HCP, INC.
Form 10-K
February 13, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

or

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

For the transition period from to

Commission file number 1-08895

HCP, Inc.

(Exact name of registrant as specified in its charter)

Maryland	33-0091377
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1920 Main Street, Suite 1200 Irvine, California	92614
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code
(949) 407-0700

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

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

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

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

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

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $15.1 billion.

As of January 31, 2017 there were 468,178,740 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's 2017 Annual Meeting of Stockholders have been incorporated by reference into Part III of this Report.

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HCP, Inc.

Form 10-K

For the Fiscal Year Ended December 31, 2016

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

Cautionary Language Regarding Forward-Looking Statements

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

- our reliance on a concentration of a small number of tenants and operators for a significant percentage of our revenues, with our concentration in Brookdale increasing as a result of the consummation of the spin-off of Quality Care Properties, Inc. on October 31, 2016;

- the financial condition of our existing and future tenants, operators and borrowers, including potential bankruptcies and downturns in their businesses, and their legal and regulatory proceedings, which results in uncertainties regarding our ability to continue to realize the full benefit of such tenants’ and operators’ leases and borrowers’ loans;

- the ability of our existing and future tenants, operators and borrowers to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and to generate sufficient income to make rent and loan payments to us and our ability to recover investments made, if applicable, in their operations;

- competition for tenants and operators, including with respect to new leases and mortgages and the renewal or rollover of existing leases;

- our concentration in the healthcare property sector, particularly in life sciences, medical office buildings and hospitals, which makes our profitability more vulnerable to a downturn in a specific sector than if we were investing in multiple industries;

- availability of suitable properties to acquire at favorable prices, the competition for the acquisition and financing of those properties, and the costs of associated property development;

- our ability to negotiate the same or better terms with new tenants or operators if existing leases are not renewed or we exercise our right to foreclose on loan collateral or replace an existing tenant or operator upon default;

- the risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision making authority and our reliance on our partners' financial condition and continued cooperation;

- our ability to achieve the benefits of acquisitions or other investments within expected time frames or at all, or within expected cost projections;

- operational risks associated with third party management contracts, including the additional regulation and liabilities of our RIDEA lease structures;

- the potential impact on us and our tenants, operators and borrowers from current and future litigation matters, including the possibility of larger than expected litigation costs, adverse results and related developments;

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- the effect on our tenants and operators of legislation, executive orders and other legal requirements, including the Affordable Care Act and licensure, certification and inspection requirements, as well as laws addressing entitlement programs and related services, including Medicare and Medicaid, which may result in future reductions in reimbursements;

- changes in federal, state or local laws and regulations, including those affecting the healthcare industry that affect our costs of compliance or increase the costs, or otherwise affect the operations, of our tenants and operators;

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

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

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

- competition for skilled management and other key personnel; and

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

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

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PART I

ITEM 1. Business

General Overview

HCP, an S&P 500 company, invests primarily in real estate serving the healthcare industry in the United States ("U.S."). We are a Maryland corporation organized in 1985 and qualify as a self-administered real estate investment trust ("REIT"). We are headquartered in Irvine, California, with offices in Nashville and San Francisco. Our diverse portfolio is comprised of investments in the following reportable healthcare segments: (i) senior housing triple-net ("SH NNN"), (ii) senior housing operating portfolio ("SHOP"), (iii) life science and (iv) medical office.

On October 31, 2016, we completed the spin-off (the "Spin-Off") of Quality Care Properties, Inc. ("QCP") (NYSE:QCP). The Spin-Off included 338 properties, primarily comprised of the HCR ManorCare, Inc. ("HCRMC") direct financing lease ("DFL") investments and an equity investment in HCRMC. QCP is an independent, publicly-traded, self-managed and self-administrated REIT. See Notes 1 and 5 to the Consolidated Financial Statements for further information on the Spin-Off.

For a description of our significant activities during 2016, see Item 7 in this report.

Business Strategy

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

Internal Growth Strategies

We believe our real estate portfolio holds the potential for increased future cash flows as it is well-maintained and in desirable locations within markets where new supply is generally limited by the lack of available sites and the difficulty of obtaining the necessary licensing, other approvals and/or financing. Our strategy for maximizing the benefits from these opportunities is to: (i) work with new or existing tenants and operators to address their space and capital needs; and (ii) provide high-quality property management services in order to motivate tenants to renew, expand or relocate into our properties.

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

- Build and maintain long-term leasing and management relationships with quality tenants and operators. In choosing locations for our properties, we focus on their physical environment, adjacency to established businesses (e.g., hospital systems) and educational centers, proximity to sources of business growth and other local demographic factors.

- Replace tenants and operators at the best available market terms and lowest possible transaction costs. We believe that we are well-positioned to attract new tenants and operators and achieve attractive rental rates and operating cash flow as a result of the location, design and maintenance of our properties, together with our reputation for high-quality building services and responsiveness to tenants, and our ability to offer space alternatives within our portfolio.

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- Extend and modify terms of existing leases prior to expiration. We structure lease extensions, early renewals or modifications, which reduce the cost associated with lease downtime or the re-investment risk resulting from the exercise of tenants' purchase options, while securing the tenancy and relationship of our high quality tenants and operators on a long-term basis.

Investment Strategies

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

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

We monitor, but do not limit, our investments based on the percentage of our total assets that may be invested in any one property type, investment vehicle or geographic location, the number of properties that may be leased to a single tenant or operator, or loans that may be made to a single borrower. In allocating capital, we target opportunities with the most attractive risk/reward profile for our portfolio as a whole. We may take additional measures to mitigate risk, including diversifying our investments (by sector, geography, tenant or operator), structuring transactions as master leases, requiring tenant or operator insurance and indemnifications, and obtaining credit enhancements in the form of guarantees, letters of credit or security deposits.

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

- our reputation gained through over 30 years of successful operations and the strength of our existing portfolio of properties;
- our relationships with leading healthcare operators and systems, investment banks and other market intermediaries, corporations, private equity firms, non-profits and public institutions seeking to monetize existing assets or develop new facilities;
- our relationships with institutional buyers and sellers of high-quality healthcare real estate;
- our track record and reputation for executing acquisitions responsively and efficiently, which provides confidence to domestic and foreign institutions and private investors who seek to sell healthcare real estate in our market areas;
- our relationships with nationally recognized financial institutions that provide capital to the healthcare and real estate industries; and
- our control of sites (including assets under contract with radius restrictions).

Financing Strategies

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

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

- borrowings under our credit facility;
- issuance or origination of debt, including unsecured notes, term loans and mortgage debt;

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· sale of ownership interests in properties or other investments; or
· issuance of common or preferred stock or equivalent.

We maintain a disciplined balance sheet by actively managing our debt to equity levels and maintaining multiple sources of liquidity. Our debt obligations are primarily long-term fixed rate with staggered maturities.

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

Segments

The following table summarizes our revenues by segment (in thousands):

	Year Ended December 31,					
Segment	2016	%	2015	%	2014	%
SH NNN	$ 423,118	20	$ 428,269	22	$ 538,113	33
SHOP	686,822	32	518,264	27	243,612	15
Life science	358,537	17	342,984	18	314,114	19
Medical office	446,280	21	415,351	21	368,055	22
Other non-reportable segments	214,537	10	235,621	12	172,939	11
Total revenues	$ 2,129,294	100	$ 1,940,489	100	$ 1,636,833	100

Senior housing (SH NNN and SHOP). Our senior housing facilities are managed utilizing triple-net leases and RIDEA structures, which are permitted by the Housing and Economic Recovery Act of 2008 (commonly referred to as "RIDEA"), and include independent living facilities ("ILFs"), assisted living facilities ("ALFs"), memory care facilities ("MCFs"), care homes, and continuing care retirement communities ("CCRCs"), which cater to different segments of the elderly population based upon their personal needs. Services provided by our tenants or operators in these facilities are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicare and Medicaid.

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

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

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

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- Assisted Living Facilities. ALFs are licensed care facilities that provide personal care services, support and housing for those who need help with ADL, such as bathing, eating, dressing and medication management, yet require limited medical care. These facilities are often in apartment-like buildings with private residences ranging from single rooms to large apartments. Certain ALFs may have a dedicated portion of a facility that offers higher levels of personal assistance for residents requiring memory care as a result of Alzheimer's disease or other forms of dementia. Levels of personal assistance are based in part on local regulations.
- Memory Care Facilities. MCFs address the unique challenges of our residents with Alzheimer's disease or other forms of dementia. Residents may live in semi-private apartments or private rooms and have structured activities delivered by staff members trained specifically on how to care for residents with memory impairment. These facilities offer programs that provide comfort and care in a secure environment.
- Continuing Care Retirement Communities. CCRCs offer several levels of assistance, including independent living, assisted living and nursing home care. CCRCs are different from other housing and care options for seniors because they usually provide written agreements or long-term contracts between residents and the communities (frequently lasting the term of the resident's lifetime), which offer a continuum of housing, services and healthcare on one campus or site. CCRCs are appealing as they allow residents to "age in place." CCRCs typically require the individual to be in relatively good health and independent upon entry.

The following table provides information about our SH NNN tenant concentration for the year ended December 31, 2016:

Tenant	Percentage of Segment Revenues	Percentage of Total Revenues
Brookdale(1)	59 %	12 %

(1) Excludes SHOP facilities operated by Brookdale in our SHOP segment, as discussed below. Includes revenues from 64 SH NNN facilities that were classified as held for sale at December 31, 2016.

As of December 31, 2016, Brookdale managed or operated, in our SHOP segment, approximately 18% of our real estate investments based on gross assets. Because an operator manages our facilities in exchange for the receipt of a management fee, we are not directly exposed to the credit risk of the operators in the same manner or to the same extent as our triple-net tenants. However, adverse developments in their business and affairs or financial condition could impair their ability to efficiently and effectively manage our facilities.

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

Life science properties are primarily configured in business park or campus settings and include multiple buildings. The business park and campus settings allow us the opportunity to provide flexible, contiguous/adjacent expansion to accommodate the growth of existing tenants. Our properties are located in well-established geographical markets known for scientific research and drug discovery, including San Francisco and San Diego, California, and Durham, North Carolina. At December 31, 2016, 97% of our life science properties were triple-net leased (based on leased square feet).

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The following table provides information about our life science tenant concentration for the year ended December 31, 2016:

Tenants	Percentage of Segment Revenues	Percentage of Total Revenues
Amgen, Inc.	15 %	2 %
Genentech, Inc.(1)	14 %	2 %

(1) Pursuant to a purchase and sale agreement in January 2016, the tenant exercised its purchase options under its lease on eight facilities, of which four sold in November 2016, and four are expected to close in the third quarter of 2018. Accordingly, the percentage of segment revenues will decrease below 10% upon completion of these sales.

Medical office. Medical office buildings ("MOBs") typically contain physicians' offices and examination rooms, and may also include pharmacies, hospital ancillary service space and outpatient services such as diagnostic centers, rehabilitation clinics and day-surgery operating rooms. While these facilities are similar to commercial office buildings, they require additional plumbing, electrical and mechanical systems to accommodate multiple exam rooms that may require sinks in every room, and special equipment such as x-ray machines. In addition, MOBs are often built to accommodate higher structural loads for certain equipment and may contain vaults or other specialized construction. Our MOBs are typically multi-tenant properties leased to healthcare providers (hospitals and physician practices), with approximately 82% of our MOBs, based on square feet, located on hospital campuses and 95% are affiliated with hospital systems. Occasionally, we invest in MOBs located on hospital campuses which may be subject to ground leases. At December 31, 2016, approximately 53% of our medical office buildings were triple-net leased (based on leased square feet) with the remaining leased under gross or modified gross leases.

The following table provides information about our medical office tenant concentration for the year ended December 31, 2016:

Tenant	Percentage of Segment Revenues	Percentage of Total Revenues
Hospital Corporation of America ("HCA")(1)	17 %	4 %

(1) Percentage of total revenues from HCA includes revenues earned from both our medical office and other non-reportable segments.

Other non-reportable segments. At December 31, 2016, we had interests in and managed 15 hospitals, 61 care homes in the United Kingdom ("U.K."), five post-acute/skilled nursing facilities ("SNFs"), 4 of which were owned by our unconsolidated joint ventures, and $877 million of debt investments. Services provided by our tenants and operators in hospitals are paid for by private sources, third-party payors (e.g., insurance and HMOs) or through Medicare and Medicaid programs. Our hospital property types include acute care, long-term acute care, specialty and rehabilitation hospitals. Care homes offer personal care services, such as lodging, meal services, housekeeping and laundry services, medication management and assistance with ADL. Care homes are registered to provide different levels of services, ranging from personal care to nursing care. Some homes can be further registered for a specific care need, such as dementia or terminal illness. SNFs offer restorative, rehabilitative and custodial nursing care for people following a hospital stay or not requiring the more extensive and complex treatment available at hospitals. All of our care homes in the U.K., hospitals and SNFs are triple-net leased.

Competition

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

Income from our investments depends on our tenants' and operators' ability to compete with other companies on multiple levels, including: the quality of care provided, reputation, success of product or drug development, the physical appearance

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of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas, and the financial condition of our tenants and operators. For a discussion of the risks associated with competitive conditions affecting our business, see “Item 1A, Risk Factors” in this report.

Government Regulation, Licensing and Enforcement

Overview

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

Based on information primarily provided by our tenants and operators, including our medical office segment, at December 31, 2016, we estimate that approximately 13% and 12% (15% and 14%, excluding our medical office segment) of the annualized base rental payments received from our tenants and operators were dependent on Medicare and Medicaid reimbursement, respectively.

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

Fraud and Abuse Enforcement

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

Violations of U.S. and U.K. healthcare fraud and abuse laws carry civil, criminal and administrative sanctions, including punitive sanctions, monetary penalties, imprisonment, denial of Medicare and Medicaid reimbursement and potential exclusion from Medicare, Medicaid or other federal or state healthcare programs. These laws are enforced by a variety of federal, state and local agencies and in the U.S. can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring qui tam or “whistleblower” actions. Many of our tenants and operators are subject to these laws, and may become the subject of governmental enforcement actions if they fail to comply with applicable laws.

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Reimbursement

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

Healthcare Licensure and Certificate of Need

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

Life Science Facilities

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

Senior Housing Entrance Fee Communities

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

Americans with Disabilities Act (the “ADA”)

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

Environmental Matters

A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect healthcare facility operations. These complex federal and state statutes, and their enforcement, involve a myriad of regulations, many of which involve strict liability on the part of the potential offender. Some of these federal and state statutes may directly impact us. Under various federal, state and local environmental laws, ordinances and regulations, an

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owner of real property or a secured lender, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and any related liability therefore could exceed or impair the value of the property and/or the assets. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the value of such property and the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our earnings. For a description of the risks associated with environmental matters, see "Item 1A, Risk Factors" in this report.

Insurance

We obtain various types of insurance to mitigate the impact of property, business interruption, liability, flood, windstorm, earthquake, environmental and terrorism related losses. We attempt to obtain appropriate policy terms, conditions, limits and deductibles considering the relative risk of loss, the cost of such coverage and current industry practice. There are, however, certain types of extraordinary losses, such as those due to acts of war or other events that may be either uninsurable or not economically insurable. In addition, we have a large number of properties that are exposed to earthquake, flood and windstorm occurrences which carry higher deductibles.

We maintain property insurance for all of our properties, and this insurance is primary for our SHOP (RIDEA), life science and medical office segments. Tenants under triple-net leases, primarily in our SH NNN segment, are required to provide primary property, business interruption and liability insurance. We maintain separate general and professional liability insurance for our SHOP (RIDEA) facilities. Additionally, our corporate general liability insurance program also extends coverage for all of our properties beyond the aforementioned. We periodically review whether we or our RIDEA operators will bear responsibility for maintaining the required insurance coverage for the applicable SHOP properties, but the costs of such insurance are facility expenses paid from the revenues of those properties, regardless of who maintains the insurance.

We also maintain directors and officers liability insurance which provides protection for claims against our directors and officers arising from their responsibilities as directors and officers. Such insurance also extends to us in certain situations.

Employees of HCP

At December 31, 2016, we had 188 full-time employees, none of whom were subject to a collective bargaining agreement.

Sustainability

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

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

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Our 2016 sustainability achievements include being named the Healthcare Leader in the Light Award winner by the National Association of Real Estate Investment Trusts ("NAREIT") and constituency in the FTSE4Good Index series for the fifth consecutive year.

Additionally, we achieved constituency in the North America Dow Jones Sustainability Index ("DJSI") for the fourth consecutive year, as well as the World DJSI for the second time. Accordingly, HCP was included in The Sustainability Yearbook, a listing of the world's most sustainable companies which includes only those companies in the top 15% of their industry, as scored by the DJSI assessment. For additional information regarding our ESG sustainability initiatives and our approach to climate change, please visit our website at www.hcpi.com/sustainability.

Available Information

Our website address is www.hcpi.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") are available on our website, free of charge, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the U.S. Securities and Exchange Commission ("SEC").

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

ITEM 1A. Risk Factors

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

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

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

Risks Related to Our Business and Operations

We depend on one tenant and operator, Brookdale, for a significant percentage of our revenues and net operating income. Continuing adverse developments, including operational challenges, in Brookdale's business and affairs or financial condition would likely have a materially adverse effect on us.

We manage our facilities utilizing RIDEA and triple-net lease ("lease arrangements") structures. As of December 31, 2016, Brookdale leased or managed 212 senior housing facilities that we own and 16 SHOP facilities owned by our unconsolidated joint venture pursuant to long-term lease and management agreements.

Properties managed by Brookdale under RIDEA structures as of December 31, 2016, accounted for 18% of our gross segment assets. Services provided by our managers in facilities managed under a RIDEA structure are primarily paid for by the residents directly or through private insurance and are less reliant on government reimbursement programs. We report the resident level fees and services revenues and corresponding operating expenses in our consolidated financial statements.

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In addition to our RIDEA structures with Brookdale, our leases with respect to Brookdale as a tenant accounted for 12% of our revenues for the year ended December 31, 2016.

Although we have various rights as the property owner under our management agreements, we rely on Brookdale's personnel, expertise, technical resources and information systems, proprietary information, good faith and judgment to manage our related senior living operations efficiently and effectively. We also rely on Brookdale to set appropriate resident fees, manage occupancy, provide accurate and complete property-level financial results for these senior housing communities in a timely manner and otherwise operate them in compliance with the terms of our management agreements and all applicable laws and regulations.

In its capacity as a manager in the RIDEA structures, Brookdale does not lease our properties and, therefore, our exposure to its credit risk is in a different manner as compared to a triple-net tenant. Brookdale has experienced significant challenges in integrating its July 2014 acquisition of Emeritus Corp. and has been adversely affected by increased competition that has negatively impacted occupancy rates and, in certain cases, Brookdale has offered additional discounts and incentives to residents. Brookdale, as well as our other operators, has also experienced labor expense pressure and increased labor turnover.

In its capacity as a triple-net tenant, we depend on Brookdale to pay all insurance, tax, utilities, maintenance and repair expenses in connection with the leased properties. We depend on adequate maintenance and repair of the properties to remain competitive and attract and retain patients and residents. Adverse developments in Brookdale's business and related declining rent coverage ratios have increased its credit risk. If these adverse developments result in prolonged inadequate property maintenance or improvements, or impair Brookdale's access to capital necessary for maintenance or improvements, it could lead to a significant reduction in occupancy rates and market rents, which would likely have a materially adverse effect on us.

Brookdale's operational challenges and potential adverse developments in its business, affairs and financial results could significantly divert management's attention, increase employee turnover, and impair its ability to manage the properties or its operations efficiently and effectively. This could ultimately result in, among other adverse events, acceleration of Brookdale's indebtedness, impairment of its continued access to capital, the enforcement of default remedies by its counterparties or the commencement of insolvency proceedings by or against it under the U.S. Bankruptcy Code.

In addition, Brookdale depends on private sources for its revenues and the ability of its patients and residents to pay its fees. For example, costs associated with independent and assisted living services are not generally reimbursable under governmental reimbursement programs such as Medicare and Medicaid. Accordingly, Brookdale depends on attracting seniors with appropriate levels of income and assets, which may be affected by many factors including prevailing economic and market trends, consumer confidence and demographics. Consequently, if Brookdale fails to effectively conduct its operations, or to maintain and improve our properties, it would adversely affect its business reputation and its ability to attract and retain patients and residents in our properties, which would have a materially adverse effect on its and our business, results of operations and financial condition.

Brookdale also relies on reimbursements from governmental programs for a portion of its revenues. Changes in reimbursement policies and other governmental regulation, such as potential changes to, or repeal of, the Patient Protection and Affordable Care Act, along with the Health Care and Education Reconciliation Act of 2010 (collectively, the “Affordable Care Act”) that may result from the new presidential administration, may result in reductions in Brookdale’s revenues, operations and cash flows and affect its ability to meet its obligations to us. For a further discussion of the legislation and regulation that are applicable to us and our tenants, operators and borrowers, see “—Legislation and Regulation—The requirements of, or changes to, governmental reimbursement programs such as Medicare or Medicaid, may adversely affect our tenants’, operators’ and borrowers’ ability to meet their financial and other contractual obligations to us.” While Brookdale generally has also agreed to indemnify us for various claims, litigation and liabilities arising in connection with its business, it may have insufficient assets, income, access to financing and/or insurance coverage to enable them to satisfy its indemnification obligations.

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The inability, unwillingness or other failure of Brookdale under its lease agreements and RIDEA structures to meet its obligations to us could materially reduce our cash flow, net operating income and results of operations and have other materially adverse effects on our business, results of operations and financial condition.

The bankruptcy, insolvency or financial deterioration of one or more of our major tenants, operators or borrowers may materially adversely affect our business, results of operations and financial condition.

We lease our properties directly to operators in most cases, and in certain other cases, we lease to third party tenants who enter into long-term management agreements with operators to manage the properties. We are also a direct or indirect lender to various tenants and operators. We have very limited control over the success or failure of our tenants' and operators' businesses. Any of our tenants or operators may experience a downturn in its business that materially weakens its financial condition. As a result, they may fail to make payments when due. Although we generally have arrangements and other agreements that give us the right under specified circumstances to terminate a lease, evict a tenant or operator, or demand immediate repayment of certain obligations to us, we may determine not to do so if we believe that enforcement of our rights would be more detrimental to our business than seeking alternative approaches.

A downturn in any of our tenants' or operators' businesses could ultimately lead to bankruptcy if it is unable to timely resolve the underlying causes, which may be largely outside of its control. Bankruptcy and insolvency laws afford certain rights to a party that has filed for bankruptcy or reorganization that may render certain of these remedies unenforceable, or, at the least, delay our ability to pursue such remedies and realize any recoveries in connection therewith. For example, we cannot evict a tenant or operator solely because of its bankruptcy filing.

A debtor has the right to assume, or to assume and assign to a third party, or to reject its executory contracts and unexpired leases in a bankruptcy proceeding. If a debtor were to reject its leases with us, obligations under such rejected leases would cease. The claim against the rejecting debtor would be an unsecured claim, which would be limited by the statutory cap set forth in the U.S. Bankruptcy Code. This statutory cap may be substantially less than the remaining rent actually owed under the lease. In addition, a debtor may also assert in bankruptcy proceedings that leases should be re-characterized as financing agreements, which could result in our being deemed a lender instead of a landlord. A lender's rights and remedies, as compared to a landlord's, generally are materially more unfavorable.

Furthermore, the automatic stay provisions of the U.S. Bankruptcy Code would preclude us from enforcing our remedies unless we first obtain relief from the court having jurisdiction over the bankruptcy case. This would effectively limit or delay our ability to collect unpaid rent, and we may ultimately not receive any payment at all. In addition, we would likely be required to fund certain expenses and obligations (e.g., real estate taxes, insurance, debt costs and maintenance expenses) to preserve the value of our properties, avoid the imposition of liens on our properties or transition our properties to a new tenant, operator or manager. Additionally, we lease many of our facilities to healthcare providers who provide long-term custodial care to the elderly. Evicting these operators for failure to pay rent while the facility is occupied may involve specific procedural or regulatory requirements and may not be successful. Even if eviction is possible, we may determine not to do so due to reputational or other risks.

Bankruptcy or insolvency proceedings may also result in increased costs to the operator and significant management distraction. If we are unable to transition affected properties, they could experience prolonged operational disruption, leading to lower occupancy rates and further depressed revenues. Publicity about the operator's financial condition and insolvency proceeds may also negatively impact their and our reputations, decreasing customer demand and revenues. Any or all of these risks could have a material adverse effect on our revenues, results of operations and cash flows. These risks would be magnified where we lease multiple properties to a single operator under a master lease, as an operator failure or default under a master lease would expose us to these risks across multiple properties.

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

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

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

Our tenants, operators and borrowers also compete with numerous other companies providing similar healthcare services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. This competition, which is due, in part, to over-development in some segments in which we invest, has caused the occupancy rate of newly constructed buildings to slow and the monthly rate that many newly built and previously existing facilities were able to obtain for their services to decrease. Our tenants, operators and borrowers may be unable to achieve occupancy and rate levels, and to manage their expenses, in a way that will enable them to meet all of their obligations to us. Further, many competing companies may have resources and attributes that are superior to those of our tenants, operators and borrowers. Our tenants, operators and borrowers may encounter increased competition that could limit their ability to maintain or attract residents or expand their businesses or to manage their expenses, either of which could materially adversely affect their ability to meet their financial and other contractual obligations to us, potentially decreasing our revenues and impairing our assets and/or increasing collection and dispute costs.

In addition, our operators’ revenues are determined by a number of factors, including licensed bed capacity, occupancy, the healthcare needs of residents, the rate of reimbursement, and or a decrease the income or assets of seniors in the regions in which we operate. For example, due to generally increased vulnerability to illness, occupancy at our senior housing facilities could significantly decrease in the event of a severe flu season, an epidemic or any other widespread illness. Additionally, new and evolving payor and provider programs in the United States, including but not limited to Medicare Advantage, Dual Eligible, Accountable Care Organizations, and Bundled Payments, have resulted in reduced reimbursement rates, average length of stay and average daily census, particularly for higher acuity patients.

Furthermore, the new presidential administration and new Congress has introduced uncertainty in the direction of the healthcare regulatory landscape and we cannot predict the impact of any regulatory or legislative changes on the industry or our ability to compete effectively therein. See the risks described under "—Legislation and Regulation—The requirements of, or changes to, governmental reimbursement programs such as Medicare or Medicaid, may adversely affect our tenants', operators' and borrowers' ability to meet their financial and other contractual obligations to us."

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

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

We depend on investments in the healthcare property sector, making our profitability more vulnerable to a downturn or slowdown in that specific sector than if we were investing in multiple industries.

We concentrate our investments in the healthcare property sector. As a result, we are subject to risks inherent to investments in a single industry. A downturn or slowdown in the healthcare property sector would have a greater adverse impact on our business than if we had investments in multiple industries. Specifically, a downturn in the healthcare property sector could negatively impact the ability of our tenants, operators and borrowers to meet their obligations to us, as well as the ability to maintain rental and occupancy rates. This could adversely affect our business, financial condition and results of operations. In addition, a downturn in the healthcare property sector could adversely affect the value of our properties and our ability to sell properties at prices or on terms acceptable to us.

In addition, real estate investments are relatively illiquid. Our ability to quickly sell or exchange any of our properties in response to changes in the performance of our properties or economic and other conditions is limited. We may be unable to recognize full value for any property that we seek to sell for liquidity reasons. Our inability to respond rapidly to changes in the performance of our investments could adversely affect our financial condition and results of operations. In addition, we are exposed to the risks inherent in concentrating investments in real estate, and in particular, health care industries.

Changes within the life science industry may adversely impact our revenues and results of operations.

Our life science investments could be adversely affected if the life science industry is impacted by an economic, financial, or banking crisis or if the life science industry migrates from the U.S. to other countries or to areas outside of primary markets in South San Francisco and San Diego. Also, some of our properties may be better suited for a particular life science industry client tenant and could require modification before we are able to re-lease vacant space to another life science industry client tenant. Generally, our properties may not be suitable for lease to traditional office client tenants without significant expenditures on renovations.

Our ability to negotiate contractual rent escalations on future leases and to achieve increases in rental rates will depend upon market conditions and the demand for life science properties at the time the leases are negotiated and the increases are proposed.

Many life science entities have completed mergers or consolidations. Mergers or consolidations of life science entities in the future could reduce the amount of rentable square footage requirements of our client tenants and prospective client tenants, which may adversely impact our revenues from lease payments and results of operations.

The hospitals on whose campuses our MOBs are located and their affiliated healthcare systems could fail to remain competitive or financially viable, which could adversely impact their ability to attract physicians and physician groups to our MOBs and our other facilities that serve the healthcare industry.

Our MOBs and other facilities that serve the healthcare industry depend on the viability of the hospitals on whose campuses our MOBs are located and their affiliated healthcare systems in order to attract physicians and other healthcare-related users. The viability of these hospitals, in turn, depends on factors such as the quality and mix of healthcare services provided, competition, demographic trends in the surrounding community, market position and growth potential, as well

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as the ability of the affiliated healthcare systems to provide economies of scale and access to capital. If a hospital whose campus is located on or near one of our MOBs is unable to meet its financial obligations, and if an affiliated healthcare system is unable to support that hospital, the hospital may not be able to compete successfully or could be forced to close or relocate, which could adversely impact its ability to attract physicians and other healthcare-related users. Because we rely on our proximity to and affiliations with these hospitals to create tenant demand for space in our MOBs, their inability to remain competitive or financially viable, or to attract physicians and physician groups, could adversely affect our MOB operations and have a materially adverse effect on us.

In addition, the potential repeal of the Affordable Care Act and related regulations and uncertainty regarding potential replacement legislation, could result in significant changes to the scope of insurance coverage and reimbursement policies, which could put negative pressure on the operations and revenues of our MOBs.

We may be unable to maintain or expand our relationships with our existing and future hospital and health system clients.

The success of our medical office portfolio depends, to a large extent, on past, current and future relationships with hospitals and their affiliated health systems. We invest significant amounts of time in developing relationships with both new and existing clients. If we fail to maintain these relationships, including through a lack of responsiveness, failure to adapt to the current market and employment of individuals with adequate experience, our reputation and relationships will be harmed and we may lose business to competitors. If our relationships with hospitals and their affiliated health systems deteriorate, it could have a materially adverse effect on us.

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

For the year ended December 31, 2016, 26% of our revenue was derived from properties located in California, which is also where substantially all of our life-science portfolio is located. As a result, we may be subject to increased exposure to adverse conditions affecting the state, including downturns in the local economies or changes in local real estate conditions, increased competition or decreased demand, changes in state-specific legislation and local climate events and natural disasters (such as earthquakes, wildfires and hurricanes), which could cause significant disruption in our businesses in the region, harm our ability to compete effectively, result in increased costs and divert more management attention, any or all of which could adversely affect our business and results of operations.

If we must replace any of our tenants or operators, we may have difficulty identifying replacements and we may be required to incur substantial renovation costs to make certain of our healthcare properties suitable for other tenants and operators.

We cannot predict whether our tenants will renew existing leases beyond their current term. If we or our tenants terminate or do not renew the leases for our properties, we would attempt to reposition those properties with another tenant or operator. Healthcare facilities are typically highly customized and may not be easily adapted to non-healthcare-related uses. The improvements generally required to conform a property to healthcare use, such as upgrading electrical, gas and plumbing infrastructure, are costly and at times tenant-specific and may be subject to regulatory requirements. A new or replacement tenant or operator may require different features in a property, depending on that tenant’s or operator’s particular business. In addition, infrastructure improvements for life science facilities typically are significantly more costly than improvements to other property types, and we may be unable to recover part or all of these higher costs. Therefore, if a current tenant or operator is unable to pay rent and/or vacates a property, we may incur substantial expenditures to modify a property and experience delays before we are able to secure another tenant or operator or to accommodate multiple tenants or operators. These expenditures or renovations and delays may materially adversely affect our business, results of operations and financial condition.

Additionally, we may fail to identify suitable replacements or enter into leases or other arrangements with new tenants or operators on a timely basis or on terms as favorable to us as our current leases, if at all. We may be required to fund certain expenses and obligations such as real estate taxes, debt costs and maintenance expenses, to preserve the value of, and avoid the imposition of liens on, our properties while they are being repositioned. In addition, we may incur certain obligations and liabilities, including obligations to indemnify the replacement tenant or operator, which could have a materially adverse

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effect on us.

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

Property development is a component of our growth strategy. For example, in October 2016 we commenced the third phase of The Cove at Oyster Point, our newest life science development in South San Francisco. At December 31, 2016, our actual investment and estimated commitments under our development and redevelopment platforms, including land held for development, represented approximately $673 million, or 4% of our total assets. Large-scale, ground-up development of healthcare properties presents additional risks for us, including risks that:

- a development opportunity may be abandoned after expending significant resources resulting in the loss of deposits or failure to recover expenses already incurred;
- the development and construction costs of a project may exceed original estimates due to increased interest rates and higher materials, transportation, labor, leasing or other costs, which could make the completion of the development project less profitable;
- the project may not be completed on schedule as a result of a variety of factors that are beyond our control, including natural disasters, labor conditions, material shortages, regulatory hurdles, civil unrest and acts of war, which can result in increases in construction costs and debt service expenses or provide tenants or operators with the right to terminate pre-construction leases; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to make the property profitable.

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

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

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

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

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

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

Acquisitions require the integration of companies that have previously operated independently. Successful integration of

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

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

In addition, the acquired companies and their properties may fail to perform as expected, including in respect of estimated cost savings. Inaccurate assumptions regarding future rental or occupancy rates could result in overly optimistic estimates of future revenues. Similarly, we may underestimate future operating expenses or the costs necessary to bring properties up to standards established for their intended use or for property improvements.

If we have difficulties with any of these areas, or if we later discover additional liabilities or experience unforeseen costs relating to our acquired companies, we might not achieve the economic benefits we expect from our acquisitions, and this may materially adversely affect our business, results of operations and financial condition.

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

We regularly review potential transactions in order to maximize stockholder value. Our review process may require significant management attention and a potential transaction could be abandoned or rejected by us or the other parties involved after we expend significant resources and time. In addition, future acquisitions may require the issuance of securities, the incurrence of debt, assumption of contingent liabilities or incurrence of significant expenditures, each of which could materially adversely impact our business, financial condition or results of operations. In addition, the financing required for such acquisitions may not be available on commercially favorable terms or at all.

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

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

Furthermore, although our leases and agreements provide us with certain information rights with respect to our tenants and operators, one or more of our tenants may be or become party to pending litigation or investigation to which we are unaware or do not have a right to participate or evaluate. In such cases, we would be unable to determine the potential impact of such litigation or

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investigation on our tenants or our business or results. Moreover, negative publicity of any of our operators' or tenants' litigation, other legal proceedings or investigations may also negatively impact their and our reputation, resulting in lower customer demand and revenues, which could have a material adverse effect on our financial condition, results of operations and cash flow.

We, through our subsidiaries, enter into management contracts with third party eligible independent contractors to manage some of our facilities whereby we assume additional operational risks and are subject to additional regulation and liability.

RIDEA structures at the year ended December 31, 2016, accounted for 24% of our gross segment assets. RIDEA permits REITs, such as us, to lease healthcare facilities that we own or partially own to a TRS, provided that our TRS hires an independent qualifying management company to operate the facility. Under the RIDEA lease structure, the independent qualifying management company receives a management fee from our TRS for operating the facility as an independent contractor. As the owner of the facility contracting out operational responsibility, we assume more of the operational risk relative to other structures because we lease our facility to our own partially- or wholly-owned subsidiary rather than a third party operator. Our resulting revenues therefore depend more on occupancy rates, the rates charged to residents and the ability to control operating expenses. Our TRS, and hence we, are responsible for any operating deficits incurred by the facility.

The operator, which would be our TRS when we use a RIDEA lease structure, of a healthcare facility is generally required to be the holder of the applicable healthcare license. This licensing requirement subjects our TRS and us (through our ownership interest in our TRS) to various regulatory laws, including those described above. Most states regulate and inspect healthcare facility operations, patient care, construction and the safety of the physical environment. If one or more of our healthcare real estate facilities fails to comply with applicable laws, our TRS, if it holds the healthcare license and is the entity enrolled in government health care programs, could be subject to penalties including loss or suspension of license, certification or accreditation, exclusion from government healthcare programs (i.e., Medicare, Medicaid), administrative sanctions, civil monetary penalties, and in certain instances, criminal penalties. Additionally, if our TRS holds the healthcare license, it could have exposure to professional liability claims arising out of an alleged breach of the applicable standard of care rules.

In addition, rents from this TRS structure are treated as qualifying rents from real property if (i) they are paid pursuant to an arms-length lease of a "qualified healthcare property" with the TRS and (ii) the manager qualifies as an "eligible independent contractor," as defined in the Code. If either of these conditions is not satisfied, then the rents will not be qualifying rents.

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

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

· statutory and regulatory changes;
· retroactive rate adjustments;
· recovery of program overpayments or set-offs;

- federal, state and local litigation and enforcement actions;
- administrative proceedings;
- policy interpretations;

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- payment or other delays by fiscal intermediaries or carriers;
- government funding restrictions (at a program level or with respect to specific facilities); and
- interruption or delays in payments due to any ongoing governmental investigations and audits at such properties.

The failure to comply with the extensive laws, regulations and other requirements applicable to their business and the operation of our properties could result in, among other challenges: (i) becoming ineligible to receive reimbursement from governmental reimbursement programs; (ii) bans on admissions of new patients or residents; (iii) civil or criminal penalties; and (iv) significant operational changes. These laws and regulations are enforced by a variety of federal, state and local agencies and can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring qui tam or "whistleblower" actions. For example, we have provided a loan to Tandem Health Care ("Tandem"), a property company with ownership interests in 69 facilities totaling 6,924 beds (see Note 7 to the Consolidated Financial Statements for additional information). The sole operator of Tandem's facilities, Consulate Health Care ("Consulate"), is facing a qui tam or "whistleblower" action alleging that Consulate overbilled the federal government and the State of Florida (United States of America v. CMC II, LLC, et al, U.S. District Court, M.D. Florida). Trial commenced on January 17, 2017 and we are unable to assess a likely outcome. However, a negative outcome could have a materially adverse effect on Consulate, which in turn could have a resulting materially adverse effect on Tandem's ability to meet its debt service obligations to us. Regardless of the ultimate outcome, our tenants, operators and borrowers could be adversely affected by the resources required to respond to an investigation or other enforcement action. In such event, the results of operations and financial condition of our tenants and the results of operations of our properties operated by those entities could be materially adversely affected, which, in turn, could have a materially adverse effect on us. We are unable to predict future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation, and any changes in the regulatory framework could have a materially adverse effect on our tenants and operators, which, in turn, could have a materially adverse effect on us.

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

Furthermore, executive orders and legislation may repeal the Affordable Care Act and related regulations in whole or in part. We also anticipate that Congress, state legislatures, and third-party payors may continue to review and assess alternative healthcare delivery and payment systems and may propose and adopt legislation or policy changes or implementations effecting additional fundamental changes in the healthcare system. We cannot quantify or predict the likely impact of these possible changes on our business model, prospects, financial condition or results of operations.

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

Congressional consideration of legislation pertaining to the federal debt ceiling, the Affordable Care Act, tax reform and entitlement programs, including reimbursement rates for physicians, could have a materially adverse effect on our tenants', operators' and borrowers' liquidity, financial condition or results of operations. In particular, reduced funding for entitlement programs such as Medicare and Medicaid may result in increased costs and fees for programs such as Medicare Advantage Plans and additional reductions in reimbursements to providers. Amendments to or repeal of the

Affordable Care Act and decisions by the Centers for Medicare and Medicaid Services could impact the delivery of services and benefits under Medicare, Medicaid or Medicare Advantage Plans and could affect our tenants and operators and the manner in which they are reimbursed by such programs. Such changes could have a materially adverse effect on our tenants', operators' and borrowers' liquidity, financial condition or results of operations, which could adversely affect their ability to satisfy their obligations to us and could have a materially adverse effect on us.

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

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

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

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

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

- some of our tenants require significant outlays of funds for the research, development, clinical testing and manufacture of their products and technologies. If private investors, the government or other sources of funding are unavailable to support such activities, a tenant's business may be adversely affected or fail;
- the research, development, clinical testing, manufacture and marketing of some of our tenants' products require federal, state and foreign regulatory approvals which may be costly or difficult to obtain, may take several years and be subject to delay, require valuation through clinical trials and the use of substantial resources, and may often be unpredictable;
- even after a life science tenant gains regulatory approval and market acceptance, the product may still present significant regulatory and liability risks, including, among others, the possible later discovery of safety concerns and other defects and potential loss of approvals, competition from new products and the expiration of patent protection for the product;
- our tenants with marketable products may be adversely affected by healthcare reform and the reimbursement policies of government or private healthcare payors;
- dependence on the commercial success of certain products, which may be reliant on the efficacy of the products, acceptance of the products among doctors and patients, negative publicity and the negative results or safety signals from the clinical trials of competitors which may reduce demand or prompt regulatory actions; and
- our tenants may be unable to adapt to the rapid technological advances in the industry and to adequately protect their intellectual property under patent, copyright or trade secret laws and defend against third party claims of intellectual property violations.

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

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

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

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

Transfers of healthcare facilities to successor tenants or operators may be subject to regulatory approvals or ratifications, including, but not limited to, change of ownership approvals and Medicare and Medicaid provider arrangements that are not required for transfers of other types of commercial operations and other types of real estate. The replacement of any tenant or operator could be delayed by the regulatory approval process of any federal, state or local government agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility. If we are unable to find a suitable replacement tenant or operator upon favorable terms, or at all, we may take possession of a facility, which might expose us to successor liability, require us to indemnify subsequent operators to whom we might transfer the operating rights and licenses, or require us to spend substantial time and funds to preserve the value of the property and adapt the facility to other uses, all of which may materially adversely affect our business, results of operations and financial condition.

Risks Related to Our Capital Structure and Market Conditions

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

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

- general availability of capital, including less favorable terms, rising interest rates and increased borrowing costs;
- the market price of the shares of our equity securities and the credit ratings of our debt and any preferred securities we may issue;

- the market's perception of our growth potential and our current and potential future earnings and cash distributions;
- our degree of financial leverage and operational flexibility;
- the financial integrity of our lenders, which might impair their ability to meet their commitments to us or their willingness to make additional loans to us, and our inability to replace the financing commitment of any such lender on favorable terms, or at all;
- the stability of the market value of our properties;
- the financial performance and general market perception of our tenants and operators;

- changes in the credit ratings on U.S. government debt securities or default or delay in payment by the United States of its obligations;
- issues facing the healthcare industry, including, but not limited to, healthcare reform and changes in government reimbursement policies; and
- the performance of the national and global economies generally.

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

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

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

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

Our outstanding indebtedness as of December 31, 2016, was approximately $9.2 billion. We may incur additional indebtedness in the future, including in connection with the development or acquisition of assets, which may be substantial. Any significant additional indebtedness could negatively affect the credit ratings of our debt and require us to dedicate a substantial portion of our cash flow to interest and principal payments due on our indebtedness. Greater demands on our cash resources may reduce funds available to us to pay dividends, conduct development activities, make capital expenditures and acquisitions or carry out other aspects of our business strategy. Increased indebtedness can also make us more vulnerable to general adverse economic and industry conditions and create competitive disadvantages for us compared to other companies with relatively lower debt levels. Increased future debt service obligations may limit our operational flexibility, including our ability to finance or refinance our properties, contribute properties to joint ventures or sell properties as needed.

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

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

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

Since the most recent recession, the U.S. Federal Reserve has taken actions which have resulted in low interest rates prevailing in the marketplace for a historically long period of time. In December 2016, the U.S. Federal Reserve raised its benchmark interest rate by a quarter of a percentage point. At this point, it is uncertain what impact the December rate increase might have on us. Additionally, market interest rates may continue to increase, and the increase may materially and negatively affect us. If interest rates increase, so could our interest costs for any variable rate debt and for new debt. This increased cost could make the financing of any acquisition and development activity more costly. Rising interest rates could limit our ability to refinance existing debt when it matures, or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to reposition our portfolio promptly in response to changes in economic or other conditions.

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

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

The global financial markets have experienced and may continue to undergo periods of significant volatility, disruption and uncertainty. While economic conditions have improved since the economic downturn in 2008 and 2009, economic growth has at times been slow and uneven and the strength and sustainability of an economic recovery is challenging and uncertain. Increased or prolonged market disruption, volatility or uncertainty could materially adversely impact our ability to raise capital, obtain new financing or refinance our existing obligations as they mature and fund real estate and development activities.

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

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

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

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

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Risks Related to Other Events

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

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

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

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

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

From time to time, we are involved in legal proceedings, lawsuits and other claims. We may also be named as defendants in lawsuits arising out of our alleged actions or the alleged actions of our tenants and operators for which such tenants and operators have agreed to indemnify, defend and hold us harmless. An unfavorable resolution of any such litigation may have a materially adverse effect on our business, results of operations and financial condition. Regardless of the outcome, litigation or other legal proceedings may result in substantial costs, disruption of our normal business operations and the diversion of management attention. We may be unable to prevail in, or achieve a favorable settlement of, any pending or future legal action against us. See Item 3—Legal Proceedings of this Annual Report on Form 10-K.

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

We depend on the efforts of our executive officers, and competition for these individuals is intense. Although they are covered by our Executive Severance Plan and Change in Control Plan, which provide many of the benefits typically found in executive employment agreements, none of our executive chairman, chief executive officer or incoming chief financial officer have employment agreements with us. We cannot assure you that they, or our president who does have an employment agreement with us, will remain employed with us. The loss or limited availability of the services of any of our executive officers, or our inability to recruit and retain qualified personnel in the future, could, at least temporarily, have a materially adverse effect on our business, results of operations and financial condition and the value of our common stock.

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

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

If one of our properties experiences a loss that is uninsured or that exceeds policy coverage limits, we could lose our investment in the damaged property as well as the anticipated future cash flows from such property. If the damaged property is subject to recourse indebtedness, we could continue to be liable for the indebtedness even if the property is irreparably damaged.

In addition, even if damage to our properties is covered by insurance, a disruption of business caused by a casualty event may result in loss of revenues for us. Any business interruption insurance may not fully compensate them or us for such loss of revenue.

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

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

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

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

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

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, and maintaining personal identifying information and tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for the processing, transmission and storage of confidential tenant and customer data, including individually identifiable information relating to financial accounts. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. The risk of security breaches has generally increased as the number, intensity and sophistication

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of attacks have increased. In some cases, it may be difficult to anticipate or immediately detect such incidents and the damage they cause. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a materially adverse effect on our business, financial condition and results of operations.

Risk Related to Tax, including REIT-Related Risks

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

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

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

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

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

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in us. The federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the U.S. Internal Revenue Service (the "IRS") and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in federal tax laws and interpretations thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

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

If, during the five-year period beginning on the date we acquire certain companies, we recognize a gain on the disposition of any property acquired, then, to the extent of the excess of (i) the fair market value of such property as of the acquisition date over (ii) our adjusted income tax basis in such property as of that date, we will be required to pay a corporate-level federal income tax on this gain at the highest regular corporate rate. There can be no assurance that these triggering dispositions will not occur, and these requirements could limit, delay or impede future sales of our properties.

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

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

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

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

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

The Protecting Americans from Tax Hikes Act of 2015 (the “Act”) contains changes to certain aspects of the U.S. federal income tax rules applicable to us. The Act is the most recent example of changes to the REIT rules, and additional legislative changes may occur that could adversely affect our current tax positions. The Act modifies various rules that apply to our ownership of, and business relationship with, our TRSs and reduces the maximum allowable value of our assets attributable to TRSs from 25% to 20% which could impact our ability to enter into future investments. The Act makes permanent the reduction of the recognition period (from ten years to five years) during which an entity that converted from a corporation to a REIT or was acquired by a REIT is subject to a corporate-level tax on built-in gains recognized during such period, which could influence the types of investments we enter into in the future. The Act also makes multiple changes related to the Foreign Investment in Real Property Tax Act, or FIRPTA, expands prohibited transaction safe harbors and qualifying hedges, and repeals the preferential dividend rule for public REITs previously applicable to us. Lastly, the Act adjusts the way we may calculate certain earnings and profits calculations to avoid double taxation at the stockholder level, and expands the types of qualifying assets and income for purposes of the REIT requirements. The provisions enacted by the Act could result in changes in our tax positions or investments, and future legislative changes related to those rules described above could have a materially adverse impact on our results of operations and financial condition.

Our international investments and operations may result in additional tax-related risks.

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

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

- location, construction quality, age, condition and design of the property;
- geographic area, proximity to other healthcare facilities, type of property and demographic profile, including new competitive supply;
- whether the expected risk-adjusted return exceeds the incremental cost of capital;
- whether the rent or operating income provides a competitive market return to our investors;
- duration, rental rates, tenant and operator quality and other attributes of in-place leases, including master lease structures and coverage;
- current and anticipated cash flow and its adequacy to meet our operational needs;
- availability of security such as letters of credit, security deposits and guarantees;
- potential for capital appreciation;
- expertise and reputation of the tenant or operator;
- occupancy and demand for similar healthcare facilities in the same or nearby communities;
- the mix of revenues generated at healthcare facilities between privately paid and government reimbursed;
- availability of qualified operators or property managers and whether we can manage the property;
- potential alternative uses of the facilities;
- the regulatory and reimbursement environment in which the properties operate;
- tax laws related to REITs;
- prospects for liquidity through financing or refinancing; and
- our access to and cost of capital.

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Property and Direct Financing Lease Investments

The following table summarizes our consolidated property and DFL investments as of and for the year ended December 31, 2016 (square feet and dollars in thousands):

Facility Location	Number of Facilities	Capacity	Gross Asset Value(1)	Rental Revenues(2)	Operating Expenses
SH NNN—real estate:		(Units)			
California	22	2,022	$ 453,094	$ 51,312	$ (5,494)
Texas	16	1,761	216,536	46,071	(5)
Florida	14	1,776	275,825	38,041	—
Oregon	16	1,357	188,626	26,858	(317)
Virginia	10	1,228	270,132	21,705	—
Washington	17	1,199	212,047	17,178	—
Colorado	2	414	89,791	18,043	—
Other (28 States)	86	7,776	1,361,661	167,855	(948)
	183	17,533	3,067,712	387,063	(6,764)
Senior housing—DFLs(3):					
Other (12 States)	27	3,123	628,698	36,055	54
Total SH NNN	210	20,656	$ 3,696,410	$ 423,118	$ (6,710)
SHOP:		(Units)			
Texas	27	4,385	$ 623,258	$ 137,818	$ (91,514)
Florida	23	3,241	498,329	128,805	(85,267)
Colorado	7	1,123	342,301	54,052	(33,174)
Illinois	8	1,434	275,079	53,472	(42,337)
California	11	1,632	264,306	93,579	(72,231)
Other (21 States)	53	5,483	949,248	219,096	(156,347)
Total SHOP	129	17,298	$ 2,952,521	$ 686,822	$ (480,870)

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Facility Location	Number of Facilities	Capacity	Gross Asset Value(1)	Rental Revenues(2)	Operating Expenses
Life science:		(Sq. Ft.)			
California	108	6,432	$ 3,176,224	$ 331,525	$ (67,940)
Other (2 States)	8	512	143,255	27,012	(4,538)
Total life science	116	6,944	$ 3,319,479	$ 358,537	$ (72,478)
Medical office:		(Sq. Ft.)			
Texas	60	5,606	$ 917,195	$ 123,677	$ (51,484)
California	17	993	308,853	30,958	(16,305)
Pennsylvania	4	1,282	285,232	33,166	(12,714)
Florida	24	1,328	235,819	26,203	(11,944)
Other (26 States)	133	8,901	1,601,306	232,276	(81,240)
Total medical office	238	18,110	$ 3,348,405	$ 446,280	$ (173,687)
Other(4):		(Beds)			
Texas	4	1,035	$ 231,512	$ 34,138	$ (4,592)
California	2	111	143,500	19,360	(15)
Other (9 States)	10	1,105	206,798	39,421	(47)
	16	2,251	$ 581,810	$ 92,919	$ (4,654)
Other—U.K.:		(Units)			
Other (U.K.)	61	3,198	307,949	32,810	-
Total other non-reportable segments	77		$ 889,759	$ 125,729	$ (4,654)
Total properties	770		$ 14,206,574	$ 2,040,486	$ (738,399)

(1) Represents gross real estate and the carrying value of DFLs, excluding development properties and assets held for sale. Gross real estate represents the carrying amount of real estate after adding back accumulated depreciation and amortization.
(2) Represent the combined amount of rental and related revenues, tenant recoveries, resident fees and services and income from DFLs.
(3) Represents leased properties that are classified as DFLs.
(4) Represents hospitals and skilled nursing facilities, and includes leased properties that are classified as DFLs.

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Occupancy and Annual Rent Trends

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

	2016	2015	2014	2013	2012
SH NNN(1):					
Average annual rent per unit(1)	$ 14,604	$ 14,544	$ 13,907	$ 13,361	$ 13,593
Average capacity (available units)	28,455	28,777	33,917	35,932	27,235
SHOP:					
Average annual rent per unit(1)	$ 42,851	$ 41,435	$ 38,017	$ 32,070	$ 30,294
Average capacity (available units)	16,028	12,704	6,408	4,620	4,626
Life science:					
Average occupancy percentage	98 %	97 %	93 %	92 %	90 %
Average annual rent per square foot(1)	$ 48	$ 46	$ 46	$ 44	$ 45
Average occupied square feet	7,332	7,179	6,637	6,480	6,250
Medical office:					
Average occupancy percentage	91 %	91 %	91 %	91 %	91 %
Average annual rent per square foot(1)	$ 28	$ 28	$ 28	$ 27	$ 27
Average occupied square feet	15,697	14,677	13,136	12,767	12,147
Other non-reportable segments:					
Average annual rent per bed - Hospital(1)	$ 39,076	$ 39,834	$ 38,756	$ 38,089	$ 37,294
Average capacity (available beds) - Hospital	2,271	2,187	2,184	2,138	2,050
Average annual rent per unit - U.K.(1)	9,200	10,048	11,240	—	—
Average capacity (available units) - U.K.	3,190	2,515	501	—	—
Average annual rent per bed - SNF(1)	10,803	8,292	8,062	7,537	7,308
Average capacity (available beds) - SNF	426	1,047	1,022	974	976

(1) Average annual rent is presented as a ratio of revenues comprised of rental and related revenues, tenant recoveries and income from DFLs divided by the average capacity or average occupied square feet of the facilities and annualized for mergers and acquisitions for the year in which they occurred. Average annual rent for leased properties (including DFLs) excludes termination fees and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles and DFL non-cash interest).

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Development Properties

The following table sets forth the properties in our consolidated property portfolio at December 31, 2016 that were under development or redevelopment (in thousands):

Name of Project	Location	Placed in Service	Investment to Date(1)	Estimated Total at Completion
Life science:				
The Cove at Oyster Point - Phase I	South San Francisco, CA	$ 101,179	$ 64,854	$ 190,800
The Cove at Oyster Point - Phase II	South San Francisco, CA	—	112,152	220,486
The Cove at Oyster Point - Phase III	South San Francisco, CA	—	24,916	211,111
Ridgeview	San Diego, CA	—	31,207	62,000
Medical office:				
Pearland II	Pearland, TX	5,400	9,906	18,800
Sky Ridge	Lone Tree, CO	17,692	14,015	37,551
Cypress	Cypress, TX	15,968	13,861	40,206
Woodlands Plaza IV	Shenendoah, TX	—	19,550	37,050
Medical City Dallas Garage(2)	Dallas, TX	—	5,325	9,300
Yorktown(2)	Fairfax, VA	10	1,420	6,208
Aurora I and II(2)	Aurora, CO	658	1,068	8,888
Museum Medical Tower(2)	Houston, TX	161	1,381	10,048
Sunrise Tower IV(2)	Las Vegas, NV	308	1,666	6,500
One Fannin(2)	Houston, TX	720	1,737	8,000
		$ 142,096	$ 303,058	$ 866,948

(1) Excludes the portion of the property that has been placed in service.
(2) Represents redevelopment projects.

At December 31, 2016, we also had $252 million of land held for future development primarily in our life science segment.

Tenant Lease Expirations

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

	Expiration Year									
Total	2017(1)	2018	2019	2020	2021	2022	2023	2024	2025	2026

210	26	7	5	22	6	1	24	12	5	7
$ 311,203	$ 12,035	$ 25,114	$ 9,470	$ 38,574	$ 9,872	$ 1,476	$ 43,368	$ 13,674	$ 9,388	$ 5,599
100	4	8	3	12	3	—	14	4	3	2
6,686	671	1,196	570	508	778	599	880	65	499	121
$ 273,121	$ 28,922	$ 60,540	$ 18,222	$ 16,331	$ 44,326	$ 18,631	$ 41,204	$ 3,111	$ 17,273	$ 5,439
100	11	22	7	6	16	7	15	1	6	2
16,666	2,905	2,285	1,984	2,144	1,397	951	594	531	1,821	749
$ 376,515	$ 69,771	$ 53,416	$ 47,655	$ 51,569	$ 34,879	$ 23,195	$ 13,621	$ 14,014	$ 28,323	$ 18,692
100	19	14	13	14	9	6	4	4	8	5
77	1	—	5	1	1	4	—	2	1	—
$ 110,022	$ 7,815	$ —	$ 7,434	$ 7,815	$ 1,526	$ 12,918	$ —	$ 15,073	$ 21,857	$ —
100	7	—	7	7	1	12	—	14	20	—
$ 1,070,861	$ 118,543	$ 139,070	$ 82,781	$ 114,289	$ 90,603	$ 56,220	$ 98,193	$ 45,872	$ 76,841	$ 29,730
100	11	13	8	11	8	5	9	4	7	3

(1) Includes month-to-month leases.
(2) The most recent month's (or subsequent month's if acquired in the most recent month) base rent including additional rent floors and cash income from DFLs annualized for 12 months. Base rent does not include tenant recoveries, additional rents in excess of floors and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles, DFL non-cash interest and deferred revenues).
(3) Includes 337,000 sq. ft. and annualized rents of $20 million expiring in 2018 related to the exercise of tenant purchase options in January 2016.
(4) Includes a hospital with annualized rents of $8 million expiring in 2017 related to the exercise of a tenant purchase option in February 2016.

See Schedule III: Real Estate and Accumulated Depreciation, included in this report, which information is incorporated by reference in this Item 2.

ITEM 3. Legal Proceedings

We believe that our existing legal proceedings will not have a material adverse impact on our business or financial position, results of operations or cash flows. We record a liability when a loss is considered probable and the amount can be reasonably estimated.

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

ITEM 4. Mine Safety Disclosures

None.

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PART II

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

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

	High	Low	Per Share Distribution
2016(1)			
Fourth Quarter	$ 38.09	$ 27.61	$ 0.370
Third Quarter	40.43	34.56	0.575
Second Quarter	36.90	31.91	0.575
First Quarter	39.25	25.11	0.575
2015(1)			
Fourth Quarter	39.83	32.71	0.565
Third Quarter	40.90	35.37	0.565
Second Quarter	44.79	36.20	0.565
First Quarter	49.61	39.88	0.565

(1) Price as originally traded. Does not give effect to the stock dividend of $6.17 per common share related to the Spin-Off (discussed below).

At January 31, 2017, we had 9,894 stockholders of record, and there were 218,367 beneficial holders of our common stock.

Dividends (Distributions)

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

	Year Ended December 31, 2016	2015	2014
Ordinary dividends	$ 1.5561	$ 2.1184	$ 1.9992
Capital gain dividends	—	0.0316	0.0890
Nondividend distributions	6.7089	0.1100	0.0918
	$ 8.2650(1)	$ 2.2600	$ 2.1800

(1) Consists of $2.095 per common share of quarterly cash dividends and $6.17 per common share of stock dividends related to the Spin-Off (discussed below).

HCP common stockholders on October 24, 2016, the record date for the Spin-Off (the "Record Date"), received upon the Spin-Off on October 31, 2016 one share of QCP common stock for every five shares of HCP common stock they held (the "Distributed Shares") and cash in lieu of fractional shares of QCP. For U.S. federal income tax purposes, HCP reported the fair market value of the QCP common stock distributed per each share of HCP common stock outstanding on the Record Date was $6.17, or $30.85 for each share of QCP common stock. Accordingly, every HCP common stockholder who received a Distributed Share has a tax cost basis of $30.85 per Distributed Share.

On February 2, 2017, we announced that our Board of Directors declared a quarterly common stock cash dividend of $0.37 per share. The common stock dividend will be paid on March 2, 2017 to stockholders of record as of the close of business on February 15, 2017.

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Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases of our common stock made by or on our behalf during the quarter ended December 31, 2016.

Period Covered	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
October 1-31, 2016	30	$ 35.91	—	—
November 1-30, 2016	—	—	—	—
December 1-31, 2016	590	30.30	—	—
Total	620	30.57	—	—

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

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Performance Graph

The graph below compares the cumulative total return of HCP, the S&P 500 Index and the Equity REIT Index of NAREIT, from January 1, 2012 to December 31, 2016. Total cumulative return is based on a $100 investment in HCP common stock and in each of the indices on January 1, 2012 and assumes quarterly reinvestment of dividends before consideration of income taxes. Stockholder returns over the indicated periods should not be considered indicative of future stock prices or stockholder returns.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

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

RATE OF RETURN TREND COMPARISON

JANUARY 1, 2012–DECEMBER 31, 2016

(JANUARY 1, 2012 = $100)

Performance Graph Total Stockholder Return

	December 31,				
	2012	2013	2014	2015	2016
FTSE NAREIT Equity REIT Index	$ 119.70	$ 123.12	$ 157.63	$ 162.08	$ 176.07
S&P 500	115.98	153.51	174.47	176.88	197.98
HCP, Inc.	114.21	96.33	122.96	113.24	103.02

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ITEM 6. Selected Financial Data

Set forth below is our selected financial data as of and for each of the years in the five-year period ended December 31, (dollars in thousands, except per share data):

	Year Ended December 31, 2016	2015	2014	2013	2012
Statement of operations data:					
Total revenues	$ 2,129,294	$ 1,940,489	$ 1,636,833	$ 1,488,786	$ 1,281,861
Income from continuing operations	374,171	152,668	271,315	253,526	156,213
Net income (loss) applicable to common shares	626,549	(560,552)	919,796	969,103	812,289
Basic earnings per common share					
Continuing operations	0.77	0.30	0.56	0.52	0.29
Discontinued operations	0.57	(1.51)	1.45	1.61	1.61
Net income (loss) attributable to common stockholders	1.34	(1.21)	2.01	2.13	1.90
Diluted earnings per common share					
Continuing operations	0.77	0.30	0.56	0.52	0.29
Discontinued operations	0.57	(1.51)	1.44	1.61	1.61
Net income (loss) attributable to common stockholders	1.34	(1.21)	2.00	2.13	1.90
Balance sheet data:					
Total assets	15,759,265	21,449,849	21,331,436	20,040,310	19,879,697
Debt obligations(1)	9,189,495	11,069,003	9,721,269	8,626,067	8,659,691
Total equity	5,941,308	9,746,317	10,997,099	10,931,134	10,753,777
Other data:					
Dividends paid	979,542	1,046,638	1,001,559	956,685	865,306
Dividends paid per common share(2)	2.095	2.260	2.180	2.100	2.000
Funds from operations (“FFO”)(3)	1,119,153	(10,841)	1,381,634	1,349,264	1,166,508
Diluted FFO per common share(3)	2.39	(0.02)	3.00	2.95	2.72
FFO as adjusted(3)	1,282,390	1,470,167	1,398,691	1,382,699	1,195,799
Diluted FFO as adjusted per common share(3)	2.74	3.16	3.04	3.02	2.79
Funds available for distribution (“FAD”)(3)	1,215,696	1,261,849	1,178,822	1,158,082	954,645

(1) Includes bank line of credit, bridge and term loans, senior unsecured notes, mortgage and other secured debt, and other debt.

(2) Represents cash dividends. Additionally, in October 2016 we issued $6.17 of stock dividends related to the Spin-Off.

(3)

For a more detailed discussion and reconciliation of FFO, FFO as adjusted and FAD, see “Non-GAAP Financial Measure Reconciliations” in Item 7.

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

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

- 2016 Transaction Overview
- Dividends
- Results of Operations
- Liquidity and Capital Resources
- Contractual Obligations
- Off-Balance Sheet Arrangements
- Inflation
- Non-GAAP Financial Measure Reconciliations
- Critical Accounting Policies
- Recent Accounting Pronouncements

2016 Transaction Overview

Spin-Off of Real Estate Portfolio

On October 31, 2016, we completed our previously announced Spin-Off of QCP. QCP's assets include 338 properties, primarily comprised of the HCRMC DFL investments and an equity investment in HCRMC. Following the completion of the Spin-Off on October 31, 2016, QCP is an independent, publicly-traded, self-managed and self-administrated REIT. As a result of the Spin-Off, the operations of QCP are now classified as discontinued operations in all periods presented herein. We entered into a Separation and Distribution Agreement (the "Separation and Distribution Agreement") with QCP in connection with the Spin-Off. The Separation and Distribution Agreement divides and allocates the assets and liabilities of HCP prior to the Spin-Off between QCP and HCP, governs the rights and obligations of the parties regarding the Spin-Off, and contains other key provisions relating to the separation of QCP's business from HCP.

In connection with the Spin-Off, we entered into a Transition Services Agreement ("TSA") with QCP. Per the terms of the TSA, we agreed to provide certain administrative and support services to QCP on a transitional basis for established fees, which are expected to approximate the actual cost incurred by us in providing the transition services to QCP for the relevant period. The TSA will terminate on the expiration of the term of the last service provided under the agreement, which will be on or prior to October 30, 2017. The TSA provides that QCP generally has the right to terminate a transition service upon thirty days' notice to us. The TSA contains provisions under which we will, subject to certain limitations, be obligated to indemnify QCP for losses incurred by QCP resulting from our breach of the TSA.

See Notes 1 and 5 to the Consolidated Financial Statements for further information on the Spin-Off.

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Investment Transactions

In January 2016, we acquired a portfolio of five private pay senior housing communities with 364 units and a skilled nursing facility with 120 beds for $95 million. All of the communities were developed within the past two years and are triple-net leased to four regional operators.

In July 2016, we acquired two Class A life science buildings totaling 136,000 square feet and a four-acre parcel of land in San Diego, California for $49 million.

In September 2016, we acquired a portfolio of seven private pay senior housing communities for $186 million, including the assumption of $74 million of debt, at a 4.0% interest rate, maturing in 2044. Consisting of 526 assisted living and memory care units, the portfolio is managed by Senior Lifestyle Corporation in a 100% owned RIDEA structure.

In November 2016, we entered into agreements with Maria Mallaband Care Group ("Maria Mallaband") to acquire a portfolio of predominantly private pay prime care homes located in London/South-East England for $131 million (£105 million). In mid-2017, through the exercise of a call option, subject to certain contingencies, we intend to convert our bridge loan provided to Maria Mallaband in November into fee ownership and enter into a Master Lease with Maria Mallaband.

In December 2016, we acquired a portfolio of 10 MOBs, including nine on-campus MOBs, located throughout the U.S. in a sale-leaseback transaction with Community Health Systems for $163 million. The MOBs have an initial lease term of 15 years.

Developments

Through February 13, 2017, we have leased 73% of The Cove Phase I, which consists of two Class A buildings totaling 247,000 square feet and was delivered in the third quarter of 2016. In response to Phase I leasing success and continued strong demand from life science users in South San Francisco, in February 2016, we commenced a $220 million development, The Cove Phase II, which adds two Class A buildings totaling 230,000 square feet and is expected to be delivered by the third quarter of 2017. Through February 13, 2017, we have leased 100% of The Cove Phase II. In response to The Cove Phase I and Phase II leasing success, in October 2016, we commenced the $211 million development of The Cove Phase III, which adds two Class A buildings representing up to 336,000 square feet.

In June 2016, we commenced a $62 million multi-building development project encompassing 301,000 square feet at our Ridgeview Business Park in Poway, California, which is 50% leased. The project includes a $32 million build-to-suit project with an existing tenant for 152,000 square feet and is expected to be completed in 2018 as part of a larger leasing transaction.

Disposition Transactions

In January 2017, we sold four life science facilities in Salt Lake City, Utah for $76 million.

In May 2016, we entered into a master contribution agreement with Brookdale to contribute our ownership interest in RIDEA II to an unconsolidated JV owned by HCP and an investor group led by Columbia Pacific Advisors, LLC (“CPA”) (the “HCP/CPA JV”). The members agreed to recapitalize RIDEA II with $602 million of debt, of which $360 million was provided by a third-party and $242 million was provided by HCP. In return, we received $480 million in cash proceeds from the HCP/CPA JV and $242 million in note receivables and retained an approximate 40% beneficial interest in RIDEA II (the note receivable and 40% beneficial interest are herein referred to as the “RIDEA II Investments”). This transaction resulted in HCP deconsolidating the net assets of RIDEA II because it will no longer direct the activities that most significantly impact the venture. The closing of these transactions occurred in January 2017.

In October 2016, we entered into definitive agreements to sell 64 SH NNN assets, currently under triple-net leases with Brookdale, for $1.125 billion to affiliates of Blackstone Real Estate Partners VIII, L.P. The closing of this transaction is expected to occur during 2017 and remains subject to regulatory and third party approvals and other customary closing conditions. Additionally, in October 2016, we entered into definitive agreements for a multi-element transaction with

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Brookdale to: (i) sell or transition 25 assets currently triple-net leased to Brookdale, for which Brookdale will receive a $10.5 million annual rent reduction upon lease termination, (ii) re-allocate annual rent of $9.6 million from those 25 assets to the remaining Brookdale triple-net lease portfolio (occurred on November 1, 2016) and (iii) transition eight triple-net leased assets into RIDEA structures (seven of which closed in December 2016 and one of which closed in January 2017). The closing of the sale or transition of the 25 assets and corresponding rent reduction is expected to occur throughout 2017 and remain subject to regulatory and third party approvals and other customary closing conditions.

During the year ended December 31, 2016, we sold: (i) a portfolio of five post-acute/skilled nursing and two SH NNN facilities for $130 million, (ii) five life science facilities for $386 million, (iii) seven SH NNN facilities for $88 million, (iv) three MOBs for $20 million and (v) three SHOP facilities for $41 million and recognized total gain on sales of $165 million.

In January 2016, we entered into a definitive agreement for purchase options that were exercised on eight life science facilities in South San Francisco, California, to be sold in two tranches for $311 million (sold in November 2016 and discussed above) and $269 million, respectively. The second tranche is expected to close in the third quarter of 2018.

In June 2016 and September 2016, we received $51 million and $19 million, respectively, from the monetization of three senior housing development loans, recognizing $15 million and $4 million of incremental interest income, respectively, which represents our participation in the appreciation of the underlying real estate assets.

Financing Activities

In January 2017, we paid down $440 million on our revolving line of credit facility, primarily using proceeds from our RIDEA II joint venture disposition.

During 2016, we repaid $2.0 billion of senior unsecured notes, $1.1 billion of which was prepaid using proceeds from the Spin-Off. In addition, we settled $388 million of mortgage debt, $108 million of which was prepaid using proceeds from the Spin-Off. As a result of the prepayment of debt using proceeds from the Spin-Off, we incurred aggregate loss on debt extinguishments of $46 million, primarily related to prepayment penalties.

In July 2016, we exercised a one-year extension option on our £137 million ($169 million at December 31, 2016), four-year unsecured term loan that was entered into on July 30, 2012 (the “2012 Term Loan”). Based on our credit ratings at December 31, 2016, the 2012 Term Loan accrues interest at a rate of GBP LIBOR plus 1.40%.

Dividends

Quarterly cash dividends paid during 2016 aggregated to $2.095 per share. On February 2, 2017, our Board of Directors declared a quarterly cash dividend of $0.37 per common share. The dividend will be paid on March 2, 2017 to stockholders of record as of the close of business on February 15, 2017.

Results of Operations

We evaluate our business and allocate resources among our reportable business segments: (i) senior housing triple-net (SH NNN), (ii) senior housing operating portfolio (SHOP), (iii) life science and (iv) medical office. Under the medical office segment, we invest through the acquisition and development of MOBs, which generally require a greater level of property management. Otherwise, we primarily invest, through the acquisition and development of real estate, in single tenant and operator properties. We have other non-reportable segments that are comprised primarily of our U.K. care homes, debt investments and hospitals. We evaluate performance based upon: (i) property net operating income from continuing operations ("NOI") and (ii) adjusted NOI (cash NOI) of the combined consolidated and unconsolidated investments in each segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the Consolidated Financial Statements).

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Non-GAAP Financial Measures

Net Operating Income

NOI and adjusted NOI are non-U.S. generally accepted accounting principles ("GAAP") supplemental financial measures used to evaluate the operating performance of real estate. We include properties from our consolidated portfolio, as well as our pro-rata share of properties owned by our unconsolidated joint ventures in our NOI and adjusted NOI. We believe providing this information assists investors and analysts in estimating the economic interest in our total portfolio of real estate. Our pro-rata share information is prepared on a basis consistent with the comparable consolidated amounts, is intended to reflect our proportionate economic interest in the operating results of properties in our portfolio and is calculated by applying our actual ownership percentage for the period. We do not control the unconsolidated joint ventures, and the pro-rata presentations of revenues and expenses included in NOI (see below) do not represent our legal claim to such items. The joint venture members or partners are entitled to profit or loss allocations and distributions of cash flows according to the joint venture agreements, which provide for such allocations generally according to their invested capital.

The presentation of pro-rata information has limitations, which include, but are not limited to, the following (i) the amounts shown on the individual line items were derived by applying our overall economic ownership interest percentage determined when applying the equity method of accounting and do not necessarily represent our legal claim to the assets and liabilities, or the revenues and expenses and (ii) other companies in our industry may calculate their pro-rata interest differently, limiting the usefulness as a comparative measure. Because of these limitations, the pro-rata financial information should not be considered independently or as a substitute for our financial statements as reported under GAAP. We compensate for these limitations by relying primarily on our GAAP financial statements, using the pro-rata financial information as a supplement.

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

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

Same Property Portfolio

SPP NOI and adjusted NOI information allows us to evaluate the performance of our property portfolio under a consistent population by eliminating changes in the composition of our portfolio of properties. We include properties from our consolidated portfolio, as well as properties owned by our unconsolidated joint ventures in our SPP NOI and adjusted NOI (see NOI above for further discussion regarding our use of pro-rata share information and its limitations). We identify our SPP as stabilized properties that remained in operations and were consistently reported as leased properties or RIDEA properties for the duration of the year-over-year comparison periods presented, excluding assets held for sale. Accordingly, it takes a stabilized property a minimum of 12 months in operations under a consistent reporting structure to be included in our SPP. Newly acquired operating assets are generally considered stabilized at the earlier of lease-up (typically when the tenant(s) control(s) the physical use of at least 80% of the space) or 12 months from the acquisition date. Newly

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completed developments and redevelopments are considered stabilized at the earlier of lease-up or 24 months from the date the property is placed in service. SPP NOI excludes (i) certain non-property specific operating expenses that are allocated to each operating segment on a consolidated basis and (ii) entrance fees and related activity such as deferred expenses, reserves and management fees related to entrance fees. A property is removed from our SPP when it is sold, placed into redevelopment or changes its reporting structure. For a reconciliation of SPP to total portfolio adjusted NOI and other relevant disclosures by segment, refer to our Segment Analysis below.

Funds From Operations

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

FFO, as defined by the National Association of Real Estate Investment Trusts ("NAREIT"), is net income (loss) applicable to common shares (computed in accordance with GAAP), excluding gains or losses from sales of depreciable property, including any current and deferred taxes directly associated with sales of depreciable property, impairments of, or related to, depreciable real estate, plus real estate and other depreciation and amortization, and adjustments to compute our share of FFO and FFO as adjusted (see below) from joint ventures. Adjustments for joint ventures are calculated to reflect our pro-rata share of both our consolidated and unconsolidated joint ventures. We reflect our share of FFO for unconsolidated joint ventures by applying our actual ownership percentage for the period to the applicable reconciling items on an entity by entity basis. We reflect our share for consolidated joint ventures in which we do not own 100% of the equity by adjusting our FFO to remove the third party ownership share of the applicable reconciling items based on actual ownership percentage for the applicable periods. Our pro-rata share information is prepared on a basis consistent with the comparable consolidated amounts, is intended to reflect our proportionate economic interest in the operating results of properties in our portfolio and is calculated by applying our actual ownership percentage for the period. We do not control the unconsolidated joint ventures, and the pro-rata presentations of reconciling items included in FFO (see above) do not represent our legal claim to such items. The joint venture members or partners are entitled to profit or loss allocations and distributions of cash flows according to the joint venture agreements, which provide for such allocations generally according to their invested capital.

The presentation of pro-rata information has limitations which include, but are not limited to, the following: (i) the amounts shown on the individual line items were derived by applying our overall economic ownership interest percentage determined when applying the equity method of accounting or allocating noncontrolling interests, and do not necessarily represent our legal claim to the assets and liabilities, or the revenues and expenses; and (ii) other companies in our industry may calculate their pro-rata interest differently, limiting the usefulness as a comparative measure. Because of these limitations, the pro-rata financial information should not be considered independently or as a substitute for our financial statements as reported under GAAP. We compensate for these limitations by relying primarily on our GAAP financial statements, using the pro-rata financial information as a supplement. FFO does not represent cash generated from operating activities in accordance with GAAP, is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income (loss). We compute FFO in accordance with the current NAREIT definition; however, other REITs may report FFO differently or have a different interpretation of the current NAREIT definition from ours.

In addition, we present FFO before the impact of non-comparable items including, but not limited to, severance-related charges, litigation provisions, preferred stock redemption charges, impairments (recoveries) of non-depreciable assets, prepayment costs (benefits) associated with early retirement or payment of debt, foreign currency remeasurement losses (gains) and transaction-related items ("FFO as adjusted"). Prepayment costs (benefits) associated with early retirement of debt include the write-off of unamortized deferred financing fees, or additional costs, expenses, discounts, make-whole payments, penalties or premiums incurred as a result of early retirement or payment of debt. Transaction-related items include acquisition and pursuit costs (e.g., due diligence and closing) and gains/charges incurred as a result of mergers and acquisitions and lease amendment or termination activities. Management believes that FFO as adjusted provides a meaningful supplemental measurement of our FFO run-rate and is frequently used by analysts, investors and other

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interested parties in the evaluation of our performance as a REIT. At the same time that NAREIT created and defined its FFO measure for the REIT industry, it also recognized that “management of each of its member companies has the responsibility and authority to publish financial information that it regards as useful to the financial community.” We believe stockholders, potential investors and financial analysts who review our operating performance are best served by an FFO run-rate earnings measure that includes, in addition to adjustments made to arrive at the NAREIT defined measure of FFO, other adjustments to net income (loss). FFO as adjusted is used by management in analyzing our business and the performance of our properties, and we believe it is important that stockholders, potential investors and financial analysts understand this measure used by management. We use FFO as adjusted to: (i) evaluate our performance in comparison with expected results and results of previous periods, relative to resource allocation decisions, (ii) evaluate the performance of our management, (iii) budget and forecast future results to assist in the allocation of resources, (iv) assess our performance as compared with similar real estate companies and the industry in general and (v) evaluate how a specific potential investment will impact our future results. Other REITs or real estate companies may use different methodologies for calculating an adjusted FFO measure, and accordingly, our FFO as adjusted may not be comparable to those reported by other REITs. For a reconciliation of net income (loss) to FFO and FFO as adjusted and other relevant disclosure, refer to “Non-GAAP Financial Measure Reconciliations” below.

Funds Available for Distribution

FAD is defined as FFO as adjusted after excluding the impact of the following: (i) amortization of acquired market lease intangibles, net, (ii) amortization of deferred compensation expense, (iii) amortization of deferred financing costs, net, (iv) straight-line rents, (v) non-cash interest and depreciation related to DFLs and lease incentive amortization (reduction of straight-line rents) and (vi) deferred revenues, excluding amounts amortized into rental income that are associated with tenant funded improvements owned/recognized by us and up-front cash payments made by tenants to reduce their contractual rents. Also, FAD: (i) is computed after deducting recurring capital expenditures, including leasing costs and second generation tenant and capital improvements, and (ii) includes lease restructure payments and adjustments to compute our share of FAD from our unconsolidated joint ventures and those related to CCRC non-refundable entrance fees. Adjustments for joint ventures are calculated to reflect our pro-rata share of both our consolidated and unconsolidated joint ventures. We reflect our share of FAD for unconsolidated joint ventures by applying our actual ownership percentage for the period to the applicable reconciling items on an entity by entity basis. We reflect our share for consolidated joint ventures in which we do not own 100% of the equity by adjusting our FAD to remove the third party ownership share of the applicable reconciling items based on actual ownership percentage for the applicable periods (see FFO above for further disclosure regarding our use of pro-rata share information and its limitations). Other REITs or real estate companies may use different methodologies for calculating FAD, and accordingly, our FAD may not be comparable to those reported by other REITs. Although our FAD computation may not be comparable to that of other REITs, management believes FAD provides a meaningful supplemental measure of our performance and is frequently used by analysts, investors, and other interested parties in the evaluation of our performance as a REIT. We believe FAD is an alternative run-rate earnings measure that improves the understanding of our operating results among investors and makes comparisons with: (i) expected results, (ii) results of previous periods and (iii) results among REITs, more meaningful. FAD does not represent cash generated from operating activities determined in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs as it excludes the following items which generally flow through our cash flows from operating activities: (i) adjustments for changes in working capital or the actual timing of the payment of income or expense items that are accrued in the period, (ii) transaction-related costs, (iii) litigation provision, (iv) severance-related expenses and (v) actual cash receipts from interest income recognized on loans receivable (in contrast to our FAD adjustment to exclude non-cash interest and depreciation related to our investments in direct financing leases). Furthermore, FAD is adjusted for recurring capital expenditures, which are generally not considered when determining cash flows from operations or liquidity. FAD is a non-GAAP supplemental financial measure and should not be considered as an alternative to net income (loss) determined in accordance with GAAP. For a reconciliation of net income (loss) to FAD and other relevant disclosure, refer to “Non-GAAP Financial Measure

Reconciliations” below.

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Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015 and the Year Ended December 31, 2015 to the Year Ended December 31, 2014

Overview(1)

2016 and 2015

Results for the years ended December 31, 2016 and 2015 (dollars in thousands except per share data):

	Year Ended December 31, 2016		Year Ended December 31, 2015		Per Share
	Amount	Per Diluted Share	Amount	Per Diluted Share	Change
Net income (loss) applicable to common shares	$ 626,549	$ 1.34	$ (560,552)	$ (1.21)	$ 2.55
FFO applicable to common shares	1,119,153	2.39	(10,841)	(0.02)	2.41
FFO as adjusted applicable to common shares	1,282,390	2.74	1,470,167	3.16	(0.42)
FAD applicable to common shares	1,215,696		1,261,849		

(1) For the reconciliation of non-GAAP financial measures, see "Non-GAAP Financial Measure Reconciliations" section below.

Earnings per share ("EPS") increased primarily as a result of the following:

- impairment charges during 2015 not repeated in 2016;
- increased NOI from: (i) our 2015 and 2016 acquisitions, (ii) annual rent escalations and (iii) developments placed in service;
- increased gains on sales of real estate due to a higher volume of disposition activity during 2016;
- a reduction in interest expense as a result of debt repayments during 2015 and 2016; and
- a net termination fee expense recognized in 2015 not repeated in 2016.

The increase in EPS was partially offset by the following:

- a reduction in income from our HCRMC investments as a result of: (i) the HCRMC lease amendment effective April 1, 2015, (ii) the sale of non-strategic assets during the second half of 2015 and 2016, and (iii) a change in income recognition to a cash basis method beginning in January 2016;
- the impact from the Spin-Off of QCP resulting in: (i) increased transaction costs and (ii) loss on debt extinguishment, representing penalties on the prepayment of debt using proceeds from the Spin-Off;
- increased income tax expense related to our estimated exposure to state built-in gain tax;
- a reduction in interest income from placing our Four Seasons senior notes ("Four Seasons Notes") on cost recovery status in the third quarter of 2015 and loan repayments during 2015 and 2016;
- increased severance-related charges during 2016 primarily related to the departure of our former President and Chief Executive Officer ("CEO") in July 2016;
- increased depreciation and amortization from our 2015 and 2016 acquisitions; and
- a reduction of foreign currency remeasurement gains recognized as a result of effective hedges designated in September 2015.

FFO increased primarily as a result of the aforementioned events impacting EPS, excluding depreciation and amortization and gains on sales of real estate, both of which are adjustments to our calculation of FFO.

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FFO as adjusted decreased primarily as a result of the following:

- a reduction in income from our HCRMC investments as a result of: (i) the HCRMC lease amendment effective April 1, 2015, (ii) the sale of non-strategic assets during the second half of 2015 and 2016 and (iii) a change in income recognition to a cash basis method beginning in January 2016;
- decreased income from the QCP assets included in the Spin-Off; and
- a reduction in interest income from placing our Four Seasons Notes on cost recovery status in the third quarter of 2015 and loan repayments during 2015 and 2016.

The decrease in FFO as adjusted was partially offset by the following:

- increased NOI from: (i) our 2015 and 2016 consolidated acquisitions, (ii) annual rent escalations and (iii) developments placed in service; and
- a reduction in interest expense as a result of debt repayments during 2015 and 2016.

FAD increased primarily as a result of the following:

- increased NOI from: (i) our 2015 and 2016 consolidated acquisitions, (ii) annual rent escalations and (iii) developments placed in service; and
- increased incremental interest income from the payoff of participating development loans.

The increase in FAD was partially offset by the following:

- decreased income from our HCRMC investments as a result of the HCRMC lease amendment effective April 1, 2015 and the sale of non-strategic assets during the second half of 2015 and the first half of 2016;
- decreased income from the QCP assets included in the Spin-Off;
- decreased interest income from placing our Four Seasons Notes on cost recovery status in the third quarter of 2015 and loan repayments during 2015 and 2016; and
- increased leasing costs and second generation capital expenditures.

2015 and 2014

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

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

EPS and FFO decreased primarily as a result of the following:

- impairments related to our: (i) HCRMC DFL investments, (ii) investment in Four Seasons Notes and (iii) equity investment in HCRMC;
- net fees recognized in 2014 for terminating the leases on 49 senior housing properties in a transaction with Brookdale not repeated in 2015;
- increased transaction-related items as a result of higher levels of transactional activity in 2015; and

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- a severance-related charge related to the departure of our former Executive Vice President and Chief Investment Officer in June 2015.

The decreases were partially offset by following:

- increased NOI from our 2014 and 2015 acquisitions;
- incremental interest income from the repayments of three development loans resulting from our share in the appreciation of the underlying real estate assets;
- impairment recovery from a repayment of a loan receivable; and
- increased foreign currency remeasurement gains.

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

FFO as adjusted and FAD increased primarily as a result of increased NOI from: (i) our 2014 and 2015 acquisitions and (ii) incremental interest income from the repayments of three development loans resulting from our share in the appreciation of the underlying real estate assets. The increases were partially offset by: (i) the decrease in income from DFLs as a result of the HCRMC Lease Amendment and (ii) placing our Four Seasons Notes on cost recovery status in the third quarter of 2015.

Segment Analysis

The tables below provide selected operating information for our SPP and total property portfolio for each of our business segments. For the year ended December 31, 2016, our consolidated SPP consists of 644 properties representing properties acquired or placed in service and stabilized on or prior to January 1, 2015 and that remained in operations under a consistent reporting structure. For the year ended December 31, 2015, our consolidated SPP consisted of 653 properties acquired or placed in service and stabilized on or prior to January 1, 2014 and that remained in operations under a consistent reporting structure. Our total property portfolio consists of 802, 1,205 and 1,196 properties at December 31, 2016, 2015 and 2014, respectively, and excludes properties classified as held for sale and discontinued operations.

Senior Housing Triple-Net

2016 and 2015

Results as of and for the years ended December 31, 2016 and 2015 (dollars in thousands except per unit data):

	SPP			Total Portfolio		
	2016	2015	Change	2016	2015	Change
Rental revenues(1)	$ 302,976	$ 304,442	$ (1,466)	$ 423,118	$ 428,269	$ (5,151)
Operating expenses	(237)	(637)	400	(6,710)	(3,427)	(3,283)
NOI	302,739	303,805	(1,066)	416,408	424,842	(8,434)
Non-cash adjustments to NOI	(5,282)	(7,550)	2,268	(7,566)	(9,716)	2,150
Adjusted NOI	$ 297,457	$ 296,255	$ 1,202	408,842	415,126	(6,284)
Non-SPP adjusted NOI				(111,385)	(118,871)	7,486

SPP adjusted NOI				$ 297,457	$ 296,255	$ 1,202
Adjusted NOI % change			0.4 %			
Property count(2)	205	205		210	295	
Average capacity (units)(3)	20,269	20,268		28,455	28,777	
Average annual rent per unit	$ 14,684	$ 14,645		$ 14,604	$ 14,544	

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

(2) From our 2015 presentation of SPP, we removed nine SH NNN properties from SPP that were sold, 17 SH NNN properties that were transitioned

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to a RIDEA structure in our SHOP segment and 64 SH NNN properties that were classified as held for sale.

(3) Represents average capacity as reported by the respective tenants or operators for the 12-month period and a quarter in arrears from the periods presented.

SPP. SPP NOI decreased primarily as a result of lower rents in our portfolio of assets leased to Sunrise Senior Living (the "Sunrise Portfolio"). SPP adjusted NOI increased primarily as a result of annual rent escalations, partially offset by lower cash rent received from our Sunrise portfolio.

Non-SPP. Non-SPP NOI and adjusted NOI decreased primarily as a result of: (i) nine SH NNN facilities sold in 2016 and (ii) the transition of 17 SH NNN facilities to a RIDEA structure (reported in our SHOP segment), partially offset by five SH NNN facilities acquired in the first quarter of 2016.

Total Portfolio. NOI and adjusted NOI decreased based on the combined decrease to non-SPP, partially offset by the increase to SPP adjusted NOI discussed above.

2015 and 2014

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

	SPP			Total Portfolio		
	2015	2014	Change	2015	2014	Change
Rental revenues(1)	$ 423,719	$ 426,045	$ (2,326)	$ 428,269	$ 538,113	$ (109,844)
Operating expenses	(1,500)	(1,586)	86	(3,427)	(3,629)	202
NOI	422,219	424,459	(2,240)	424,842	534,484	(109,642)
Non-cash adjustments to NOI	(10,773)	(24,169)	13,396	(9,716)	(66,474)	56,758
Adjusted NOI	$ 411,446	$ 400,290	$ 11,156	415,126	468,010	(52,884)
Non-SPP adjusted NOI				(3,680)	(67,720)	64,040
SPP adjusted NOI				$ 411,446	$ 400,290	$ 11,156
Adjusted NOI % change			2.8 %			
Property count(2)	293	293		295	296	
Average capacity (units)(3)	28,556	28,626		28,777	33,917	
Average annual rent per unit	$ 10,207	$ 9,955		$ 14,544	$ 13,907	

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

(2) From our 2014 presentation of SPP, we removed 12 senior housing properties that were sold.

(3) Represents average capacity as reported by the respective tenants or operators for the 12-month period and a quarter in arrears from the periods presented.

SPP. SPP NOI decreased primarily as a result of lower rents in our Sunrise Portfolio. SPP adjusted NOI increased primarily as a result of annual rent escalations.

Non-SPP. Non-SPP NOI and adjusted NOI decreased primarily as a result of $38 million of net revenues recognized from a 2014 transaction with Brookdale and the transition of RIDEA II properties from SH NNN to SHOP.

Total Portfolio. NOI and adjusted NOI decreased based on the combined decrease to non-SPP, partially offset by the increase to SPP adjusted NOI discussed above.

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Senior Housing Operating Portfolio

2016 and 2015

Results as of and for the years ended December 31, 2016 and 2015 (dollars in thousands, except per unit data):

	SPP 2016	2015	Change	Total Portfolio 2016	2015	Change
Resident fees and services	$ 439,607	$ 419,217	$ 20,390	$ 686,822	$ 518,264	$ 168,558
HCP share of unconsolidated JV revenues	174,366	167,593	6,773	204,591	181,410	23,181
Operating expenses	(311,278)	(298,648)	(12,630)	(480,870)	(371,016)	(109,854)
HCP share of unconsolidated JV share of operating expenses	(150,544)	(145,448)	(5,096)	(166,791)	(151,962)	(14,829)
NOI	152,151	142,714	9,437	243,752	176,696	67,056
Non-cash adjustments to NOI	—	—	—	20,076	34,045	(13,969)
Adjusted NOI	$ 152,151	$ 142,714	$ 9,437	263,828	210,741	53,087
Non-SPP adjusted NOI				(111,677)	(68,027)	(43,650)
SPP adjusted NOI				$ 152,151	$ 142,714	$ 9,437
Adjusted NOI % change			6.6 %			
Property count(1)	83	83		152	130	
Average capacity (units)	16,915	16,824		24,728	20,354	
Average annual rent per unit	$ 11,489	$ 11,010		$ 11,111	$ 10,558	

(1) From our 2015 presentation of SPP, we removed two SHOP properties from SPP that were sold and a SHOP property that was classified as held for sale.

SPP. SPP NOI and adjusted NOI increased primarily as a result of increased occupancy and rates for resident fees and services.

Non-SPP. Non-SPP NOI and adjusted NOI increased as a result of 2015 acquisitions, primarily our RIDEA III acquisition. The increase to non-SPP NOI was partially offset by an $8 million net termination fee related to our RIDEA III acquisition, which was not repeated in 2016.

Total Portfolio. NOI and adjusted NOI increased based on the combined increases to SPP and non-SPP discussed above.

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2015 and 2014

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

	SPP			Total Portfolio		
	2015	2014	Change	2015	2014	Change
Rental revenues	$ 160,053	$ 152,841	$ 7,212	$ 518,264	$ 243,612	$ 274,652
HCP share of unconsolidated JV revenues	—	—	—	181,410	57,740	123,670
Operating expenses	(99,815)	(96,450)	(3,365)	(371,016)	(163,650)	(207,366)
HCP share of unconsolidated JV share of operating expenses	—	—	—	(151,962)	(49,571)	(102,391)
NOI	60,238	56,391	3,847	176,696	88,131	88,565
Non-cash adjustments to NOI	—	—	—	34,045	10,160	23,885
Adjusted NOI	$ 60,238	$ 56,391	$ 3,847	210,741	98,291	112,450
Non-SPP adjusted NOI				(150,503)	(41,900)	(108,603)
SPP adjusted NOI				$ 60,238	$ 56,391	$ 3,847
Adjusted NOI % change			6.8 %			
Property count(1)	20	20		130	85	
Average capacity (units)	4,612	4,613		16,724	12,177	
Average annual rent per unit	$ 8,676	$ 8,283		$ 13,227	$ 6,848	

SPP. SPP NOI and adjusted NOI increased primarily as a result of increased occupancy and rates for resident fees and services.

Non-SPP. Non-SPP NOI and adjusted NOI increased as a result of: (i) acquisitions, primarily the CCRC JV in 2014 and RIDEA III in 2015, (ii) the transition of RIDEA II properties from SH NNN to SHOP and (iii) an $8 million net termination fee related to our RIDEA III acquisition in 2015.

Total Portfolio. NOI and adjusted NOI increased based on the combined increases to SPP and non-SPP discussed above.

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Life Science

2016 and 2015

Results as of and for the years ended December 31, 2016 and 2015 (dollars and sq. ft. in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2016	2015	Change	2016	2015	Change
Rental revenues(1)	$ 306,317	$ 295,515	$ 10,802	$ 358,537	$ 342,984	$ 15,553
HCP share of unconsolidated JV revenues	7,485	7,030	455	7,599	7,106	493
Operating expenses	(58,812)	(58,779)	(33)	(72,478)	(70,217)	(2,261)
HCP share of unconsolidated JV share of operating expenses	(1,601)	(1,612)	11	(1,601)	(1,612)	11
NOI	253,389	242,154	11,235	292,057	278,261	13,796
Non-cash adjustments to NOI	505	(6,630)	7,135	(3,003)	(10,392)	7,389
Adjusted NOI	$ 253,894	$ 235,524	$ 18,370	289,054	267,869	21,185
Non-SPP adjusted NOI				(35,160)	(32,345)	(2,815)
SPP adjusted NOI				$ 253,894	$ 235,524	$ 18,370
Adjusted NOI % change			7.8 %			
Property count(2)	111	111		120	122	
Average occupancy	97.6 %	96.5 %		97.4 %	96.8 %	
Average occupied sq. ft.	6,639	6,559		7,594	7,423	
Average annual total revenues per occupied sq. ft.	$ 47	$ 45		$ 48	$ 46	
Average annual rental revenues per occupied sq. ft.	$ 39	$ 38		$ 40	$ 38	

(1) Represents rental and related revenues and tenant recoveries.

(2) From our 2015 presentation of SPP, we removed five life science facilities that were sold and four life science facilities that were classified as held for sale.

SPP. SPP NOI and adjusted NOI increased primarily as a result of mark-to-market lease renewals, new leasing activity and increased occupancy. Additionally, SPP adjusted NOI increased as a result of annual rent escalations and a decline in rent abatements.

Non-SPP. Non-SPP NOI and adjusted NOI increased primarily as a result of life science acquisitions in 2015 and 2016 and increased occupancy in a development placed in operation in 2016, partially offset by five life science facilities sold in 2016.

Total Portfolio. NOI and adjusted NOI increased based on the combined increases to SPP and non-SPP discussed above.

During the year ended December 31, 2016, 1.4 million square feet of new and renewal leases commenced at an average annual base rent of $32.70 per square foot, including 114,000 square feet related to a development placed in service at an average annual base rent of $55.80 per square foot, compared to 1.3 million square feet of expired and terminated leases with an average annual base rent of $26.25 per square foot. During the year ended December 31, 2016, we classified 324,000 square feet as real estate and related assets held for sale, net with an average annual base rent of $18.81 per square foot, acquired properties with 61,000 occupied square feet with an average annual base rent of $47.79 per square foot and disposed of 535,000 square feet with an average annual base rent of $53.46 per square foot.

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2015 and 2014

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

	SPP			Total Portfolio		
	2015	2014	Change	2015	2014	Change
Rental revenues(1)	$ 317,937	$ 298,720	$ 19,217	$ 342,984	$ 314,114	$ 28,870
HCP share of unconsolidated JV revenues	7,030	6,888	142	7,106	6,888	218
Operating expenses	(59,053)	(54,554)	(4,499)	(70,217)	(63,080)	(7,137)
HCP share of unconsolidated JV share of operating expenses	(1,612)	(1,749)	137	(1,612)	(1,749)	137
NOI	264,302	249,305	14,997	278,261	256,173	22,088
Non-cash adjustments to NOI	(8,892)	(9,423)	531	(10,392)	(10,375)	(17)
Adjusted NOI	$ 255,410	$ 239,882	$ 15,528	267,869	245,798	22,071
Non-SPP adjusted NOI				(12,459)	(5,916)	(6,543)
SPP adjusted NOI				$ 255,410	$ 239,882	$ 15,528
Adjusted NOI % change			6.5 %			
Property count(2)	111	111		122	115	
Average occupancy	96.9 %	92.3 %		96.8 %	92.5 %	
Average occupied sq. ft.	6,980	6,646		7,423	6,888	
Average annual total revenues per occupied sq. ft.	$ 45	$ 45		$ 46	$ 45	
Average annual rental revenues per occupied sq. ft.	$ 37	$ 37		$ 38	$ 38	

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

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

Non-SPP. Non-SPP NOI and adjusted NOI increased primarily as a result of our life science development projects placed into service during 2014 and life science acquisitions in 2014 and 2015.

Total Portfolio. NOI and adjusted NOI increased based on the combined increases to SPP and non-SPP discussed above.

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

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Medical Office

2016 and 2015

Results as of and for the years ended December 31, 2016 and 2015 (dollars and sq. ft. in thousands, except per sq. ft. data):

	SPP			Total Portfolio		
	2016	2015	Change	2016	2015	Change
Rental revenues(1)	$ 376,346	$ 367,804	$ 8,542	$ 446,280	$ 415,351	$ 30,929
HCP share of unconsolidated JV revenues	1,876	1,834	42	1,996	1,870	126
Operating expenses	(141,897)	(138,130)	(3,767)	(173,687)	(162,054)	(11,633)
HCP share of unconsolidated JV share of operating expenses	(595)	(612)	17	(595)	(612)	17
NOI	235,730	230,896	4,834	273,994	254,555	19,439
Non-cash adjustments to NOI	(463)	(2,381)	1,918	(3,557)	(4,933)	1,376
Adjusted NOI	$ 235,267	$ 228,515	$ 6,752	270,437	249,622	20,815
Non-SPP adjusted NOI				(35,170)	(21,107)	(14,063)
SPP adjusted NOI				$ 235,267	$ 228,515	$ 6,752
Adjusted NOI % change			3.0 %			
Property count(2)	203	203		239	227	
Average occupancy	91.9 %	91.6 %		91.5 %	90.7 %	
Average occupied sq. ft.	13,079	13,008		15,800	14,778	
Average annual total revenues per occupied sq. ft.	$ 29	$ 28		$ 28	$ 28	
Average annual rental revenues per occupied sq. ft.	$ 24	$ 23		$ 24	$ 23	

(1) Represents rental and related revenues and tenant recoveries.

(2) From our 2015 presentation of SPP, we removed three MOBs that were sold and six MOBs that were placed into redevelopment.

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

Non-SPP. Non-SPP NOI and adjusted NOI increased primarily as a result of increased occupancy in former redevelopment and development properties that have been placed into operations and additional NOI from our MOB acquisitions in 2015 and 2016, partially offset by the sale of three MOBs.

Total Portfolio. NOI and adjusted NOI increased based on the combined increases to SPP and non-SPP discussed above.

During the year ended December 31, 2016, 2.4 million square feet of new and renewal leases commenced at an average annual base rent of $22.96 per square foot, including 211,000 square feet related to developments and redevelopments placed into service at an average annual base rent of $24.62, compared to 2.1 million square feet of expiring and terminated leases with an average annual base rent of $23.19 per square foot. During the year ended December 31, 2016, we acquired properties with 897,000 square feet with an average annual base rent of $14.70 per square foot, including 756,000 square feet with a triple-net annual base rent of $13.00 per square foot, and disposed of 82,000 square feet with an average annual base rent of $23.94 per square foot.

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2015 and 2014

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

	SPP			Total Portfolio		
	2015	2014	Change	2015	2014	Change
Rental revenues(1)	$ 358,769	$ 352,442	$ 6,327	$ 415,351	$ 368,055	$ 47,296
HCP share of unconsolidated JV revenues	1,834	1,789	45	1,870	1,825	45
Operating expenses	(137,411)	(135,375)	(2,036)	(162,054)	(147,144)	(14,910)
HCP share of unconsolidated JV share of operating expenses	(612)	(571)	(41)	(612)	(571)	(41)
NOI	222,580	218,285	4,295	254,555	222,165	32,390
Non-cash adjustments to NOI	(663)	(846)	183	(4,933)	(1,291)	(3,642)
Adjusted NOI	$ 221,917	$ 217,439	$ 4,478	249,622	220,874	28,748
Non-SPP adjusted NOI				(27,705)	(3,435)	(24,270)
SPP adjusted NOI				$ 221,917	$ 217,439	$ 4,478
Adjusted NOI % change			2.1 %			
Property count(2)	205	205		227	215	
Average occupancy	90.5 %	91.2 %		90.7 %	90.8 %	
Average occupied sq. ft.	12,667	12,750		14,778	13,237	
Average annual total revenues per occupied sq. ft.	$ 28	$ 28		$ 28	$ 28	
Average annual rental revenues per occupied sq. ft.	$ 24	$ 23		$ 23	$ 23	

(1) Represents rental and related revenues and tenant recoveries.
(2) From our 2014 presentation of SPP, we removed a MOB that was sold.

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

Non-SPP. Non-SPP NOI and adjusted NOI increased primarily as a result of our MOB acquisitions in 2014 and 2015.

Total Portfolio. NOI and adjusted NOI increased based on the combined increases to SPP and non-SPP discussed above.

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

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Other Income and Expense Items

Results for the years ended December 31, 2016, 2015 and 2014 (in thousands):

	Year Ended December 31,			2016 vs.	2015 vs.
	2016	2015	2014	2015	2014
Interest income	$ 88,808	$ 112,184	$ 73,623	$ (23,376)	$ 38,561
Interest expense	464,403	479,596	439,742	(15,193)	39,854
Depreciation and amortization	568,108	504,905	455,016	63,203	49,889
General and administrative	103,611	95,965	81,765	7,646	14,200
Acquisition and pursuit costs	9,821	27,309	17,142	(17,488)	10,167
Impairments, net	—	108,349	—	(108,349)	108,349
Gain on sales of real estate, net	164,698	6,377	3,288	158,321	3,089
Loss on debt extinguishments	(46,020)	—	—	(46,020)	—
Other income, net	3,654	16,208	9,252	(12,554)	6,956
Income tax (expense) benefit	(4,473)	9,807	506	(14,280)	9,301
Equity income (loss) from unconsolidated joint ventures	11,360	6,590	(3,605)	4,770	10,195
Total discontinued operations	265,755	(699,086)	665,276	964,841	(1,364,362)
Noncontrolling interests' share in earnings	(12,179)	(12,817)	(14,358)	638	1,541

Interest income. The decrease in interest income for the year ended December 31, 2016 was primarily the result of: (i) placing our Four Seasons Notes on cost recovery status in the third quarter of 2015 and (ii) paydowns in our loan portfolio. The decrease in interest income was partially offset by additional interest income from: (i) the Four Seasons senior secured term loan purchased in the fourth quarter of 2015 and (ii) additional fundings in our loan portfolio, including our £105 million ($131 million) loan to Maria Mallaband in November 2016.

The increase in interest income for the year ended December 31, 2015 was primarily the result of: (i) fundings through our U.K. loan facility to HC-One in November 2014 and February 2015, (ii) incremental interest income from the repayments of three development loans resulting from the appreciation of the underlying real estate assets and (iii) additional fundings under our mezzanine loan facility with Tandem in May 2015. The increase in interest income was partially offset by the impact of placing our Four Seasons Notes on cost recovery status in the third quarter of 2015.

Interest expense. The decrease in interest expense for the year ended December 31, 2016 was primarily the result of: (i) mortgage debt repayments during 2015 and 2016, primarily from mortgage debt secured by properties in our SH NNN, life science and medical office segments, (ii) senior unsecured notes payoffs during 2015 and 2016 and higher capitalized interest. The decrease in interest expense was partially offset by: (i) senior unsecured notes issued during 2015 and (ii) increased borrowings under our line of credit facility.

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

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

	As of December 31,(1)					
	2016		2015		2014	
Balance:						
Fixed rate	$ 7,614,473		$ 10,659,378		$ 8,841,676	
Variable rate	1,545,366		397,432		847,016	
Total	$ 9,159,839		$ 11,056,810		$ 9,688,692	
Percentage of total debt:						
Fixed rate	83.1	%	96.4	%	91.3	%
Variable rate	16.9		3.6		8.7	
Total	100	%	100	%	100	%
Weighted average interest rate at end of period:						
Fixed rate	4.26	%	4.68	%	5.01	%
Variable rate	2.23	%	1.72	%	1.59	%
Total weighted average rate	3.91	%	4.57	%	4.71	%

(1) At December 31, 2016, 2015 and 2014, excludes $92 million, $94 million and $97 million of other debt, respectively, that represents non-interest bearing life care bonds and occupancy fee deposits at certain of our senior housing facilities and demand notes that have no scheduled maturities. At December 31, 2016, 2015 and 2014, principal balances of $46 million, $71 million and $71 million of variable-rate mortgages, respectively, are presented as fixed-rate debt as the interest payments were swapped from variable to fixed. At December 31, 2016, 2015 and 2014, principal balances of £220 million ($272 million), £357 million ($526 million) and £137 million ($214 million) term loans, respectively, are presented as fixed-rate debt as the interest payments were swapped from variable to fixed.

Depreciation and amortization. The increase in depreciation and amortization expense for the year ended December 31, 2016 was primarily the result of the impact of acquisitions primarily in our SHOP and medical office segments.

The increase in depreciation and amortization expense for the year ended December 31, 2015 was primarily the result of the impact of our acquisitions primarily in our SHOP, life science and medical office segments and redevelopment projects placed in service during 2014 and 2015 primarily in our life science and medical office segments. The increase in depreciation and amortization expense was partially offset by additional depreciation expense recognized in 2014 as a result of a change in estimate of the depreciable life and residual value of certain properties in our SN NNN and medical office segments.

General and administrative expenses. The increase in general and administrative expenses for the year ended December 31, 2016 was primarily the result of: (i) higher severance-related charges primarily resulting from the departure of our former President and CEO in July 2016 and (ii) higher professional fees in 2016, partially offset by lower compensation related expenses.

The increase in general and administrative expenses for the year ended December 31, 2015 was primarily the result of: (i) a severance-related charge resulting from the resignation of our former Executive Vice President and Chief Investment Officer in June 2015 and (ii) higher compensation related expenses.

Acquisition and pursuit costs. The decrease in acquisition and pursuit costs for the year ended December 31, 2016 was primarily a result of lower levels of transactional activity in 2016 compared to the same period in 2015.

The increase in acquisition and pursuit costs for the year ended December 31, 2015 was primarily due to higher levels of transactional activity in 2015, including transactional costs related to the U.K. and RIDEA III investments.

Beginning in the first quarter of 2017, upon the Company's planned adoption of the Financial Accounting Standards Board's Accounting Standards Update No. 2017-01, Clarifying the Definition of a Business, the Company expects a decrease in acquisition and pursuit costs recognized within its consolidated statements of operations. See Note 2 to the Consolidated Financial Statements for further information.

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Impairments, net. During the year ended December 31, 2015, we recognized the following impairment charges: (i) $112 million related to our investment in Four Seasons Notes and (ii) $3 million related to a MOB. The impairment charges were partially offset by a $6 million impairment recovery related to the repayment of a loan.

Gain on sales of real estate, net. During the year ended December 31, 2016, we sold a portfolio of five facilities in one of our non-reportable segments and two SH NNN facilities for $130 million, five life science facilities for $386 million, seven SH NNN facilities for $88 million, three MOBs for $20 million and three SHOP facilities for $41 million, recognizing total gain on sales of $165 million.

During the year ended December 31, 2015, we sold the following assets: (i) nine SH NNN facilities for $60 million, resulting from Brookdale's exercise of its purchase option, (ii) two parcels of land in our life science segment for $51 million and (iii) a MOB for $0.4 million, recognizing total gain on sales of $6 million.

Loss on debt extinguishments. During the fourth quarter of 2016, using proceeds from the Spin-Off, we repaid $1.1 billion of senior unsecured notes that were due to mature in January 2017 and January 2018 and repaid $108 million of mortgage debt; incurring aggregate loss on debt extinguishments of $46 million, primarily related to prepayment penalties.

Other income, net. The decrease in other income, net for the year ended December 31, 2016 was primarily the result of a reduction of foreign currency remeasurement gains from remeasuring assets and liabilities denominated in GBP to U.S. dollars ("USD") as a result of effective hedges designated in September 2015.

The increase in other income, net for the year ended December 31, 2015 was primarily the result of the impact from remeasuring assets and liabilities denominated in GBP to USD.

Income tax (expense) benefit. The increase in income taxes for the year ended December 31, 2016 was primarily the result of recognizing tax liabilities representing our estimated exposure to state built-in gain tax.

The decrease in income taxes for the year ended December 31, 2015 was primarily the result of the tax benefit related to our share of operating losses from our RIDEA joint ventures formed as part of the 2014 Brookdale transaction and related to our U.K. real estate investments in 2015.

Equity income (loss) from unconsolidated joint ventures. The increase in equity income from unconsolidated joint ventures for the year ended December 31, 2016 was primarily the result of increased income from our share of gains on sales of real estate.

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

Total discontinued operations. Discontinued operations for the years ended December 31, 2016, 2015 and 2014 resulted in income of $266 million, loss of $699 million and income of $665 million, respectively. Income and loss from discontinued operations primarily relates to the operations of QCP. Income from discontinued operations increased during the year ended December 31, 2016 as a result of impairment charges during 2015 not repeated in 2016. The increase in discontinued operations was partially offset by the following: (i) a reduction in income from our HCRMC investments as a result of the HCRMC lease amendment effective April 1, 2015, the sale of non-strategic assets during the second half of 2015 and the first half of 2016, and a change in income recognition to a cash basis method beginning in January 2016, (ii) transaction costs of $87 million related to the Spin-Off and (iii) increased income tax expense related to our estimated exposure to state built-in gain tax. During the years ended December 31, 2015 and 2014, we recognized impairments of $1.3 billion and $36 million, respectively, related to our HCRMC portfolio.

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Liquidity and Capital Resources

We anticipate: (i) funding recurring operating expenses, (ii) meeting debt service requirements including principal payments and maturities, and (iii) satisfying our distributions to our stockholders and non-controlling interest members, for the next 12 months primarily by using cash flow from operations, available cash balances and cash from our various sources of financing.

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

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

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

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

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as our ability to fund future acquisitions and development through the issuance of additional securities or secured debt. Credit ratings impact our ability to access capital and directly impact our cost of capital as well. For example, as noted below, our revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon our credit ratings. We also pay a facility fee on the entire revolving commitment that depends upon our credit ratings. As of January 31, 2017, we had a credit rating of BBB from Fitch, Baa2 from Moody's and BBB from S&P Global on our senior unsecured debt securities.

Cash Flow Summary

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

Cash and cash equivalents were $95 million and $340 million at December 31, 2016 and 2015, respectively, reflecting a decrease of $245 million. The following table sets forth changes in cash flows (dollars in thousands):

	Year Ended December 31,		
	2016	2015	Change
Net cash provided by operating activities	$ 1,214,131	$ 1,222,145	$ (8,014)
Net cash used in investing activities	(410,617)	(1,672,005)	1,261,388
Net cash (used in) provided by financing activities	(1,054,265)	614,087	(1,668,352)

The decrease in operating cash flow is primarily the result of increased transaction costs and decreased income related to the Spin-Off, partially offset by our 2015 and 2016 acquisitions, annual rent increases and increased working capital. Our cash flow from operations is dependent upon the occupancy levels of our buildings, rental rates on leases, our tenants' performance on their lease obligations, the level of operating expenses and other factors.

The following are significant investing and financing activities for the year ended December 31, 2016:

·

made investments of $1.3 billion (development, leasing and acquisition of real estate, investments in unconsolidated joint ventures and loans, and purchases of securities) and received proceeds of $908 million primarily from real estate and DFL sales;

- paid cash dividends on common stock of $980 million, which were generally funded by cash provided by our operating activities and cash on hand; and
- received net proceeds of $1.7 billion from the Spin-Off of QCP, raised proceeds of $1.2 billion primarily from our net

borrowings under our bank line of credit, and repaid $2.9 billion under our bank line of credit, senior unsecured notes and mortgage debt.

Debt

Bank line of credit and Term Loans. Our $2.0 billion unsecured revolving line of credit facility (the “Facility”) matures on March 31, 2018 and contains a one-year extension option. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends on our credit ratings. We pay a facility fee on the entire revolving commitment that depends on our credit ratings. Based on our credit ratings at January 31, 2017, the margin on the Facility was 1.05%, and the facility fee was 0.20%. The Facility also includes a feature that allows us to increase the borrowing capacity by an aggregate amount of up to $500 million, subject to securing additional commitments from existing lenders or new lending institutions. At December 31, 2016, we had $900 million, including £372 million ($460 million), outstanding under the Facility with a weighted average effective interest rate of 1.821%. In January 2017, we paid down $440 million on the Facility primarily using proceeds from our RIDEA II transaction.

On July 30, 2012, we entered into a credit agreement with a syndicate of banks for a £137 million ($169 million at December 31, 2016) unsecured term loan, which matures in 2017. Based on our credit ratings at January 31, 2017, the 2012 Term Loan accrues interest at a rate of GBP LIBOR plus 1.40%.

On January 12, 2015, we entered into a credit agreement with a syndicate of banks for a £220 million ($272 million at December 31, 2016) four-year unsecured term loan (the “2015 Term Loan”) that accrues interest at a rate of GBP LIBOR plus 1.15%, subject to adjustments based on our credit ratings (the 2012 and 2015 Term Loans are collectively, the “Term Loans”). Proceeds from the 2015 Term Loan were used to repay a £220 million draw on the Facility that partially funded the November 2014 HC-One Facility (see Note 7 to the Consolidated Financial Statements). Concurrently, we entered into a three-year interest rate swap agreement that effectively fixes the interest rate of the 2015 Term Loan (1.97% at December 31, 2016). The 2015 Term Loan contains a one-year committed extension option.

The Facility and Term Loans contain certain financial restrictions and other customary requirements, including cross-default provisions to other indebtedness. Among other things, these covenants, using terms defined in the agreements, (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60% and (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times. The Facility and Term Loans also require a Minimum Consolidated Tangible Net Worth of $6.5 billion at December 31, 2016, which requirement was reduced, via an amendment to the Facility, effective upon the completion of the Spin-Off of QCP on October 31, 2016. At December 31, 2016, we were in compliance with each of these restrictions and requirements of the Facility and Term Loans.

Senior unsecured notes. At December 31, 2016, we had senior unsecured notes outstanding with an aggregate principal balance of $7.2 billion. Interest rates on the notes ranged from 2.79% to 6.88%, with a weighted average effective interest rate of 4.34% and a weighted average maturity of six years at December 31, 2016. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. At December 31, 2016, we believe we were in compliance with these covenants.

Mortgage debt. At December 31, 2016, we had $619 million in aggregate principal amount of mortgage debt outstanding that is secured by 36 healthcare facilities (including redevelopment properties) with a carrying value of $899 million. Interest rates on the mortgage debt ranged from 3.02% to 7.50%, with a weighted average effective interest rate of 3.40% and a weighted average maturity of six years at December 31, 2016.

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

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Equity

At December 31, 2016, we had 468 million shares of common stock outstanding, equity totaled $5.9 billion, and our equity securities had a market value of $14.1 billion.

At December 31, 2016, non-managing members held an aggregate of 4 million units in five limited liability companies ("DownREITs") for which we are the managing member. The DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications).

At-The-Market Program. In June 2015, we established an at-the-market program, in connection with the renewal of our Shelf Registration Statement. Under this program, we may sell shares of our common stock from time to time having an aggregate gross sales price of up to $750 million through a consortium of banks acting as sales agents or directly to the banks acting as principals. There was no activity during the year ended December 31, 2016 and, as of December 31, 2016, shares of our common stock having an aggregate gross sales price of $676 million were available for sale under the at-the-market program. Actual future sales will depend upon a variety of factors, including but not limited to market conditions, the trading price of our common stock and our capital needs. We have no obligation to sell the remaining shares available for sale under our program.

Shelf Registration

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

Contractual Obligations

The following table summarizes our material contractual payment obligations and commitments at December 31, 2016 (in thousands):

	Total(1)	2017	2018-2019	2020-2021	More than Five Years
Bank line of credit(2)	$ 899,718	$ —	$ 899,718	$ —	$ —
Term loans(3)	441,181	169,305	271,876	—	—
Senior unsecured notes	7,200,000	250,000	450,000	2,000,000	4,500,000
Mortgage debt	618,940	479,795	7,480	15,184	116,481
U.K. loan commitments(4)	43,107	39,946	3,161	—	—
Construction loan commitments(5)	124	124	—	—	—
Development commitments(6)	117,019	114,229	2,790	—	—
Ground and other operating leases	412,055	7,294	14,751	13,706	376,304
Interest(7)	2,265,501	337,433	584,054	485,911	858,103

Total	$ 11,997,645	$ 1,398,126	$ 2,233,830	$ 2,514,801	$ 5,850,888

(1) Excludes $92 million of other debt that represents life care bonds and demand notes that have no scheduled maturities. Additionally, excludes a $100 million unsecured revolving credit facility commitment to QCP, which is available to be drawn upon by QCP through the fourth quarter of 2017 and matures in the fourth quarter of 2018. The unsecured revolving credit facility will automatically and permanently decrease each calendar month by an amount equal to 50% of QCP's and its restricted subsidiaries' retained cash flow for the prior calendar month. All borrowings under the unsecured revolving credit facility will be subject to the satisfaction of certain conditions (see Note 1 to the Consolidated Financial Statements).
(2) Includes £372 million ($460 million) translated into USD.
(3) Represents £357 million translated into USD.
(4) Represents £35 million translated into USD for commitments to fund our U.K. loan facilities.
(5) Represents commitments to finance development projects and related working capital financings.
(6) Represents construction and other commitments for developments in progress.
(7) Interest on variable-rate debt is calculated using rates in effect at December 31, 2016.

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Off-Balance Sheet Arrangements

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

Inflation

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

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Non-GAAP Financial Measure Reconciliations

Funds From Operations and Funds Available for Distribution

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

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Net income (loss) applicable to common shares	$ 626,549	$ (560,552)	$ 919,796	$ 969,103	$ 812,289
Depreciation and amortization of real estate, in-place lease and other intangibles	572,998	510,785	459,995	429,174	366,512
Other depreciation and amortization	11,919	22,223	18,864	14,326	12,756
Gain on sales of real estate, net	(164,698)	(6,377)	(31,298)	(69,866)	(31,454)
Taxes associated with real estate dispositions	60,451	—	—	—	—
Impairments of real estate	—	2,948	—	1,372	—
Equity income from unconsolidated joint ventures	(11,360)	(57,313)	(49,570)	(64,433)	(54,455)
FFO from unconsolidated joint ventures	44,071	90,498	70,873	74,324	64,933
Noncontrolling interests' and participating securities' share in earnings	13,377	14,134	16,795	15,903	17,547
Noncontrolling interests' and participating securities' share in FFO	(34,154)	(27,187)	(23,821)	(20,639)	(21,620)
FFO applicable to common shares	$ 1,119,153	$ (10,841)	$ 1,381,634	$ 1,349,264	$ 1,166,508
Distributions on dilutive convertible units	8,732	—	13,799	13,276	13,028
Diluted FFO applicable to common shares	$ 1,127,885	$ (10,841)	$ 1,395,433	$ 1,362,540	$ 1,179,536
Weighted average shares used to calculate diluted FFO per common share	471,566	462,795	464,845	461,710	434,328
Impact of adjustments to FFO:					
Transaction-related items(1)	$ 96,586	$ 32,932	$ (18,856)	$ 6,191	$ 5,339
Other impairments, net(2)	—	1,446,800	35,913	—	7,878
Loss on debt extinguishment(3)	46,020	—	—	—	—
Severance-related charges(4)	16,965	6,713	—	27,244	5,642
Foreign currency remeasurement losses (gains)	585	(5,437)	—	—	—
Litigation provision	3,081	—	—	—	—
Preferred stock redemption charge	—	—	—	—	10,432
	$ 163,237	$ 1,481,008	$ 17,057	$ 33,435	$ 29,291

FFO as adjusted applicable to common shares	$ 1,282,390	$ 1,470,167	$ 1,398,691	$ 1,382,699	$ 1,195,799
Distributions on dilutive convertible units and other	12,849	13,597	13,766	13,220	12,957
Diluted FFO as adjusted applicable to common shares	$ 1,295,239	$ 1,483,764	$ 1,412,457	$ 1,395,919	$ 1,208,756
Weighted average shares used to calculate diluted FFO as adjusted per common share(5)	473,340	469,064	464,845	461,710	433,607
Diluted earnings per common share	$ 1.34	$ (1.21)	$ 2.00	$ 2.13	$ 1.90
Depreciation and amortization	1.21	1.10	1.00	0.93	0.85
Impairments on real estate and DFL depreciation	0.03	0.06	0.04	0.03	0.03
Taxes related to real estate dispositions and gain on sales of real estate, net	(0.22)	(0.01)	(0.07)	(0.15)	(0.07)
Joint venture and participating securities FFO adjustments	0.03	0.04	0.03	0.01	0.01
Diluted FFO per common share	$ 2.39	$ (0.02)	$ 3.00	$ 2.95	$ 2.72
Transaction-related items(1)	0.20	0.07	(0.04)	0.01	0.01
Other impairments, net(2)	—	3.11	0.08	—	