvements by one of our tenants in connection with the development of a property. Our obligation to provide the letter of credit terminates in August 2011. At June 30, 2011, our obligation under the letter of credit was \$67,932.

At June 30, 2011, we had outstanding construction in process of \$212,161,000 for leased properties and were committed to providing additional funds of approximately \$219,306,000 to complete construction. At June 30, 2011, we had contingent purchase obligations totaling \$80,151,000. These contingent purchase obligations relate to unfunded capital improvement obligations. Rents due from the tenant are increased to reflect the additional investment in the property.

We evaluate our leases for operating versus capital lease treatment in accordance with ASC Topic 840 "Leases." A lease is classified as a capital lease if it provides for transfer of ownership of the leased asset at the end of the lease term, contains a bargain purchase option, has a lease term greater than 75% of the economic life of the leased asset, or if the net present value of the future minimum lease payments are in excess of 90% of the fair value of the leased asset. Certain leases contain bargain purchase options and have been classified as capital leases. At June 30, 2011, we had operating lease obligations of \$220,688,000 relating to certain ground leases and company office space. We incurred rental expense relating to company office space of \$615,000 and \$1,130,000 for

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the three and six months ended June 30, 2011, respectively, as compared to \$303,000 and \$635,000 for the same period in 2010. Regarding the ground leases, we have sublease agreements with certain of our operators that require the operators to reimburse us for our monthly operating lease obligations. At June 30, 2011, aggregate future minimum rentals to be received under these noncancelable subleases totaled \$30,354,000.

At June 30, 2011, future minimum lease payments due under operating and capital leases are as follows (in thousands):

	<u>Operating Leases</u>	<u>Capital Leases⁽¹⁾</u>
2011	\$ 2,662	\$ 3,803
2012	5,322	7,622
2013	5,333	73,003
2014	5,353	660
2015	5,100	8,425
Thereafter	196,918	—
Totals	\$ 220,688	\$ 93,513

(1) Related to gross assets of \$181,254,000 recorded in real property.

13. Stockholders' Equity

The following is a summary of our stockholder's equity capital accounts as of the dates indicated:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Preferred Stock:		
Authorized shares	50,000,000	50,000,000
Issued shares	25,724,854	11,349,854
Outstanding shares	25,724,854	11,349,854
Common Stock, \$1.00 par value:		
Authorized shares	400,000,000	225,000,000
Issued shares	177,656,452	147,381,191
Outstanding shares	177,327,590	147,097,381

Preferred Stock. During the six months ended June 30, 2010, certain holders of our 7.5% Series G Cumulative Convertible Preferred Stock converted 76,841 shares into 54,990 shares of our common stock, leaving 322,872 of such shares outstanding at June 30, 2010. The remaining Series G shares were subsequently converted into common shares on or prior to September 30, 2010. During the six months ended June 30, 2011, we issued 14,375,000 shares of 6.50% Series I Cumulative Convertible Perpetual Preferred Stock. These shares have a liquidation value of \$50.00 per share. Dividends are payable quarterly in arrears. The Series I preferred stock is not redeemable by us. The preferred shares are convertible, at the holder's option, into 0.8460 shares of common stock (equal to an initial conversion price of approximately \$59.10).

Common Stock. The following is a summary of our common stock issuances during the six months ended June 30, 2011 and 2010 (dollars in thousands, except per share amounts):

	<u>Shares Issued</u>	<u>Average Price</u>	<u>Gross Proceeds</u>	<u>Net Proceeds</u>
2010 Dividend reinvestment plan issuances	855,343	\$ 41.59	\$ 35,570	\$ 35,570
2010 Option exercises	51,313	38.78	1,990	1,990
2010 Totals	906,656		\$ 37,560	\$ 37,560
March 2011 public issuance	28,750,000	\$ 49.25	\$ 1,415,938	\$ 1,358,694
2011 Dividend reinvestment plan issuances	1,200,418	49.44	59,348	58,400
2011 Option exercises	116,782	37.69	4,401	4,401
2011 Totals	30,067,200		\$ 1,479,687	\$ 1,421,495

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Dividends. The following is a summary of our dividend payments (dollars in thousands, except per share amounts):

	Six Months Ended			
	June 30, 2011		June 30, 2010	
	Per Share	Amount	Per Share	Amount
Common Stock	\$ 1.4050	\$ 228,565	\$ 1.3600	\$ 169,069
Series D Preferred Stock	0.9844	3,937	0.9844	3,938
Series E Preferred Stock	—	—	0.7500	56
Series F Preferred Stock	0.9532	6,672	0.9532	6,672
Series G Preferred Stock	—	—	0.9376	327
Series H Preferred Stock	1.4293	500		
Series I Preferred Stock	1.0382	14,924		
Totals		<u>\$ 254,598</u>		<u>\$ 180,062</u>

Comprehensive Income

The following is a summary of accumulated other comprehensive income/(loss) as of the dates indicated (in thousands):

	June 30, 2011	December 31, 2010
Unrecognized losses on cash flow hedges	\$ (9,101)	\$ (9,969)
Unrecognized losses on equity investments	(411)	(497)
Unrecognized actuarial losses	(633)	(633)
Totals	<u>\$ (10,145)</u>	<u>\$ (11,099)</u>

The following is a summary of comprehensive income/(loss) for the periods indicated (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Unrecognized gains (losses) on cash flow hedges	\$ 386	\$ (4,208)	\$ 868	\$ (5,498)
Unrecognized gains (losses) on equity investments	(236)	(227)	86	(137)
Total other comprehensive income (loss)	150	(4,435)	954	(5,635)
Net income attributable to controlling interests	87,200	51,130	119,252	82,451
Comprehensive income attributable to controlling interests	87,350	46,695	120,206	76,816
Net and comprehensive income (loss) attributable to noncontrolling interests ⁽¹⁾	(992)	(66)	(1,234)	307
Total comprehensive income	<u>\$ 86,358</u>	<u>\$ 46,629</u>	<u>\$ 118,972</u>	<u>\$ 77,123</u>

(1) Includes amounts attributable to redeemable noncontrolling interests.

Other Equity

Other equity consists of accumulated option compensation expense which represents the amount of amortized compensation costs related to stock options awarded to employees and directors. Expense, which is recognized as the options vest based on the market value at the date of the award, totaled \$612,000 and \$1,651,000 for the three and six months ended June 30, 2011 as compared to \$221,000 and \$1,194,000 for the same periods in 2010.

14. Stock Incentive Plans

Our Amended and Restated 2005 Long-Term Incentive Plan authorizes up to 6,200,000 shares of common stock to be issued at the discretion of the Compensation Committee of the Board of Directors. The 2005 Plan replaced the 1995 Stock Incentive Plan and the Stock Plan for Non-Employee Directors. The options granted to officers and key employees under the 1995 Plan continued to vest through 2010 and expire ten years from the date of grant. Our non-employee directors, officers and key employees are eligible to participate in the 2005 Plan. The 2005 Plan allows for the issuance of, among other things, stock options, restricted stock, deferred stock units and dividend equivalent rights. Vesting periods for options, deferred stock units and restricted shares generally range from

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

three years for non-employee directors to five years for officers and key employees. Options expire ten years from the date of grant.

Valuation Assumptions

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

	Six Months Ended	
	June 30, 2011	June 30, 2010
Dividend yield	5.74%	6.28%
Expected volatility	34.80%	34.08%
Risk-free interest rate	2.87%	3.23%
Expected life (in years)	7.0	7.0
Weighted-average fair value	\$ 9.60	\$ 7.82

The dividend yield represented the dividend yield of our common stock on the dates of grant. Our computation of expected volatility was based on historical volatility. The risk-free interest rates used were the 7-year U.S. Treasury Notes yield on the date of grant. The expected life was based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations regarding future employee behavior.

Option Award Activity

The following table summarizes information about stock option activity for the six months ended June 30, 2011:

Stock Options	Number of Shares (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (years)	Aggregate Intrinsic Value (\$000's)
Options at beginning of year	1,207	\$ 39.45	8.0	
Options granted	289	49.17		
Options exercised	(117)	37.68		
Options terminated	(6)	42.87		
Options at end of period	<u>1,373</u>	<u>\$ 41.63</u>	<u>7.7</u>	<u>\$ 14,835</u>
Options exercisable at end of period	542	\$ 38.74	6.1	\$ 7,421
Weighted average fair value of options granted during the period		\$ 9.60		

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the quoted price of our common stock for the options that were in-the-money at June 30, 2011. During the six months ended June 30, 2011 and 2010, the aggregate intrinsic value of options exercised under our stock incentive plans was \$1,686,000 and \$550,000, respectively (determined as of the date of option exercise). Cash received from option exercises under our stock incentive plans was \$4,401,000 for the six months ended June 30, 2011.

As of June 30, 2011, there was approximately \$4,701,000 of total unrecognized compensation cost related to unvested stock options granted under our stock incentive plans. That cost is expected to be recognized over a weighted average period of four years. As of June 30, 2011, there was approximately \$16,084,000 of total unrecognized compensation cost related to unvested restricted stock granted under our stock incentive plans. That cost is expected to be recognized over a weighted average period of three years.

The following table summarizes information about non-vested stock incentive awards as of June 30, 2011 and changes for the six months ended June 30, 2011:

HEALTH CARE REIT, INC.
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	Stock Options		Restricted Stock	
	Number of Shares (000's)	Weighted Average Grant Date Fair Value	Number of Shares (000's)	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2010	768	\$ 6.19	420	\$ 41.09
Vested	(220)	6.12	(145)	41.86
Granted	289	9.60	242	49.19
Terminated	(6)	5.54	(6)	26.31
Non-vested at June 30, 2011	<u>831</u>	<u>\$ 7.40</u>	<u>511</u>	<u>\$ 44.86</u>

15. 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Numerator for basic and diluted earnings per share — net income attributable to common stockholders	<u>\$ 69,847</u>	<u>\$ 45,646</u>	<u>\$ 93,219</u>	<u>\$ 71,458</u>
Denominator for basic earnings per share — weighted average shares	176,445	123,808	165,755	123,541
Effect of dilutive securities:				
Employee stock options	178	102	184	104
Non-vested restricted shares	249	414	232	414
Convertible senior unsecured notes	616	—	287	—
Dilutive potential common shares	<u>1,043</u>	<u>516</u>	<u>703</u>	<u>518</u>
Denominator for diluted earnings per share — adjusted weighted average shares	<u>177,488</u>	<u>124,324</u>	<u>166,458</u>	<u>124,059</u>
Basic earnings per share	<u>\$ 0.40</u>	<u>\$ 0.37</u>	<u>\$ 0.56</u>	<u>\$ 0.58</u>
Diluted earnings per share	<u>\$ 0.39</u>	<u>\$ 0.37</u>	<u>\$ 0.56</u>	<u>\$ 0.58</u>

The diluted earnings per share calculations exclude the dilutive effect of 287,000 and 381,000 stock options for the three and six months ended June 30, 2011 and 2010, respectively, because the exercise prices were more than the average market price. The Series H Cumulative Convertible and Redeemable Preferred Stock and Series I Cumulative Convertible Perpetual Preferred Stock were not included in the 2011 calculation as the effect of conversions into common stock was anti-dilutive for that period.

16. Disclosure about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Mortgage Loans and Other Real Estate Loans Receivable — The fair value of mortgage loans and other real estate loans receivable is generally estimated by discounting the estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Cash and Cash Equivalents — The carrying amount approximates fair value.

Available-for-sale Equity Investments — Available-for-sale equity investments are recorded at their fair value based on publicly available trading prices.

Borrowings Under Unsecured Lines of Credit Arrangements — The carrying amount of the unsecured line of credit arrangement approximates fair value because the borrowings are interest rate adjustable.

HEALTH CARE REIT, INC.
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Senior Unsecured Notes — The fair value of the senior unsecured notes payable was estimated based on publicly available trading prices.

Secured Debt — The fair value of fixed rate secured debt is estimated by discounting the estimated future cash flows using the current rates at which similar loans would be made with similar credit ratings and for the same remaining maturities. The carrying amount of variable rate secured debt approximates fair value because the borrowings are interest rate adjustable.

Interest Rate Swap Agreements — Interest rate swap agreements are recorded as assets or liabilities on the balance sheet at fair market value. Fair market value is estimated by utilizing pricing models that consider forward yield curves and discount rates.

The carrying amounts and estimated fair values of our financial instruments are as follows (in thousands):

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Mortgage loans receivable	\$ 75,171	\$ 81,005	\$ 109,283	\$ 111,255
Other real estate loans receivable	251,480	253,360	327,297	333,003
Available-for-sale equity investments	1,189	1,189	1,103	1,103
Cash and cash equivalents	328,758	328,758	131,570	131,570
Financial Liabilities:				
Borrowings under unsecured lines of credit arrangements	\$ —	\$ —	\$ 300,000	\$ 300,000
Senior unsecured notes	4,429,992	4,464,930	3,034,949	3,267,638
Secured debt	1,889,873	1,977,949	1,125,906	1,178,081
Interest rate swap agreements	1,414	1,414	482	482

U.S. GAAP provides authoritative guidance for measuring and disclosing fair value measurements of assets and liabilities. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Interest rate swap agreements are valued using models that assume a hypothetical transaction to sell the asset or transfer the liability in the principal market for the asset or liability based on market data derived from interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment timing, loss severities, credit risks and default rates.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Items Measured at Fair Value on a Recurring Basis

The market approach is utilized to measure fair value for our financial assets and liabilities reported at fair value on a recurring basis. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Fair Value Measurements as of June 30, 2011			
	Total	Level 1	Level 2	Level 3
Available-for-sale equity investments ⁽¹⁾	\$ 1,189	\$ 1,189	\$ —	\$ —
Interest rate swap agreements ⁽²⁾	(1,414)	—	(1,414)	—
Totals	<u>\$ (225)</u>	<u>\$ 1,189</u>	<u>\$ (1,414)</u>	<u>\$ —</u>

(1) Unrealized gains or losses on equity investments are recorded in accumulated other comprehensive income (loss) at each measurement date.

(2) Please see Note 11 for additional information.

Items Measured at Fair Value on a Nonrecurring Basis

In addition to items that are measured at fair value on a recurring basis, we also have assets and liabilities on our balance sheet that are measured at fair value on a nonrecurring basis. As these assets and liabilities are not measured at fair value on a recurring basis, they are not included in the table above. Assets and liabilities that are measured at fair value on a nonrecurring basis include assets acquired and liabilities assumed in business combinations (see Note 3), assets held for sale and asset impairments (see Note 5 for impairments of real property and Note 6 for allowances on loans receivable). We have determined that the fair value measurements included in each of these assets and liabilities rely primarily on company-specific inputs and our assumptions about the use of the assets and settlement of liabilities, as observable inputs are not available. As such, we have determined that each of these fair value measurements generally reside within Level 3 of the fair value hierarchy. We estimate the fair value of real estate using unobservable data such as net operating income and estimated capitalization and discount rates. We also consider local and national industry market data including comparable sales, and commonly engage an external real estate appraiser to assist us in our estimation of fair value.

17. Segment Reporting

During the six months ended June 30, 2011, we changed the name of our senior housing and care segment to senior housing triple-net. Additionally, we added a new senior housing operating segment. There was no activity related to this segment for the six months ended June 30, 2010. We invest in senior housing and health care real estate. We evaluate our business and make resource allocations on our three business segments: senior housing triple-net, senior housing operating and medical facilities. Our senior housing triple-net properties include skilled nursing facilities, assisted living facilities, independent living/continuing care retirement communities and combinations thereof. Under the senior housing triple-net segment, we invest in senior housing and health care real estate through acquisition and financing of primarily single tenant properties. Properties acquired are primarily leased under triple-net leases and we are not involved in the management of the property. Our senior housing operating properties include assisted living facilities and independent living/continuing care retirement communities that are owned and/or operated through RIDEA partnership structures. Our primary medical facility properties include medical office buildings, hospitals and life science buildings. Our medical office buildings are typically leased to multiple tenants and generally require a certain level of property management. Our hospital investments are structured similar to our senior housing triple-net investments. Our life science investments represent investments in an unconsolidated joint venture (see Note 7 for additional information). The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010). There are no intersegment sales or transfers. We evaluate performance based upon net operating income of the combined properties in each segment. Non-segment revenue consists mainly of interest income on non-real estate investments and other income. Non-segment assets consist of corporate assets including cash, deferred loan expenses and corporate offices and equipment among others. Non-property specific revenues and expenses are not allocated to individual segments in determining net operating income.

Summary information for the reportable segments during the three and six months ended June 30, 2011 and 2010 is as follows (in thousands and includes amounts from discontinued operations):

HEALTH CARE REIT, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Rental Income	Resident Fees and Services	Interest Income	Other Income	Total Revenues	Property Operating Expenses	Net Operating Income ⁽¹⁾	Real Estate Depreciation/ Amortization	Interest Expense	Total Assets
Three Months Ended										
June 30, 2011										
Senior housing triple-net	\$ 169,247	\$ —	\$ 11,036	\$ 4,497	\$ 184,780	\$ —	\$ 184,780	\$ 47,443	\$ 3,637	\$ 7,338,125
Senior housing operating	—	123,149	—	—	123,149	84,334	38,815	38,176	12,974	2,257,709
Medical facilities ⁽²⁾	74,942	—	1,830	466	77,238	16,693	60,545	25,434	7,681	3,428,309
Non-segment/Corporate	—	—	—	378	378	—	378	—	60,481	456,518
	<u>\$ 244,189</u>	<u>\$ 123,149</u>	<u>\$ 12,866</u>	<u>\$ 5,341</u>	<u>\$ 385,545</u>	<u>\$ 101,027</u>	<u>\$ 284,518</u>	<u>\$ 111,053</u>	<u>\$ 84,773</u>	<u>\$ 13,480,661</u>
Three Months Ended										
June 30, 2010										
Senior housing triple-net	\$ 97,254	\$ —	\$ 8,830	\$ 1,536	\$ 107,620	\$ —	\$ 107,620	\$ 28,553	\$ 5,022	
Medical facilities ⁽²⁾	54,540	—	505	302	55,347	13,003	42,344	18,898	6,476	
Non-segment/Corporate	—	—	—	812	812	—	812	—	26,052	
	<u>\$ 151,794</u>	<u>\$ —</u>	<u>\$ 9,335</u>	<u>\$ 2,650</u>	<u>\$ 163,779</u>	<u>\$ 13,003</u>	<u>\$ 150,776</u>	<u>\$ 47,451</u>	<u>\$ 37,550</u>	
Six Months Ended										
June 30, 2011										
Senior housing triple-net	\$ 274,988	\$ —	\$ 20,414	\$ 5,004	\$ 300,406	\$ —	\$ 300,406	\$ 78,399	\$ 5,703	
Senior housing operating	—	194,435	—	—	194,435	133,606	60,829	58,307	19,501	
Medical facilities ⁽²⁾	141,263	—	4,161	2,251	147,675	32,735	114,940	49,115	14,967	
Non-segment/Corporate	—	—	—	910	910	—	910	—	103,932	
	<u>\$ 416,251</u>	<u>\$ 194,435</u>	<u>\$ 24,575</u>	<u>\$ 8,165</u>	<u>\$ 643,426</u>	<u>\$ 166,341</u>	<u>\$ 477,085</u>	<u>\$ 185,821</u>	<u>\$ 144,103</u>	
Six Months Ended										
June 30, 2010										
Senior housing triple-net	\$ 190,490	\$ —	\$ 17,405	\$ 2,028	\$ 209,923	\$ —	\$ 209,923	\$ 54,954	\$ 9,693	
Medical facilities	105,410	—	978	574	106,962	26,722	80,240	36,078	12,053	
Non-segment/Corporate	—	—	—	1,044	1,044	—	1,044	—	45,789	
	<u>\$ 295,900</u>	<u>\$ —</u>	<u>\$ 18,383</u>	<u>\$ 3,646</u>	<u>\$ 317,929</u>	<u>\$ 26,722</u>	<u>\$ 291,207</u>	<u>\$ 91,032</u>	<u>\$ 67,535</u>	

- (1) Net operating income (“NOI”) is used to evaluate the operating performance of our properties. We define NOI as total revenues, including tenant reimbursements, less property level operating expenses, which exclude depreciation and amortization, general and administrative expenses, impairments and interest expense. We believe NOI provides investors relevant and useful information because it measures the operating performance of our properties at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess the property level performance of our properties.
- (2) Excludes income and expense amounts related to properties held in unconsolidated joint ventures. Please see Note 7 for additional information.

18. Subsequent Events

Line of Credit Expansion On July 27, 2011, we closed on a \$2,000,000,000 unsecured revolving credit facility to replace our \$1,150,000,000 facility which was scheduled to mature in August 2012. Among other things, the new facility provides us with additional financial flexibility and borrowing capacity and extends our agreement to July 2015. The facility is priced at 1.35% over LIBOR with a 0.25% annual facility fee based on current credit ratings.

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, 2010, as updated by our Current Report on Form 8-K filed May 10, 2011, including factors identified under the headings "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Executive Summary**Company Overview**

Health Care REIT, Inc. is a real estate investment trust ("REIT") that has been at the forefront of senior housing and health care real estate since the company was founded in 1970. We are an S&P 500 company headquartered in Toledo, Ohio and our portfolio spans the full spectrum of senior housing and health care real estate, including senior housing communities, skilled nursing facilities, medical office buildings, inpatient and outpatient medical centers and life science facilities. Our capital programs, when combined with comprehensive planning, development and property management services, make us a single-source solution for acquiring, planning, developing, managing, repositioning and monetizing real estate assets. The following table summarizes our portfolio as of June 30, 2011:

Type of Property	Investments (in thousands)	Percentage of Investments	Number of Properties	# Beds/Units or Sq. Ft.	Investment per metric ⁽¹⁾	States
Senior housing triple-net	\$ 3,581,102	28.0%	262	23,626 units	\$ 172,287 per unit	37
Skilled nursing facilities	3,577,149	27.9%	303	39,478 beds	90,793 per bed	28
Senior housing operating	2,207,194	17.2%	99	10,536 units	209,491 per unit	21
Hospitals	817,632	6.4%	31	1,857 beds	441,517 per bed	13
Medical office buildings ⁽²⁾	2,282,355	17.8%	166	9,555,262 sq. ft.	251 per sq. ft.	27
Life science buildings ⁽²⁾	342,725	2.7%	7		n/a	1
Totals	\$12,808,157	100.0%	868			45

- (1) Investment per metric was computed by using the total committed investment amount of \$13,027,463,000, which includes net real estate investments, our share of unconsolidated joint venture investments and unfunded construction commitments for which initial funding has commenced which amounted to \$12,417,996,000, \$390,161,000 and \$219,306,000, respectively.
- (2) Includes our share of unconsolidated joint venture investments. Please see Note 7 to our unaudited financial statements for additional information.

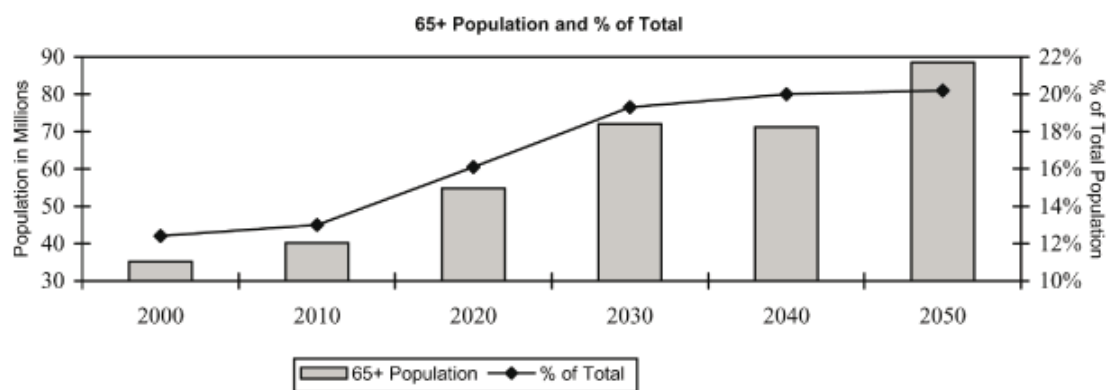
Health Care Industry

The demand for health care services, and consequently health care properties, is projected to reach unprecedented levels in the near future. The Centers for Medicare and Medicaid Services ("CMS") projects that national health expenditures will rise to \$3.5 trillion in 2015 or 18.2% of gross domestic product ("GDP"). The average annual growth in national health expenditures for 2009 through 2019 is expected to be 6.3%, which is 0.2% faster than pre-health care reform estimates.

While demographics are the primary driver of demand, economic conditions and availability of services contribute to health care service utilization rates. We believe the health care property market may be less susceptible to fluctuations and economic downturns relative to other property sectors. Investor interest in the market remains strong, especially in specific sectors such as medical office buildings, regardless of the current stringent lending environment. As a REIT, we believe we are situated to benefit from any turbulence in the capital markets due to our access to capital.

The total U.S. population is projected to increase by 20.4% through 2030. The elderly population aged 65 and over is projected to increase by 79.2% through 2030. The elderly are an important component of health care utilization, especially independent living services, assisted living services, skilled nursing services, inpatient and outpatient hospital services and physician ambulatory care. Most health care services are provided within a health care facility such as a hospital, a physician's office or a senior housing facility. Therefore, we believe there will be continued demand for companies, such as ours, with expertise in health care real estate.

The following chart illustrates the projected increase in the elderly population aged 65 and over:

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

Source: U.S. Census Bureau

Health care real estate investment opportunities tend to increase as demand for health care services increases. We recognize the need for health care real estate as it correlates to health care service demand. Health care providers require real estate to house their businesses and expand their services. We believe that investment opportunities in health care real estate will continue to be present due to:

- The specialized nature of the industry, which enhances the credibility and experience of our company;
- The projected population growth combined with stable or increasing health care utilization rates, which ensures demand; and
- The on-going merger and acquisition activity.

Current Economic and Capital Market Outlook

In the commercial real estate market, property prices generally continue to fluctuate. Likewise, the U.S. credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which sometimes impact access to and cost of capital. In spite of these challenges, we successfully raised over \$3 billion of debt and equity capital during the first quarter of 2011 in order to fund our attractive investment opportunities. We believe our success in sourcing capital is due to our strategic deal sourcing and the significant growth underlying the health care real estate sector in general.

We will continue to be selective as further income-enhancing acquisition opportunities are pursued. Investment opportunities must adhere to our strict underwriting and risk allocation criteria. In addition, we will continue to monitor the commercial real estate and U.S. credit markets carefully and, if required, will make decisions to adjust our business strategy accordingly. See our discussion of "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010.

Business Strategy

Our primary objectives are to protect stockholder 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 across the full spectrum of senior housing and health care real estate and diversify our investment portfolio by property type, customer and geographic location.

Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals, resident fees and services, and interest earned on outstanding loans receivable. These items represent our primary source of liquidity to fund distributions and are dependent upon our obligors' continued ability to make contractual rent and interest payments to us. To the extent that our obligors 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 property and operator/tenant. Our asset management process includes review of monthly financial statements for each property, periodic review of obligor credit, periodic property 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 property-specific data. Additionally, we conduct extensive research to ascertain industry trends and risks. Through these asset management and research efforts, we are typically able to intervene at an early stage to address payment risk, and in so doing, support both the collectability of revenue and the value of our investment.

In addition to our asset management and research efforts, we also structure our investments to help mitigate payment risk.

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

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 obligor and its affiliates.

For the six months ended June 30, 2011, rental income, resident fees and services and interest income represented 65%, 31% and 4%, respectively, of total gross revenues (including revenues from discontinued operations). Substantially all of our operating leases are designed with either fixed or contingent escalating rent structures. Leases with fixed annual rental escalators are generally recognized on a straight-line basis over the initial lease period, subject to a collectability assessment. Rental income related to leases with contingent rental escalators is generally recorded based on the contractual cash rental payments due for the period. 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 believe our liquidity is sufficient to fund operations, meet debt service obligations (both principal and interest), make dividend distributions and complete construction projects in process. We also anticipate evaluating opportunities to finance future investments. New investments are generally funded from temporary borrowings under our unsecured line of credit arrangement, 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 line of credit arrangement, has historically been provided through a combination of public and private offerings of debt and equity securities and the incurrence or assumption of secured debt.

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under the unsecured line of credit arrangement, 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 investments (including capital expenditures and construction advances), loan advances, property operating expenses and general and administrative expenses. 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 anticipate the sale of real property and the repayment of loans receivable totaling approximately \$300,000,000 during 2011. It is possible that additional loan repayments or sales of real property may occur in the future. 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 line of credit arrangement. At June 30, 2011, we had \$328,758,000 of cash and cash equivalents, \$42,497,000 of restricted cash and \$1,150,000,000 of available borrowing capacity under our unsecured line of credit arrangement.

Key Transactions in 2011

We have completed the following key transactions to date in 2011:

- our Board of Directors increased the quarterly cash dividend to \$0.715 per common share, as compared to \$0.69 per common share for 2010, beginning in May 2011. The dividend declared for the quarter ended June 30, 2011 represents the 161st consecutive quarterly dividend payment;
- we raised \$3,534,688,000 of equity and unsecured debt capital in March 2011;
- we completed \$4,177,716,000 of gross investments and had \$282,230,000 of investment payoffs during the six months ended June 30, 2011; and
- we extended our unsecured line of credit arrangement to July 2015 and expanded it to \$2,000,000,000 in July 2011.

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 attributable to common stockholders ("NICS") is the most appropriate earnings measure. Other useful supplemental measures of our operating performance include funds from operations ("FFO") and net operating income ("NOI"); 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 and reconciliations of FFO and NOI. These earnings measures 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 of our operating performance measures for the periods presented (in thousands, except per share data):

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

	Three Months Ended					
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
Net income attributable to common stockholders	\$ 25,812	\$ 45,646	\$ 1,124	\$ 34,301	\$ 23,372	\$ 69,847
Funds from operations	63,087	92,214	41,108	82,670	70,851	149,553
Net operating income ⁽¹⁾	143,055	157,415	164,292	175,585	201,084	292,789
Per share data (fully diluted):						
Net income attributable to common stockholders	\$ 0.21	\$ 0.37	\$ 0.01	\$ 0.25	\$ 0.15	\$ 0.39
Funds from operations	0.51	0.74	0.33	0.60	0.46	0.84

(1) Includes our share of net operating income from unconsolidated joint ventures.

Concentration Risk. We evaluate our concentration risk in terms of asset mix, investment mix, relationship 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, intangibles and related rights, is owned by us. Investment mix measures the portion of our investments that relate to our various segment types. Relationship mix measures the portion of our investments that relate to our top five relationships. Geographic mix measures the portion of our investments that relate to our top five states. The following table reflects our recent historical trends of concentration risk for the periods presented:

	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
Asset mix:						
Real property	88%	88%	90%	91%	92%	94%
Real estate loans receivable	7%	7%	5%	5%	4%	3%
Joint venture investments	5%	5%	5%	4%	4%	3%
Investment mix:⁽¹⁾						
Senior housing triple-net	60%	60%	52%	51%	45%	56%
Senior housing operating	0%	0%	10%	12%	22%	17%
Medical facilities	40%	40%	38%	37%	33%	27%
Relationship mix:⁽¹⁾						
Genesis HealthCare, LLC						19%
Benchmark Senior Living, LLC			10%	8%	9%	7%
Merrill Gardens, LLC				7%	7%	6%
Senior Living Communities, LLC	8%	8%	8%	7%	6%	5%
Brandywine Senior Living, LLC				5%	6%	5%
Senior Star Living	5%	4%	4%	4%	5%	
Brookdale Senior Living, Inc.	5%	5%	4%			
Capital Senior Living Corporation	4%	4%	4%			
Silverado Senior Living, Inc.	4%	3%				
Remaining relationships	74%	76%	70%	69%	67%	58%
Geographic mix:⁽¹⁾						
Massachusetts	9%	9%	11%	10%	10%	9%
California	11%	11%	9%	7%	10%	8%
New Jersey	12%	11%	10%	10%		8%
Florida	10%	10%	9%	8%	9%	7%
Texas			7%	6%	8%	7%
Washington					6%	
Wisconsin	7%	7%				
Remaining states	51%	52%	54%	59%	57%	61%

(1) Includes our share of unconsolidated joint venture investments.

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Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to book capitalization and debt to market capitalization. The leverage ratios indicate how much of our balance sheet capitalization is related to long-term debt. The coverage ratios indicate our ability to service interest and fixed charges (interest, secured debt principal amortization and preferred dividends). We expect to maintain capitalization ratios and coverage ratios sufficient to maintain compliance with our debt covenants. 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, investment recommendations and rating of companies. The following table reflects the recent historical trends for our credit strength measures for the periods presented:

	Three Months Ended					
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
Debt to book capitalization ratio	43%	46%	45%	49%	48%	49%
Debt to undepreciated book capitalization ratio	39%	41%	41%	45%	45%	45%
Debt to market capitalization ratio	32%	36%	34%	38%	37%	38%
Interest coverage ratio	3.08x	3.48x	2.25x	3.02x	2.75x	3.34x
Fixed charge coverage ratio	2.44x	2.78x	1.86x	2.51x	2.22x	2.60x

Lease Expirations. The following table sets forth information regarding lease expirations for certain portions of our portfolio as of June 30, 2011 (dollars in thousands):

	Expiration Year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Thereafter
Senior housing triple-net:											
Properties	18	16	20	7	2	—	37	55	33	46	325
Base rent(1)	\$ 2,243	\$ 12,436	\$ 44,499	\$ 6,400	\$ 2,014	\$ —	\$ 16,605	\$ 36,751	\$ 27,928	\$ 40,474	\$ 466,300
% of base rent	0.3%	1.9%	6.8%	1.0%	0.3%	0.0%	2.5%	5.6%	4.3%	6.2%	71.1%
Hospitals:											
Properties	—	—	—	—	—	—	3	—	—	5	17
Base rent(1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,350	\$ —	\$ —	\$ 5,954	\$ 62,641
% of base rent	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.3%	0.0%	0.0%	8.4%	88.3%
Medical office buildings:											
Square feet	183,822	637,540	486,772	570,734	501,994	643,941	478,252	227,761	420,870	364,123	3,908,095
Base rent(1)	\$ 4,036	\$ 13,793	\$ 10,565	\$ 12,064	\$ 11,276	\$ 15,197	\$ 11,216	\$ 5,138	\$ 10,631	\$ 9,987	\$ 72,659
% of base rent	2.3%	7.8%	6.0%	6.8%	6.4%	8.6%	6.4%	2.9%	6.0%	5.7%	41.2%

(1) The most recent monthly base rent including straight line for leases with fixed escalators or annual cash rents with contingent escalators. Base rent does not include tenant recoveries or amortization of above and below market lease intangibles.

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, 2010, as updated by our Current Report on Form 8-K filed May 10, 2011, 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

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Net operating income. The primary performance measure for our properties is net operating income (“NOI”) as discussed below in “Non-GAAP Financial Measures.” The following table summarizes our net operating income for the periods indicated (in thousands):

	Three Months Ended					
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
Net operating income:						
Senior housing triple-net	\$102,307	\$107,620	\$107,535	\$105,008	\$115,626	\$184,780
Senior housing operating	—	—	4,816	13,569	22,014	38,815
Medical facilities ⁽¹⁾	40,517	48,983	51,710	55,411	62,913	68,816
Non-segment/corporate	231	812	231	1,597	531	378
Net operating income	\$143,055	\$157,415	\$164,292	\$175,585	\$201,084	\$292,789

(1) Includes our share of net operating income from unconsolidated joint ventures.

Payment coverage. Payment coverage of our triple-net customers continues to remain strong. Our overall payment coverage is at 2.05 times. The table below reflects our recent historical trends of portfolio coverage. Coverage represents the ratio of our customers’ earnings before interest, taxes, depreciation, amortization, rent and management fees to contractual rent or interest due us.

	Twelve months ended		
	March 31, 2009	March 31, 2010	March 31, 2011
Senior housing	1.49x	1.48x	1.47x
Skilled nursing	2.20x	2.34x	2.42x
Hospitals	2.33x	2.56x	2.71x
Weighted averages	1.94x	2.03x	2.05x

Corporate Governance

Maintaining investor confidence and trust has become increasingly important in today’s business environment. Our 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. These guidelines meet the listing standards adopted by the New York Stock Exchange and are available on our website at www.hcreit.com.

Liquidity and Capital Resources

Sources and Uses of Cash

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under the unsecured line of credit arrangement, 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 investments (including capital expenditures and construction advances), 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):

	Six Months Ended		Change	
	June 30, 2011	June 30, 2010	\$	%
Cash and cash equivalents at beginning of period	\$ 131,570	\$ 35,476	\$ 96,094	271%
Cash provided from operating activities	241,598	191,506	50,092	26%
Cash used in investing activities	(3,014,899)	(601,140)	(2,413,759)	402%
Cash provided from financing activities	2,970,489	429,581	2,540,908	591%
Cash and cash equivalents at end of period	\$ 328,758	\$ 55,423	\$ 273,335	493%

Operating Activities. The change in net cash provided from operating activities is primarily attributable to an increase in net income, excluding gains/losses on sales of properties, depreciation and amortization and debt extinguishment charges. These items are

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discussed below in "Results of Operations." The following is a summary of our straight-line rent and above/below market lease amortization (dollars in thousands):

	Six Months Ended		Change	
	June 30, 2011	June 30, 2010	\$	%
Gross straight-line rental income	\$ 16,018	\$ 8,598	\$ 7,420	86%
Cash receipts due to real property sales	(815)	(752)	(63)	8%
Prepaid rent receipts	(5,899)	(3,316)	(2,583)	78%
Amortization related to below (above) market leases, net	1,056	1,296	(240)	-19%
	<u>\$ 10,360</u>	<u>\$ 5,826</u>	<u>\$ 4,534</u>	<u>78%</u>

Gross straight-line rental income represents the non-cash difference between contractual cash rent due and the average rent recognized pursuant to U.S. GAAP for leases with fixed rental escalators, net of collectability reserves. This amount is positive in the first half of a lease term (but declining every year due to annual increases in cash rent due) and is negative in the second half of a lease term. The fluctuation in cash receipts due to real property sales is attributable to the lack of straight-line rent receivable balances on properties sold during the current year. The fluctuation in prepaid rent receipts is primarily due to changes in prepaid rent received at certain construction projects.

Investing Activities. The changes in net cash used in investing activities are primarily attributable to net changes in real property and real estate loans receivable. The following is a summary of our investment and disposition activities (dollars in thousands):

	Six Months Ended			
	June 30, 2011		June 30, 2010	
	Properties	Amount	Properties	Amount
Real property acquisitions:				
Senior housing operating	46	\$ 1,126,130	—	\$ —
Senior housing triple-net	165	2,849,603	10	109,492
Medical office buildings	6	65,599	19	246,582
Land parcels	1	6,770	—	—
Total acquisitions	218	4,048,102	29	356,074
Less: Assumed debt		(721,632)		(117,892)
Assumed other items, net		(147,500)		(31,690)
Cash disbursed for acquisitions		3,178,970		206,492
Construction in progress cash additions		162,434		162,536
Capital improvements to existing properties		29,193		20,845
Total cash invested in real property		3,370,597		389,873
Real property dispositions:				
Senior housing triple-net	34	117,074	6	38,361
Medical facilities	4	35,238	3	7,568
Total dispositions	38	152,312	9	45,929
Less: Gains (losses) on sales of real property		56,380		10,033
Seller financing on sales of real property		—		(1,470)
Proceeds from real property sales		208,692		54,492
Net cash investments in real property	<u>180</u>	<u>\$ 3,161,905</u>	<u>20</u>	<u>\$ 335,381</u>

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	Six Months Ended					
	June 30, 2011			June 30, 2010		
	Senior Housing Triple-net	Medical Facilities	Totals	Senior Housing Triple-net	Medical Facilities	Totals
Advances on real estate loans receivable:						
Investments in new loans	\$ 11,807	\$ —	\$ 11,807	\$ 8,617	\$ 15,799	\$ 24,416
Draws on existing loans	8,824	7,836	16,660	18,838	—	18,838
Net cash advances on real estate loans	20,631	7,836	28,467	27,455	14,329	41,784
Receipts on real estate loans receivable:						
Loan payoffs	129,860	—	129,860	1,599	—	1,599
Principal payments on loans	5,164	3,372	8,536	7,705	116	7,821
Total receipts on real estate loans	135,024	3,372	138,396	9,304	116	9,420
Net advances (receipts) on real estate loans	\$ (114,393)	\$ 4,464	\$ (109,929)	\$ 18,151	\$ 14,213	\$ 32,364

Capitalization rates for acquisitions represent annualized contractual income to be received in cash at date of investment divided by investment amounts. Capitalization rates for dispositions represent annualized contractual income that was being received in cash at date of disposition divided by cash proceeds. For the six months ended June 30, 2011, weighted-average capitalization rates for acquisitions and dispositions were as follows:

	Acquisitions	Dispositions
Senior Housing Triple-net	8.2%	10.6%
Senior Housing Operating	7.1%	n/a
Medical Facilities	7.6%	7.1%

Financing Activities. The changes in net cash provided from or used in financing activities are primarily attributable to changes related to our long-term debt arrangements, proceeds from the issuance of common stock and dividend payments.

For the six months ended June 30, 2011, we had a net decrease of \$300,000,000 on our unsecured line of credit arrangement as compared to a net increase of \$66,000,000 for the same period in 2010. The change in our senior unsecured notes is due to (i) the issuance of \$400,000,000 of 3.625% senior unsecured notes due 2016, \$600,000,000 of 5.25% senior unsecured notes due 2022 and \$400,000,000 of 6.50% senior unsecured notes due 2041 in March 2011; (ii) the issuance of \$494,403,000 of convertible senior unsecured notes in March and June 2010; (iii) the repurchase of \$441,326,000 of convertible senior unsecured notes in March and June 2010; and (iv) the issuance of \$450,000,000 of senior unsecured notes in April and June 2010.

We may repurchase, redeem or refinance convertible and non-convertible senior unsecured notes from time to time, taking advantage of favorable market conditions when available. We may purchase senior notes for cash through open market purchases, privately negotiated transactions, a tender offer or, in some cases, through the early redemption of such securities pursuant to their terms. The non-convertible senior unsecured notes are redeemable at our option, at any time in whole or from time to time in part, at a redemption price equal to the sum of (1) the principal amount of the notes (or portion of such notes) being redeemed plus accrued and unpaid interest thereon up to the redemption date and (2) any “make-whole” amount due under the terms of the notes in connection with early redemptions. We cannot redeem the March and June 2010 convertible senior unsecured notes prior to December 1, 2014 unless such redemption is necessary to preserve our status as a REIT. However, on or after December 1, 2014, we may from time to time at our option redeem those notes, in whole or in part, for cash, at a redemption price equal to 100% of the principal amount of the notes we redeem, plus any accrued and unpaid interest to, but excluding, the redemption date. Redemptions and repurchases of debt, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

The following is a summary of our common stock issuances for the six months ended June 30, 2011 and 2010 (dollars in thousands, except per share amounts):

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	<u>Shares Issued</u>	<u>Average Price</u>	<u>Gross Proceeds</u>	<u>Net Proceeds</u>
2010 Dividend reinvestment plan issuances	855,343	\$ 41.59	\$ 35,570	\$ 35,570
2010 Option exercises	51,313	38.78	1,990	1,990
2010 Totals	<u>906,656</u>		<u>\$ 37,560</u>	<u>\$ 37,560</u>
March 2011 public issuance	28,750,000	\$ 49.25	\$ 1,415,938	\$ 1,358,694
2011 Dividend reinvestment plan issuances	1,200,418	49.44	59,348	58,400
2011 Option exercises	116,782	37.69	4,401	4,401
2011 Totals	<u>30,067,200</u>		<u>\$ 1,479,687</u>	<u>\$ 1,421,495</u>

In order to qualify as a REIT for federal income tax purposes, we must distribute at least 90% of our taxable income (including 100% of capital gains) to our stockholders. The increase in dividends is primarily attributable to an increase in our common shares outstanding. The following is a summary of our dividend payments (in thousands, except per share amounts):

	Six Months Ended			
	June 30, 2011		June 30, 2010	
	Per Share	Amount	Per Share	Amount
Common Stock	\$ 1.4050	\$ 228,565	\$ 1.3600	\$ 169,069
Series D Preferred Stock	0.9844	3,937	0.9844	3,938
Series E Preferred Stock	—	—	0.7500	56
Series F Preferred Stock	0.9532	6,672	0.9532	6,672
Series G Preferred Stock	—	—	0.9376	327
Series H Preferred Stock	1.4293	500		
Series I Preferred Stock	1.0382	14,924		
Totals		<u>\$ 254,598</u>		<u>\$ 180,062</u>

Off-Balance Sheet Arrangements

During the three months ended March 31, 2010, we entered into a joint venture investment with Forest City Enterprises (NYSE:FCE.A and FCE.B). In connection with this transaction, we invested \$174,692,000 of cash which is recorded as an equity investment on the balance sheet. Our share of the non-recourse secured debt assumed by the joint venture was approximately \$156,729,000 with weighted-average interest rates of 7.1%. Also during the year ended December 31, 2010, we entered into a joint venture investment with a national medical office building company. In connection with this transaction, we invested \$21,321,000 of cash which is recorded as an equity investment on our balance sheet. Our share of non-recourse debt was approximately \$24,609,000 with weighted average interest rates of 6.06%. Please see Note 7 to our unaudited consolidated financial statements for additional information.

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 the general trend in interest rates at the applicable dates, our perception of the future volatility of interest rates and our relative levels of variable rate debt and variable rate investments. Please see Note 11 to our unaudited consolidated financial statements for additional information.

At June 30, 2011, we had five outstanding letter of credit obligations totaling \$5,482,932 and expiring between 2011 and 2013. Please see Note 12 to our unaudited consolidated financial statements for additional information.

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

The following table summarizes our payment requirements under contractual obligations as of June 30, 2011 (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	2011	2012-2013	2014-2015	Thereafter
Unsecured line of credit arrangement	\$ —	\$ —	\$ —	\$ —	\$ —
Senior unsecured notes ⁽¹⁾	4,464,930	—	376,853	250,000	3,838,077
Secured debt ⁽¹⁾	2,061,647	16,894	445,380	401,891	1,197,482
Contractual interest obligations	3,221,198	170,045	665,197	567,314	1,818,642
Capital lease obligations	93,513	3,803	80,625	9,085	—
Operating lease obligations	220,688	2,662	10,655	10,453	196,918
Purchase obligations	299,457	62,176	193,338	43,943	—
Other long-term liabilities	4,852	1,576	—	866	2,410
Total contractual obligations	\$10,366,285	\$257,156	\$1,772,048	\$1,283,552	\$7,053,529

(1) Amounts represent principal amounts due and do not reflect unamortized premiums/discounts or other fair value adjustments as reflected on the balance sheet.

At June 30, 2011, we had an unsecured line of credit arrangement with a consortium of sixteen banks in the amount of \$1.15 billion, which is scheduled to expire on August 6, 2012. Borrowings under the agreement are subject to interest payable in periods no longer than three months at either the agent bank's prime rate of interest or the applicable margin over LIBOR interest rate, at our option (0.79% at June 30, 2011). The applicable margin is based on certain of our debt ratings and was 0.6% at June 30, 2011. In addition, we pay a facility fee annually to each bank based on the bank's commitment amount. The facility fee depends on certain of our debt ratings and was 0.15% at June 30, 2011. We also pay an annual agent's fee of \$50,000. Principal is due upon expiration of the agreement. In July 2011, we expanded and extended the facility. See Note 18 to our unaudited consolidated financial statements for additional information.

We have \$4,464,930,000 of senior unsecured notes principal outstanding with fixed annual interest rates ranging from 3.00% to 8.00%, payable semi-annually. Total contractual interest obligations on senior unsecured notes totaled \$2,510,327,940 at June 30, 2011. A total of \$788,077,000 of our senior unsecured notes are convertible notes that also contain put features. Please see Note 10 to our unaudited consolidated financial statements for additional information.

We have consolidated secured debt with total outstanding principal of \$1,869,129,000, collateralized by owned properties, with fixed annual interest rates ranging from 4.60% to 10.00%, payable monthly. The carrying values of the properties securing the debt totaled \$3,215,570,000 at June 30, 2011. Total contractual interest obligations on consolidated secured debt totaled \$665,118,000 at June 30, 2011. Additionally, our share of non-recourse debt associated with unconsolidated joint ventures (as reflected in the contractual obligations table above) is \$192,518,000 at June 30, 2011. Our share of contractual interest obligations on our unconsolidated joint venture secured debt is \$45,752,000 at June 30, 2011.

At June 30, 2011, we had operating lease obligations of \$220,688,000 relating primarily to ground leases at certain of our properties and office space leases. One lease related to a senior housing triple-net facility contains a bargain purchase option and has been classified as a capital lease.

Purchase obligations include unfunded construction commitments and contingent purchase obligations. At June 30, 2011, we had outstanding construction financings of \$212,161,000 for leased properties and were committed to providing additional financing of approximately \$219,306,000 to complete construction. At June 30, 2011, we had contingent purchase obligations totaling \$80,151,000. These contingent purchase obligations relate to unfunded capital improvement obligations. Upon funding, amounts due from the tenant are increased to reflect the additional investment in the property.

Other long-term liabilities relate to our Supplemental Executive Retirement Plan ("SERP") and a non-compete agreement. We have a SERP, a non-qualified defined benefit pension plan, which provides certain executive officers with supplemental deferred retirement benefits. The SERP provides an opportunity for participants to receive retirement benefits that cannot be paid under our tax-qualified plans because of the restrictions imposed by ERISA and the Internal Revenue Code of 1986, as amended. Benefits are based on compensation and length of service and the SERP is unfunded. We expect to contribute \$1,500,000 to the SERP during the 2011 fiscal year. Benefit payments are expected to total \$2,367,000 during the next five fiscal years and \$2,410,000 thereafter. We use a December 31 measurement date for the SERP. The accrued liability on our balance sheet for the SERP was \$4,395,000 and \$4,066,000 at June 30, 2011 and December 31, 2010, respectively.

In connection with the Windrose merger, we entered into a consulting agreement with Frederick L. Farrar, which expired in

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December 2008. We entered into a new consulting agreement with Mr. Farrar in December 2008, which expired in December 2009. Mr. Farrar agreed not to compete with us for a period of two years following the expiration of the agreement. In exchange for complying with the covenant not to compete, Mr. Farrar receives eight quarterly payments of \$37,500, with the first payment to be made on the date of expiration of the agreement. The first payment to Mr. Farrar was made in January 2010 and the final payment will be made in September 2011.

Capital Structure

As of June 30, 2011, we had total equity of \$6,733,042,000 and a total debt balance of \$6,319,865,000, which represents a debt to total book capitalization ratio of 49%. Our ratio of debt to market capitalization was 38% at June 30, 2011. For the three months ended June 30, 2011, our interest coverage ratio was 3.34x and our fixed charge coverage ratio was 2.60x. Also, at June 30, 2011, we had \$328,758,000 of cash and cash equivalents, \$42,497,000 of restricted cash and \$1,150,000,000 of available borrowing capacity under our unsecured line of credit arrangement.

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements 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 June 30, 2011, we were in compliance with all of the covenants under our debt agreements. Please refer to the section entitled “Non-GAAP Financial Measures” for further discussion. None of our debt agreements contain provisions for acceleration which could be triggered by our debt ratings. However, under our unsecured line of credit arrangement, the ratings on our senior unsecured notes are used to determine the fees and interest charged.

We plan to manage the company to maintain compliance with our debt covenants and with a capital structure consistent with our current profile. Any downgrades in terms of ratings or outlook by any or all of the 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.

On May 7, 2009, we filed an open-ended automatic or “universal” shelf registration statement with the Securities and Exchange Commission covering an indeterminate amount of future offerings of debt securities, common stock, preferred stock, depositary shares, warrants and units. As of July 31, 2011, we had an effective registration statement on file in connection with our enhanced dividend reinvestment plan under which we may issue up to 10,000,000 shares of common stock. As of July 31, 2011, 7,209,857 shares of common stock remained available for issuance under this registration statement. We have entered into separate Equity Distribution Agreements with UBS Securities LLC, RBS Securities Inc., KeyBanc Capital Markets Inc. and Credit Agricole Securities (USA) Inc. relating to the offer and sale from time to time of up to \$250,000,000 aggregate amount of our common stock (“Equity Shelf Program”). As of July 31, 2011, we had \$119,985,000 of remaining capacity under the Equity Shelf Program. Depending upon market conditions, we anticipate issuing securities under our registration statements to invest in additional properties and to repay borrowings under our unsecured line of credit arrangement.

Results of Operations

Our primary sources of revenue include rent, interest and resident fees and services. Our primary expenses include interest expense, depreciation and amortization, property operating expenses and general and administrative expenses. These revenues and expenses are reflected in our Consolidated Statements of Income and are discussed in further detail below. The following is a summary of our results of operations (dollars in thousands, except per share amounts):

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2011	June 30, 2010	Amount	%	June 30, 2011	June 30, 2010	Amount	%
Net income attributable to common stockholders	\$ 69,847	\$ 45,646	\$ 24,201	53%	\$ 93,219	\$ 71,458	\$ 21,761	30%
Funds from operations	149,553	92,214	57,339	62%	220,404	155,300	65,104	42%
EBITDA	282,245	136,253	145,992	107%	448,281	241,598	206,683	86%
Net operating income	292,789	157,415	135,374	86%	493,874	300,470	193,404	64%
Per share data (fully diluted):								
Net income attributable to common stockholders	\$ 0.39	\$ 0.37	\$ 0.02	5%	\$ 0.56	\$ 0.58	\$ (0.02)	-3%
Funds from operations	0.84	0.74	0.10	14%	1.32	1.25	0.07	6%
Interest coverage ratio	3.34x	3.48x	-0.14x	-4%	3.10x	3.29x	-0.19x	-6%
Fixed charge coverage ratio	2.60x	2.78x	-0.18x	-6%	2.44x	2.62x	-0.18x	-7%

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We evaluate our business and make resource allocations on our three business segments: senior housing triple-net, senior housing operating and medical facilities. Please see Note 17 to our unaudited consolidated financial statements for additional information.

Senior Housing Triple-net

The following is a summary of our results of operations for the senior housing triple-net segment (dollars in thousands):

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2011	June 30, 2010	\$	%	June 30, 2011	June 30, 2010	\$	%
Revenues:								
Rental income	\$ 165,811	\$ 88,644	\$ 77,167	87%	\$ 267,780	\$ 172,570	\$ 95,210	55%
Interest income	11,036	8,830	2,206	25%	20,416	17,405	3,011	17%
Other income	4,497	1,536	2,961	193%	5,004	2,028	2,976	147%
Net operating income from continuing operations	181,344	99,010	82,334	83%	293,200	192,003	101,197	53%
Other expenses:								
Interest expense	2,987	3,231	(244)	-8%	4,330	6,101	(1,771)	-29%
Depreciation and amortization	47,109	25,464	21,645	85%	76,438	48,622	27,816	57%
Transaction costs	12,692	644	12,048	1871%	16,699	5,663	11,036	195%
	62,788	29,339	33,449	114%	97,467	60,386	37,081	61%
Income from continuing operations	118,556	69,671	48,885	70%	195,733	131,617	64,116	49%
Discontinued operations:								
Gain on sales of properties	28,186	2,639	25,547	968%	54,342	8,368	45,974	549%
Impairment of assets	—	—	—	n/a	(202)	—	(202)	n/a
Income from discontinued operations, net	2,452	3,730	(1,278)	-34%	3,877	7,996	(4,119)	-52%
Discontinued operations, net	30,638	6,369	24,269	381%	58,017	16,364	41,653	255%
Net income	149,194	76,040	73,154	96%	253,750	147,981	105,769	71%
Less: Net income attributable to noncontrolling interests	40	—	40	n/a	115	—	115	n/a
Net income attributable to common stockholders	\$ 149,154	\$ 76,040	\$ 73,114	96%	\$ 253,635	\$ 147,981	\$ 105,654	71%

The increase in rental income is primarily attributable to acquisitions and the conversion of newly constructed senior housing triple-net properties subsequent to June 30, 2010 from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the tenant's properties. 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. 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. For the three months ended June 30, 2011, we had no lease renewals but we had 18 leases with rental rate increasers ranging from 0.15% to 0.31% in our senior housing triple-net portfolio.

Interest expense for the six months ended June 30, 2011 and 2010 represents \$5,703,000 and \$9,693,000, respectively, of secured debt interest expense offset by interest allocated to discontinued operations. The change in secured debt interest expense is due to the net effect and timing of assumptions, extinguishments and principal amortizations. The following is a summary of our senior housing triple-net property secured debt principal activity (dollars in thousands):

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	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 178,780	5.236%	\$ 297,151	5.997%	\$ 172,862	5.265%	\$ 298,492	5.998%
Debt issued	—		92,265	4.772%	—	0.000%	92,265	4.772%
Debt assumed	83,507	4.837%	—	0.000%	90,120	4.819%	—	0.000%
Principal payments	(1,088)	5.529%	(1,324)	6.407%	(1,783)	5.566%	(2,665)	6.208%
Ending balance	<u>\$ 261,199</u>	<u>5.109%</u>	<u>\$ 388,092</u>	<u>5.705%</u>	<u>\$ 261,199</u>	<u>5.109%</u>	<u>\$ 388,092</u>	<u>5.705%</u>
Monthly averages	\$ 240,876	5.133%	\$ 324,699	5.912%	\$ 212,580	5.176%	\$ 313,292	5.947%

Depreciation and amortization increased primarily as a result of the conversions of newly constructed investment properties subsequent to June 30, 2010. To the extent that we acquire or dispose of additional properties in the future, our provision for depreciation and amortization will change accordingly.

Transaction costs for the six months ended June 30, 2011 were incurred in connection with the Genesis transaction and other acquisitions.

During the six months ended June 30, 2011, we sold 34 senior housing triple-net properties for net gains of \$54,342,000. Additionally, at June 30, 2011 we had three senior housing triple-net facilities that satisfied the requirements for held for sale treatment. We recorded an impairment charge of \$202,000 related to two of these facilities to adjust the carrying values to estimated fair values less costs to sell based on current sales price expectations. The following illustrates the reclassification impact as a result of classifying the properties sold subsequent to January 1, 2010 or held for sale at June 30, 2011 as discontinued operations for the periods presented. Please refer to Note 5 to our unaudited consolidated financial statements for further discussion.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Rental income	\$ 3,436	\$ 8,610	\$ 7,209	\$ 17,920
Expenses:				
Interest expense	650	1,791	1,372	3,592
Provision for depreciation	334	3,089	1,960	6,332
Income from discontinued operations, net	<u>\$ 2,452</u>	<u>\$ 3,730</u>	<u>\$ 3,877</u>	<u>\$ 7,996</u>

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As discussed in Note 3 to our consolidated financial statements, we completed two senior housing operating partnerships during the six months ended June 30, 2011. The results of operations for these partnerships have been included in our consolidated results of operations from the dates of acquisition. The senior housing operating partnerships were formed using the structure authorized by the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA"). When considering new partnerships utilizing the RIDEA structure, we look for opportunities with best-in-class operators with a strong seasoned leadership team, high-quality real estate in attractive markets, growth potential above the rent escalators in our triple-net lease senior housing portfolio, and alignment of economic interests with our operating partner. Our senior housing operating partnerships offer us the opportunity for external growth because we have the right to fund future senior housing investment opportunities sourced by our operating partners. There were no senior housing operating segment investments prior to September 1, 2010. The following is a summary of our senior housing operating results of operations (dollars in thousands):

	<u>Three Months Ended</u> June 30, 2011	<u>Six Months Ended</u> June 30, 2011
Resident fees and services	\$ 123,149	\$ 194,435
Property operating expenses	84,334	133,606
Net operating income from continuing operations	38,815	60,829
Other expenses:		
Interest expense	12,974	19,501
Depreciation and amortization	38,176	58,307
Transaction costs	488	32,557
	<u>51,638</u>	<u>110,365</u>
Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated joint ventures	(12,823)	(49,536)
Income (loss) from unconsolidated joint ventures	(561)	(1,126)
Net income (loss)	(13,384)	(50,662)
Less: Net income (loss) attributable to noncontrolling interests	(1,203)	(2,685)
Net income (loss) attributable to common stockholders	<u>\$ (12,181)</u>	<u>\$ (47,977)</u>

Transaction costs for the six months ended June 30, 2011 primarily represent costs incurred with the Silverado and Benchmark transactions (including due diligence costs, fees for legal and valuation services, and termination of a pre-existing relationship computed based on the fair value of the assets acquired), lease termination fees and costs incurred in connection with the new property acquisitions.

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Medical Facilities

The following is a summary of our results of operations for the medical facilities segment (dollars in thousands):

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2011	June 30, 2010	\$	%	June 30, 2011	June 30, 2010	\$	%
Revenues:								
Rental income	\$ 73,892	\$ 53,120	\$ 20,772	39%	\$ 139,069	\$ 102,191	\$ 36,878	36%
Interest income	1,830	505	1,325	262%	4,160	978	3,182	325%
Other income	466	302	164	54%	2,251	574	1,677	292%
	76,188	53,927	22,261	41%	145,480	103,743	41,737	40%
Property operating expenses	15,863	11,970	3,893	33%	30,520	23,761	6,759	28%
Net operating income from continuing operations	60,325	41,957	18,368	44%	114,960	79,982	34,978	44%
Other expenses:								
Interest expense	7,519	6,195	1,324	21%	14,583	11,513	3,070	27%
Depreciation and amortization	25,097	18,573	6,524	35%	48,440	35,420	13,020	37%
Transaction costs	558	108	450	417%	547	2,803	(2,256)	-80%
Provision for loan losses	168	—	168	n/a	416	—	416	n/a
	33,342	24,876	8,466	34%	63,986	49,736	14,250	29%
Income from continuing operations before income taxes and income from unconsolidated joint ventures	26,983	17,081	9,902	58%	50,974	30,246	20,728	69%
Income tax expense	(41)	(188)	147	-78%	(152)	(247)	95	-38%
Income from unconsolidated joint ventures	1,532	1,828	(296)	-16%	3,640	2,596	1,044	40%
Income from continuing operations	28,474	18,721	9,753	52%	54,462	32,595	21,867	67%
Discontinued operations:								
Gain (loss) on sales of properties	2,038	675	1,363	202%	2,038	1,665	373	22%
Loss from discontinued operations, net	(279)	(219)	(60)	27%	(1,080)	(940)	(140)	15%
Discontinued operations, net	1,759	456	1,303	286%	958	725	233	32%
Net income (loss)	30,233	19,177	11,056	58%	55,420	33,320	22,100	66%
Less: Net income (loss) attributable to noncontrolling interests								
	171	(66)	237	n/a	1,336	307	1,029	335%
Net income (loss) attributable to common stockholders	<u>\$ 30,062</u>	<u>\$ 19,243</u>	<u>\$ 10,819</u>	<u>56%</u>	<u>\$ 54,084</u>	<u>\$ 33,013</u>	<u>\$ 21,071</u>	<u>64%</u>

The increase in rental income is primarily attributable to the acquisitions and construction conversions of medical facilities subsequent to June 30, 2010 from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index (CPI). 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. If the CPI does 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. For the three months ended June 30, 2011, our consolidated medical office building portfolio signed 65,429 square feet of new leases and 113,869 square feet of renewals. The weighted average term of these leases was six years, with a rate of \$23.00 per square foot and tenant improvement and lease commission costs of \$14.20 per square foot. Substantially all of these leases during the referenced quarter contain an annual fixed or contingent escalation rent structure ranging from the change in CPI to 3%. For the three months ended June 30, 2011, we had no lease renewals and one lease's rental rate increase by 0.25% in our hospital portfolio.

Interest income increased from the prior period primarily due to an increase in outstanding balances for medical facility real estate

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loans. Other income is attributable to third party management fee income.

Interest expense for the six months ended June 30, 2011 and 2010 represents \$14,967,000 and \$12,053,000, respectively, of secured debt interest expense offset by interest allocated to discontinued operations. The change in secured debt interest expense is primarily due to the net effect and timing of assumptions, extinguishments and principal amortizations. The following is a summary of our medical facilities secured debt principal activity (dollars in thousands):

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 460,553	5.996%	\$ 418,368	6.101%	\$ 463,477	6.005%	\$ 314,065	5.677%
Debt assumed	42,551	6.166%	—	0.000%	42,551	6.166%	106,140	7.352%
Principal payments	(3,464)	6.355%	(2,798)	6.470%	(6,388)	6.218%	(4,635)	6.234%
Ending balance	<u>\$ 499,640</u>	<u>6.008%</u>	<u>\$ 415,570</u>	<u>6.098%</u>	<u>\$ 499,640</u>	<u>6.008%</u>	<u>\$ 415,570</u>	<u>6.098%</u>
Monthly averages	\$ 483,946	5.997%	\$ 416,843	6.099%	\$ 474,781	5.997%	\$ 387,749	6.002%

The increase in property operating expenses and depreciation and amortization is primarily attributable to acquisitions and construction conversions of new medical facilities for which we incur certain property operating expenses offset by property operating expenses associated with discontinued operations.

Income tax expense is primarily related to third party management fee income.

Income from unconsolidated joint ventures represents our share of net income related to our joint venture investments with Forest City Enterprises (effective February 2010) and a strategic medical office partnership (effective January 2011). The following is a summary of our share of net income from these investments for the periods presented (in thousands):

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2011	June 30, 2010	\$	%	June 30, 2011	June 30, 2010	\$	%
Revenues	\$ 11,698	\$ 9,355	\$ 2,343	25%	\$ 24,082	\$ 13,080	\$ 11,002	84%
Operating expenses	3,479	2,716	763	28%	7,347	3,817	3,530	92%
Net operating income	8,219	6,639	1,580	24%	16,735	9,263	7,472	81%
Depreciation and amortization	3,056	2,323	733	32%	6,189	3,098	3,091	100%
Interest expense	2,904	2,114	790	37%	5,755	3,037	2,718	89%
Loss on extinguishment of debt	355	—	355	n/a	355	—	355	n/a
Asset management fee	434	374	60	16%	858	532	326	61%
Net income	<u>\$ 1,470</u>	<u>\$ 1,828</u>	<u>\$ (358)</u>	<u>-20%</u>	<u>\$ 3,578</u>	<u>\$ 2,596</u>	<u>\$ 982</u>	<u>38%</u>

During the six months ended June 30, 2011, we sold four medical facilities for net gains of \$2,038,000. Additionally, at June 30, 2011, we had one medical facility that satisfied the requirements for held for sale treatment. The following illustrates the reclassification impact as a result of classifying the properties sold subsequent to January 1, 2010 or held for sale at June 30, 2011 as discontinued operations for the periods presented. Please refer to Note 5 to our unaudited consolidated financial statements for further discussion.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Rental income	\$ 1,050	\$ 1,420	\$ 2,194	\$ 3,219
Expenses:				
Interest expense	162	281	384	540
Property operating expenses	830	1,033	2,215	2,961
Provision for depreciation	337	325	675	658
Loss from discontinued operations, net	<u>\$ (279)</u>	<u>\$ (219)</u>	<u>\$ (1,080)</u>	<u>\$ (940)</u>

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Net income attributable to non-controlling interests primarily relates to certain properties that are consolidated in our operating results but where we have less than a 100% ownership interest.

Non-Segment/Corporate

The following is a summary of our results of operations for the non-segment/corporate activities (dollars in thousands):

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2011	June 30, 2010	\$	%	June 30, 2011	June 30, 2010	\$	%
Revenues:								
Other income	\$ 378	\$ 812	\$ (434)	-53%	\$ 910	\$ 1,044	\$ (134)	-13%
Expenses:								
Interest expense	60,481	26,052	34,429	132%	103,932	45,789	58,143	127%
General and administrative	19,562	11,878	7,684	65%	37,276	28,700	8,576	30%
Loss (gain) on extinguishments of debt	—	7,035	(7,035)	-100%	—	25,072	(25,072)	-100%
	<u>80,043</u>	<u>44,965</u>	<u>35,078</u>	<u>78%</u>	<u>141,208</u>	<u>99,561</u>	<u>41,647</u>	<u>42%</u>
Loss from continuing operations before income taxes	(79,665)	(44,153)	(35,512)	80%	(140,298)	(98,517)	(41,781)	42%
Income tax (expense) benefit	(170)	—	(170)	n/a	(187)	(26)	(161)	619%
Net loss	(79,835)	(44,153)	(35,682)	81%	(140,485)	(98,543)	(41,942)	43%
Preferred stock dividends	17,353	5,484	11,869	216%	26,033	10,993	15,040	137%
Net loss attributable to common stockholders	<u>\$ (97,188)</u>	<u>\$ (49,637)</u>	<u>\$ (47,551)</u>	<u>96%</u>	<u>\$ (166,518)</u>	<u>\$ (109,536)</u>	<u>\$ (56,982)</u>	<u>52%</u>

Other income primarily represents income from non-real estate activities such as interest earned on temporary investments of cash reserves.

The following is a summary of our non-segment/corporate interest expense (dollars in thousands):

	Three Months Ended		Change		Six Months Ended		Change	
	June 30, 2011	June 30, 2010	\$	%	June 30, 2011	June 30, 2010	\$	%
Senior unsecured notes	\$ 59,442	\$ 28,305	\$ 31,137	110%	\$ 103,901	\$ 52,371	\$ 51,530	98%
Secured debt	147	163	(16)	-10%	276	304	(28)	-9%
Unsecured lines of credit	688	1,198	(510)	-43%	1,961	2,238	(277)	-12%
Capitalized interest	(2,313)	(5,276)	2,963	-56%	(6,979)	(12,352)	5,373	-43%
SWAP savings	(40)	(40)	—	0%	(80)	(80)	—	0%
Loan expense	2,557	1,702	855	50%	4,853	3,308	1,545	47%
Totals	<u>\$ 60,481</u>	<u>\$ 26,052</u>	<u>\$ 34,429</u>	<u>132%</u>	<u>\$ 103,932</u>	<u>\$ 45,789</u>	<u>\$ 58,143</u>	<u>127%</u>

The change in interest expense on senior unsecured notes is due to the net effect of issuances and extinguishments. The following is a summary of our senior unsecured note principal activity (dollars in thousands):

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	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate	Amount	Weighted Avg. Interest Rate
Beginning balance	\$ 4,464,930	5.133%	\$ 1,702,129	5.186%	\$ 3,064,930	5.129%	\$ 1,661,853	5.557%
Debt issued	—	0.000%	602,009	5.336%	1,400,000	5.143%	944,403	4.489%
Debt extinguished	—		(139,208)	4.750%	—		(441,326)	4.750%
Ending balance	<u>\$ 4,464,930</u>	<u>5.133%</u>	<u>\$ 2,164,930</u>	<u>5.256%</u>	<u>\$ 4,464,930</u>	<u>5.133%</u>	<u>\$ 2,164,930</u>	<u>5.256%</u>
Monthly averages	\$ 4,464,930	5.133%	\$ 1,967,829	5.277%	\$ 3,864,930	5.167%	\$ 1,836,697	5.385%

The change in interest expense on the unsecured line of credit arrangement is due primarily to the net effect and timing of draws, paydowns and variable interest rate changes. The following is a summary of our unsecured line of credit arrangement (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Balance outstanding at quarter end	\$ —	\$ 206,000	\$ —	\$ 206,000
Maximum amount outstanding at any month end	\$ 20,000	\$ 431,000	\$ 495,000	\$ 431,000
Average amount outstanding (total of daily principal balances divided by days in period)	\$ 253	\$ 293,505	\$ 158,856	\$ 288,337
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	n/a	1.63%	2.17%	1.55%

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 balances 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.

Please see Note 11 to our unaudited consolidated financial statements for a discussion of our interest rate swap agreements and their impact on interest expense. Loan expense represents the amortization of deferred loan costs incurred in connection with the issuance and amendments of debt.

General and administrative expenses as a percentage of consolidated revenues (including revenues from discontinued operations) for the three months ended June 30, 2011 and 2010 were 5.07% and 7.25%, respectively. The change from prior year is primarily related to the increasing revenue base as a result of our senior housing operating partnerships.

The following is a summary of our preferred stock activity (dollars in thousands):

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010		Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate	Shares	Weighted Avg. Dividend Rate
Beginning balance	25,724,854	7.013%	11,450,107	7.697%	11,349,854	7.663%	11,474,093	7.697%
Shares issued	—	0.000%	—	0.000%	14,375,000	6.500%	—	0.000%
Shares converted	—	0.000%	(52,855)	7.500%	—	0.000%	(76,841)	7.500%
Ending balance	<u>25,724,854</u>	<u>7.013%</u>	<u>11,397,252</u>	<u>7.699%</u>	<u>25,724,854</u>	<u>7.013%</u>	<u>11,397,252</u>	<u>7.699%</u>
Monthly averages	25,724,854	7.013%	11,410,466	7.698%	19,564,140	7.175%	11,434,308	7.698%

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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 to be a useful supplemental measure 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.

Net operating income ("NOI") is used to evaluate the operating performance of our properties. We define NOI as total revenues, including tenant reimbursements, less property level operating expenses, which exclude depreciation and amortization, general and administrative expenses, impairments and interest expense. We believe NOI provides investors relevant and useful information because it measures the operating performance of our properties at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess the property level performance of our properties.

EBITDA stands for earnings before interest, taxes, depreciation and amortization. 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. 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, secured debt principal amortization and preferred dividends.

A covenant in our line of credit arrangement contains a financial ratio based on a definition of EBITDA that is specific to that agreement. Failure to satisfy this covenant could result in an event of default that 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. Due to the materiality of this debt agreement and the financial covenant, we have disclosed Adjusted EBITDA, which represents EBITDA as defined above and adjusted for stock-based compensation expense, provision for loan losses and gain/loss on extinguishment of debt. We use Adjusted EBITDA to measure our adjusted fixed charge coverage ratio, which represents Adjusted EBITDA divided by fixed charges on a trailing twelve months basis. Fixed charges include total interest (excluding capitalized interest and non-cash interest expenses), secured debt principal amortization and preferred dividends. Effective July 27, 2011, our covenant requires an adjusted fixed charge ratio of at least 1.50 times.

Other than Adjusted EBITDA, our supplemental reporting measures and similarly entitled financial measures 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 and in making operating decisions. Additionally, these measures are utilized by the Board of Directors to evaluate management. Adjusted EBITDA is used solely to determine our compliance with a financial covenant of our line of credit arrangement and is not being presented for use by investors for any other purpose. None of our supplemental measures 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, the supplemental measures, as defined by us, may not be comparable to similarly entitled items reported by other real estate investment trusts or other companies. Multi-period amounts may not equal the sum of the individual quarterly amounts due to rounding.

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

The tables below reflect the reconciliation of FFO to net income attributable to common stockholders, the most directly comparable U.S. GAAP measure, for the periods presented. The provisions for depreciation and amortization include provisions for depreciation and amortization from discontinued operations. Noncontrolling interest amounts represent the noncontrolling interests' share of transaction costs and depreciation and amortization. Unconsolidated joint venture amounts represent our share of unconsolidated joint ventures' depreciation and amortization. Amounts are in thousands except for per share data.

	Three Months Ended					
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
FFO Reconciliation:						
Net income attributable to common stockholders	\$ 25,812	\$ 45,646	\$ 1,124	\$ 34,301	\$ 23,372	\$ 69,847
Depreciation and amortization	43,581	47,451	49,106	62,406	74,768	111,053
Gain on sales of properties	(6,718)	(3,314)	(10,526)	(15,557)	(26,156)	(30,224)
Noncontrolling interests	(363)	108	(1,292)	(1,200)	(4,160)	(4,487)
Unconsolidated joint ventures	775	2,323	2,696	2,720	3,027	3,364
Funds from operations	\$ 63,087	\$ 92,214	\$ 41,108	\$ 82,670	\$ 70,851	\$ 149,553

Average common shares outstanding:						
Basic	123,270	123,808	125,298	138,126	154,945	176,445
Diluted	123,790	124,324	125,842	138,738	155,485	177,487

Per share data:						
Net income attributable to common stockholders						
Basic	\$ 0.21	\$ 0.37	\$ 0.01	\$ 0.25	\$ 0.15	\$ 0.40
Diluted	0.21	0.37	0.01	0.25	0.15	0.39
Funds from operations						
Basic	\$ 0.51	\$ 0.74	\$ 0.33	\$ 0.60	\$ 0.46	\$ 0.85
Diluted	0.51	0.74	0.33	0.60	0.46	0.84

	Six Months Ended	
	June 30, 2010	June 30, 2011
FFO Reconciliation:		
Net income attributable to common stockholders	\$ 71,458	\$ 93,219
Depreciation and amortization	91,032	185,821
Loss (gain) on sales of properties	(10,033)	(56,380)
Noncontrolling interests	(255)	(8,647)
Unconsolidated joint ventures	3,098	6,391
Funds from operations	\$ 155,300	\$ 220,404

Average common shares outstanding:		
Basic	123,541	165,755
Diluted	124,059	166,458

Per share data:		
Net income attributable to common stockholders		
Basic	\$ 0.58	\$ 0.56
Diluted	0.58	0.56
Funds from operations		
Basic	\$ 1.26	\$ 1.33
Diluted	1.25	1.32

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

The following tables reflect the reconciliation of NOI for the periods presented. All amounts include amounts from discontinued operations, if applicable. Our share of revenues and expenses from unconsolidated joint ventures are included in medical facilities. Amounts are in thousands.

	Three Months Ended					
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
NOI Reconciliation:						
Total revenues:						
Senior housing triple-net:						
Rental income:						
Senior housing	\$ 52,366	\$ 56,197	\$ 56,162	\$ 55,658	\$ 68,654	\$ 76,128
Skilled nursing facilities	40,872	41,057	41,496	39,096	37,087	93,119
Sub-total	93,238	97,254	97,658	94,754	105,741	169,247
Interest income	8,575	8,830	9,179	9,593	9,378	11,036
Other income	494	1,536	698	661	507	4,497
Total senior housing triple-net	102,307	107,620	107,535	105,008	115,626	184,780
Senior housing operating:						
Resident fees and services	—	—	12,809	38,197	71,286	123,149
Medical facilities:						
Rental income						
Medical office buildings	40,088	42,056	43,758	44,532	54,769	58,560
Hospitals	10,781	12,484	13,313	13,494	12,667	17,561
Life science buildings	3,725	9,355	10,401	10,521	11,270	10,584
Sub-total	54,594	63,895	67,472	68,547	78,706	86,705
Interest income	473	505	875	2,826	2,331	1,830
Other income	271	302	227	185	1,786	466
Total medical facilities revenues	55,338	64,702	68,574	71,558	82,823	89,001
Corporate other income	231	812	231	1,597	531	378
Total revenues	157,876	173,134	189,149	216,360	270,266	274,159
Property operating expenses:						
Senior housing operating	—	—	7,993	24,628	49,272	84,334
Medical office buildings	12,992	12,853	13,307	12,936	15,439	16,668
Hospitals	728	150	522	352	870	305
Life science buildings	1,101	2,716	3,035	2,857	3,601	3,212
Sub-total	14,821	15,719	16,864	16,145	19,910	20,185
Total property operating expenses	14,821	15,719	24,857	40,773	69,182	104,519
Net operating income:						
Senior housing triple-net	102,307	107,620	107,535	105,008	115,626	184,780
Senior housing operating			4,816	13,569	22,014	38,815
Medical facilities	40,517	48,983	51,710	55,413	62,913	68,816
Non-segment/corporate	231	812	231	1,597	531	378
Net operating income	<u>\$ 143,055</u>	<u>\$ 157,415</u>	<u>\$ 164,292</u>	<u>\$ 175,587</u>	<u>\$ 201,084</u>	<u>\$ 292,789</u>

[Table of Contents](#)**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

	Six Months Ended	
	June 30, 2010	June 30, 2011
NOI Reconciliation:		
Total revenues:		
Senior housing and care:		
Rental income:		
Senior housing	\$ 108,561	\$ 144,781
Skilled nursing facilities	81,929	130,207
Sub-total	190,490	274,988
Interest income	17,405	20,414
Other income	2,028	5,004
Senior housing triple-net	209,923	300,406
Resident fees and services	—	194,435
Medical facilities:		
Rental income		
Medical office buildings	82,145	113,329
Hospitals	23,265	30,228
Life science buildings	13,080	21,854
Sub-total	118,490	165,411
Interest income	978	4,161
Other income	574	2,251
Total medical facilities revenues	120,042	171,823
Corporate other income	1,044	910
Total revenues	331,009	473,139
Property operating expenses:		
Senior housing triple-net	—	—
Senior housing operating	—	133,606
Medical facilities:		
Medical office buildings	25,844	32,107
Hospitals	878	1,174
Life science buildings	3,817	6,813
Sub-total	30,539	40,094
Non-segment/corporate	—	—
Total property operating expenses	30,539	40,094
Net operating income:		
Senior housing triple-net	209,923	300,406
Senior housing operating	—	60,829
Medical facilities	89,503	131,729
Non-segment/corporate	1,044	910
Net operating income	<u>\$ 300,470</u>	<u>\$ 493,874</u>

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

The tables below reflect the reconciliation of EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Interest expense and the provisions for depreciation and amortization include discontinued operations. Dollars are in thousands.

	Three Months Ended					
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
EBITDA Reconciliation:						
Net income	\$ 31,694	\$ 51,064	\$ 5,781	\$ 40,346	\$ 31,810	\$ 86,208
Interest expense	29,985	37,550	44,985	48,440	59,330	84,773
Income tax expense	84	188	52	38	129	211
Depreciation and amortization	43,581	47,451	49,106	62,406	74,768	111,053
EBITDA	\$ 105,344	\$ 136,253	\$ 99,924	\$ 151,230	\$ 166,037	\$ 282,245
Interest Coverage Ratio:						
Interest expense	\$ 29,985	\$ 37,550	\$ 44,985	\$ 48,440	\$ 59,330	\$ 84,773
Non-cash interest expense	(2,841)	(3,659)	(4,258)	(3,187)	(3,716)	(2,698)
Capitalized interest	7,076	5,276	3,656	4,784	4,665	2,313
Total interest	34,220	39,167	44,383	50,037	60,279	84,388
EBITDA	\$ 105,344	\$ 136,253	\$ 99,924	\$ 151,230	\$ 166,037	\$ 282,245
Interest coverage ratio	3.08x	3.48x	2.25x	3.02x	2.75x	3.34x
Fixed Charge Coverage Ratio:						
Total interest	\$ 34,220	\$ 39,167	\$ 44,383	\$ 50,037	\$ 60,279	\$ 84,388
Secured debt principal payments	3,378	4,325	4,019	4,930	5,906	7,011
Preferred dividends	5,509	5,484	5,347	5,305	8,680	17,353
Total fixed charges	43,107	48,976	53,749	60,272	74,865	108,752
EBITDA	\$ 105,344	\$ 136,253	\$ 99,924	\$ 151,230	\$ 166,037	\$ 282,245
Fixed charge coverage ratio	2.44x	2.78x	1.86x	2.51x	2.22x	2.60x

	Six Months Ended	
	June 30, 2010	June 30, 2011
EBITDA Reconciliation:		
Net income	\$ 82,758	\$ 118,018
Interest expense	67,535	144,103
Income tax expense	273	340
Depreciation and amortization	91,032	185,820
EBITDA	\$ 241,598	\$ 448,281
Interest Coverage Ratio:		
Interest expense	\$ 67,535	\$ 144,103
Non-cash interest expense	(6,500)	(6,415)
Capitalized interest	12,352	6,979
Total interest	73,387	144,667
EBITDA	\$ 241,598	\$ 448,281
Interest coverage ratio	3.29x	3.10x
Fixed Charge Coverage Ratio:		
Total interest	\$ 73,387	\$ 144,667
Secured debt principal payments	7,704	12,918
Preferred dividends	10,993	26,033
Total fixed charges	92,084	183,618
EBITDA	\$ 241,598	\$ 448,281
Fixed charge coverage ratio	2.62x	2.44x

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The table below reflects the reconciliation of Adjusted EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Interest expense and the provisions for depreciation and amortization include discontinued operations. Dollars are in thousands.

	Twelve Months Ended					
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
Adjusted EBITDA						
Reconciliation:						
Net income	\$157,976	\$144,282	\$125,377	\$128,884	\$129,001	\$164,146
Interest expense	111,746	121,964	138,116	160,960	190,305	237,528
Income tax expense	201	368	475	364	407	430
Depreciation and amortization	167,177	173,897	181,918	202,543	233,731	297,333
Stock-based compensation expense	10,619	10,736	10,669	11,823	9,866	10,350
Provision for loan losses	23,121	23,121	52,039	29,684	29,932	30,100
Loss (gain) on extinguishment of debt	44,822	51,857	34,582	34,171	16,134	9,099
Adjusted EBITDA	\$515,662	\$526,225	\$543,176	\$568,429	\$609,376	\$748,986
Adjusted Fixed Charge Coverage Ratio:						
Interest expense	\$111,746	\$121,964	\$138,116	\$160,960	\$190,305	\$237,528
Capitalized interest	38,381	32,631	26,313	20,792	18,381	15,418
Non-cash interest expense	(11,967)	(12,782)	(14,145)	(13,945)	(14,820)	(13,859)
Secured debt principal payments	10,464	12,612	14,333	16,652	19,180	21,866
Preferred dividends	22,064	22,032	21,860	21,645	24,816	36,685
Total fixed charges	170,688	176,457	186,477	206,104	237,862	297,638
Adjusted EBITDA	\$515,662	\$526,225	\$543,176	\$568,429	\$609,376	\$748,986
Adjusted fixed charge coverage ratio	3.02x	2.98x	2.91x	2.76x	2.56x	2.52x

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

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. 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 Note 1 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010, as updated by our Current Report on Form 8-K filed May 10, 2011, for further information regarding significant accounting policies that impact us. There have been no material changes to these policies in 2011.

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 and are based upon, among other things, the possible expansion of the company's portfolio; the sale of properties; the performance of its operators/tenants and properties; its ability to enter into agreements with viable new tenants for vacant space or for properties that the company takes back from financially troubled tenants, if any; its occupancy rates; its ability to acquire, develop and/or manage properties; its ability to make distributions to stockholders; its policies and plans regarding investments, financings and other matters; its tax status as a real estate investment trust; its critical accounting policies; its ability to appropriately balance the use of debt and equity; its ability to access capital markets or other sources of funds; and its ability to meet its earnings guidance. When the company uses words such as "may," "will," "intend," "should," "believe," "expect," "anticipate," "project," "estimate" or similar expressions, it is making forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The company's 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 availability and cost of capital; issues facing the health care industry, including compliance with, and changes to, regulations and payment policies, responding to government investigations and punitive settlements and operators'/tenants' difficulty in cost-effectively obtaining and maintaining adequate liability and other insurance; changes in financing terms; competition within the health care, senior housing and life science industries; negative developments in the operating results or financial condition of operators/tenants, including, but not limited to, their ability to pay rent and repay loans; the company's ability to transition or sell facilities with profitable results; the failure to make new investments as and when anticipated; acts of God affecting the company's properties; the company's ability to re-lease space at similar rates as vacancies occur; the company's ability to timely reinvest sale proceeds at similar rates to assets sold; operator/tenant or joint venture partner bankruptcies or insolvencies; the cooperation of joint venture partners; government regulations affecting Medicare and Medicaid reimbursement rates and operational requirements; regulatory approval and market acceptance of the products and technologies of life science tenants; liability or contract claims by or against operators/tenants; unanticipated difficulties and/or expenditures relating to future acquisitions; environmental laws affecting the company's properties; changes in rules or practices governing the company's financial reporting; and legal and operational matters, including real estate investment trust qualification and key management personnel recruitment and retention. Other important factors are identified in the company's Annual Report on Form 10-K for the year ended December 31, 2010, as updated by our Current Report on Form 8-K filed May 10, 2011, including factors identified under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Finally, the company assumes 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. This section is presented to provide a discussion of the risks associated with potential fluctuations in interest rates.

We historically borrow on our unsecured line of credit arrangement to acquire, construct or make loans relating to health care and senior housing properties. Then, as market conditions dictate, we will issue equity or long-term fixed rate debt to repay the borrowings under the unsecured line of credit arrangement.

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. 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. To illustrate the impact of changes in the interest rate markets, we performed a sensitivity analysis on our fixed rate debt instruments whereby we modeled the change in net present values arising from a hypothetical 1% increase in interest rates to determine the instruments' change in fair value. The following table summarizes the analysis performed as of the dates indicated (in thousands):

	June 30, 2011		December 31, 2010	
	Principal balance	Change in fair value	Principal balance	Change in fair value
Senior unsecured notes	\$ 4,464,930	\$(201,682)	\$ 3,064,930	\$(248,884)
Secured debt	1,653,397	(78,240)	1,030,070	(51,973)
Totals	\$ 6,188,327	\$(279,923)	\$ 4,095,000	\$(300,857)

On December 31, 2010, we assumed an interest rate swap (the "December 2010 Swap") for a total notional amount of \$12,650,000 to hedge interest payments associated with long-term LIBOR based borrowings. The December 2010 Swap has an effective date of December 31, 2010 and a maturity date of December 31, 2013. The December 2010 Swap has the economic effect of fixing \$12,650,000 at 5.50% plus a credit spread through the swap's maturity. In January 2011, the December 2010 Swap was designated as a cash flow hedge and we expect it to be highly effective at offsetting changes in cash flows of interest payments on \$12,650,000 of long-term debt due to changes in the LIBOR swap rate.

On April 15, 2011, we assumed three interest rate swaps (the "April 2011 Swaps") for a total notional amount of \$33,795,000 to hedge interest payments associated with long-term LIBOR based borrowings. One swap with an effective date of December 20, 2010 and a maturity date of September 1, 2013 has the economic effect of fixing \$13,095,000 of debt at 3.05%. The other two swaps have an effective date of October 15, 2010 and a maturity date of December 31, 2012 and have the economic effect of fixing \$20,700,000 of debt at 2.73%. In June 2011, the April swaps were designated as cash flow hedges and we expect them to be highly effective at offsetting changes in cash flows of interest payments on \$33,795,000 of long-term debt due to changes in the LIBOR swap rate.

Our variable rate debt, including our unsecured line of credit arrangement, is reflected at fair value. At June 30, 2011, we had \$0 outstanding related to our variable rate line of credit and \$215,894,000 outstanding related to our variable rate secured debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would result in increased annual interest expense of \$2,159,000. At December 31, 2010, we had \$300,000,000 outstanding related to our variable rate line of credit and \$103,645,000 outstanding related to our variable rate secured debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would have resulted in increased annual interest expense of \$4,036,000.

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.

For additional information regarding fair values of financial instruments, see "Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" and Note 16 to our consolidated financial statements.

[Table of Contents](#)**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 Securities and Exchange Commission (“SEC”) under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. No changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1A. Risk Factors**

Except as provided in “Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Forward Looking Statements and Risk Factors,” there have been no material changes from the risk factors identified under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010, as updated by our Current Report on Form 8-K filed May 10, 2011.

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
April 1, 2011 through April 30, 2011	134	\$ 53.44		
May 1, 2011 through May 31, 2011	117	50.65		
June 1, 2011 through June 30, 2011	—			
Totals	251	\$ 52.14		

- (1) During the three months ended June 30, 2011, the company acquired shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.
- (2) No shares were purchased as part of publicly announced plans or programs.

Item 6. Exhibits

3.1	Certificate of Amendment of Second Restated Certificate of Incorporation of the company (filed with the Securities and Exchange Commission as Exhibit 3.1 to the company's Form 8-K filed May 10, 2011, and incorporated herein by reference thereto).
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.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets at June 30, 2011 and December 31, 2010, (ii) the Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2010, (iii) the Consolidated Statements of Equity for the six months ended June 30, 2011 and 2010, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 and (v) the Notes to Unaudited Consolidated Financial Statements.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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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 hereunto duly authorized.

HEALTH CARE REIT, INC.

Date: August 9, 2011

By: /s/ GEORGE L. CHAPMAN

George L. Chapman,
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

Date: August 9, 2011

By: /s/ SCOTT A. ESTES

Scott A. Estes,
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: August 9, 2011

By: /s/ PAUL D. NUNGESTER, JR.

Paul D. Nungester, Jr.,
Vice President and Controller
(Principal Accounting Officer)

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: August 9, 2011

/s/ GEORGE L. CHAPMAN

George L. Chapman,
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, **Scott A. Estes**, 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: August 9, 2011

/s/ SCOTT A. ESTES

Scott A. Estes,
Chief Financial Officer

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 June 30, 2011 (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: August 9, 2011

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.

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

I, Scott A. Estes, 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 June 30, 2011 (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/ SCOTT A. ESTES

Scott A. Estes,
Chief Financial Officer

Date: August 9, 2011

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.