

## **Health Care REITs: March 2008 Update** **A Deeper Look at the Senior Housing Portfolios**

March 12, 2008 ■ DJIA 12,110 ■ RMZ 836

### HIGHLIGHTS:

**Overview:** Senior housing represents nearly 50% of the real estate owned by the health care REITs in our coverage universe. By some measures, the senior housing portfolios owned by REITs appear to be quite similar. Upon closer examination, however, there are important differences in terms of their physical and geographic attributes, as well as the lease and investment structures. This report illuminates the key differences between the senior housing investments held by the four largest health care REITs. It also introduces a more systematic and quantitative approach to valuing the respective portfolios.

**The Investment Case for Senior Housing:** The senior housing owned by health care REITs consists primarily of Assisted Living Facilities (ALFs), with smaller investments in Independent Living Facilities (ILFs) and Continuing Care Retirement Communities (CCRCs). The investment allure of the senior housing sector is primarily driven by demographics. A rapidly growing elderly population possessing an unprecedented level of wealth is certain to drive additional demand for senior housing in the coming years. At the same time, new supply is being developed at a reasonable pace in most markets. Another appeal to senior housing is that most revenue is generated by residents paying out of their own pockets, rather than government programs where payments have proven to be volatile and unpredictable.

**Geographic Location:** The housing slump is beginning to have some residual negative effects on senior housing, particularly on CCRCs that require sizable up-front entrance fees, but fundamentals remain relatively healthy in most markets around the U.S. The cap rate derivation for senior housing in our NAV estimates borrows heavily from the cap rates used to value traditional multi-family properties across different markets. In general, lower cap rates (i.e. higher values) are ascribed to properties in coastal, high-barrier-to-entry markets. While market size is not a perfect barometer of value, larger MSAs tend to offer enhanced investment liquidity, which also influences cap rates. HCP, Inc. (HCP) and Ventas (VTR) have more properties in larger markets with expanding populations, while Health Care REIT (HCN) and Nationwide Health Properties (NHP) have concentrated their investments in secondary and tertiary markets.

**Physical Design:** ALFs focus on seniors who require support with bathing, eating, and mobility. By contrast, ILFs target seniors who require little assistance with their daily activities. Property values and cap rates vary depending on the property type. ILFs, which are more similar to traditional multi-family properties, typically sell at lower cap rates and higher prices per unit compared to similar quality ALFs. However, the tenant decision to enter an ILF is largely discretionary, so the property type is more impacted by the economy and housing prices compared to ALFs, where the decision to enter is driven primarily by faltering health. HCP, VTR, and HCN have a higher proportion of ILFs than NHP.

**Lease and Investment Structures:** Different structures can have a meaningful impact on cap rates and values. The health care REITs typically enter into long-term, triple-net leases, with inflation-like rent bumps. The leases separate the REIT from the underlying property performance, which creates less risk but limits the financial upside. Some new twists have been introduced to allow REITs to share more directly from operating performance, yet it remains to be seen if these investments deliver as promised. Other variables such as bundled leases, operator quality, cash flow coverage, and revenue/appreciation sharing with tenants also can have a profound impact on portfolio values.

**An Improved Approach to Determining Cap Rates:** With this report, an enhanced process for determining cap rates for the senior housing portfolios owned by the health care REITs is being introduced. The approach starts with an assignment of cap rates by geographic market and then adjusts property quality and lease/investment structure.

**Recommendations:** The impact of the revised methodology is summarized below. The largest positive NAV change was on NHP because closer examination of its geographic locations, tenant base, and lease structure revealed that it warranted a lower cap rate. The biggest negative NAV impact was on VTR. The REIT owns some of the jewels of the business located in premium markets with top operators. The quality of the senior housing portfolio warrants a lower cap rate than the average health care REIT. However, considering the geographic distribution of the total portfolio and the cap-ex requirement of the Sunrise Senior Living (SRZ) properties results in a cap rate that is not as low as previously estimated.

### Key Metrics

Company	New Senior Housing		New NAV	% NAV Change	Observed Premium to		Recommendation
	Nominal Cap Rate	Change in S.H. Nom. Cap Rate			NAV	NAV	
VTR	6.35%	+15 bps	\$38.00	-2%	14.0%		BUY
HCP	6.05%	-15 bps	\$29.00	+2%	2.2%		HOLD
NHP	6.75%	-20 bps	\$30.50	+3%	4.6%		HOLD
HCN	6.75%	+5 bps	\$40.25	-1%	5.6%		HOLD
HR <sup>1</sup>	N/A	N/A	\$27.50	0%	-10.6%		SELL

(1) HR has only a minimal amount invested in senior housing.

Source: Public filings and Green Street estimates. Observed Premium as of 3/11/08.

Important disclosure on the last page.

**Table of Contents**

	<u>Page</u>
I. Overview	3
II. NNN Leases -- Steadier Growth, Less Upside	3
III. Senior Housing Value Drivers A. Geographic Location B. Physical Design C. Tenant/Operator Quality D. Lease Structure	4
IV. An Improved Approach to Determining Cap Rates	8
V. Conclusions and Recommendations	8
VI. Total Returns	9
VII. Senior Housing Market Overview	10
VIII. Core Drivers Behind Senior Housing Cap Rates	14
IX. Senior Housing Valuation Summary	21
X. Company-Specific Commentary	23
Appendix: A Primer on Senior Housing and Long-Term Care	25

## I. Overview

Senior housing represents nearly 50% of all the real estate owned by the health care REITs in our coverage universe. The \$15 billion aggregate investment is primarily concentrated Assisted Living Facilities (ALFs), with a much smaller percentage in Independent Living Facilities (ILFs) and Continuing Care Retirement Communities (CCRCs). Senior housing properties are essentially apartments for seniors that offer an enhanced level of personal service. The primary investment allure of the sector is demographics and income – the rising wealth of the growing elderly population in the U.S. is certain to drive additional demand for senior housing. That said, investment success for the REITs will rely on a host of variables such as supply growth, tenant quality, and geographic considerations.

Many REIT investors are wary of the health care sector because of concerns regarding the vagaries of government programs – **Medicare** at the Federal level and **Medicaid** at the State level – that generate a substantial amount of total revenue for certain types of health care real estate. For example, over 60% of total revenue in the skilled nursing home (SNF) sector is generated by Medicare and Medicaid. By contrast, much of the allure of the senior housing property segment is that virtually all property-level revenue comes from residents paying out of their own pockets. It is estimated that only 11% of total senior housing revenue comes from government programs. Affluent seniors (and often their children) are increasingly willing to pay a dear price to live their final years in the “home-like” settings offered by ALFs and ILFs.

By some measures, REIT investments in senior housing look somewhat homogeneous. Each of the four largest health care REITs – HCP, HCN, NHP and VTR – own roughly similar number of properties (200+) and units (20,000+) that are on average the same age (12 years old). However, important differences emerge upon closer examination. Some of

those differences have been masked by the inadequate disclosure historically provided by the health care REITs when compared to the information commonly provided by the multi-family REITs and those in other property sectors. The good news is that disclosure is improving, which will allow investors to better understand the key valuation drivers affecting senior housing investments.

This report illuminates the key differences between the health care REIT portfolios. It also introduces a more systematic and quantitative approach to determining appropriate cap rates for the respective portfolios. **At the heart of this NAV-based approach to valuing seniors housing assets is the goal of measuring the quality – not just the quantity – of the earnings produced by the senior housing properties.**

## II. Triple-Net Leases – Steadier Growth, Less Upside

A relic of the original REIT legislation from the early 60’s is a provision that inhibits health care REITs from operating the real estate they own. Income derived from leases is fine, but revenue derived from services (i.e. the daily payments paid by SNF residents) is considered to be “bad” income for REITs. To address this issue, health care REITs have typically entered into long-term leases with health care operators or third-party tenants who then contract with operators. The leases are usually long-term (10+ years) and structured on a triple-net lease basis, which means that the tenant pays all of the operating expenses, maintenance costs, and property taxes. They also typically have contractual rent increases that are fixed (usually 2-3% annually) or tied to inflation.

REITs in other property sectors are impacted directly by the operating results from the properties that they own. **Health care REITs, by contrast, are a step removed from the underlying property perform-**

*Assisted Living Facilities (ALFs) - ALFs, comprising roughly 65% of units held by health care REITs, are need-driven and service-intensive. They serve frail seniors who require assistance with activities of daily living (eating, bathing, grooming, dressing, and toileting).*

*Independent Living Facilities (ILFs) – ILFs, which represent about 25% of health care REIT units, target seniors who require little assistance with daily living, but want some services such as housekeeping, transportation, or meals.*

*Continuing Care Retirement Communities (CCRCs) – CCRCs feature a combination of ILFs, ALFs and skilled nursing in one property. Health Care REITs have made only a minimal investment in CCRCs.*

**ance.** A benefit of triple-net leases is that the operating risk is borne by the tenant, and fluctuations in operating performance at the property level have no immediate impact on the REIT landlord. The primary shortcoming is that the REITs generally do not participate directly in operating improvements, and have limited ability to have any influence on the property's financial results.

Health care REITs have found some creative means of by-passing the health care REIT restrictions. In some situations, REITs have tied annual rent growth to the increases in revenue at the property level, thereby sharing in a portion of the operating upside. The most direct structure to get around the REIT limitations, however, involved VTR's \$2 billion acquisition of the high-end ALF portfolio owned by Sunrise REIT in April '07. Instead of placing the assets directly on the REIT's balance sheet, VTR created a taxable REIT subsidiary (TRS) that became the owner. Dividends from the TRS back to VTR would be considered "bad" income under the definition of a REIT and therefore VTR will never allow these dividends to exceed 25% of gross income. Management strongly believes that the NOI growth through this structure will be greater than it would have been through the more conventional triple-net lease format. It remains to be seen what sort of tax "leakage" VTR may incur in the TRS, or what sort of impediments the arrangement might impose on the future sale of those assets. In addition, VTR is responsible for the large cap-ex burden necessary to keep the properties competitive.

Legislation that would have allowed health care REITs to participate more directly in property-level performance was proposed, but not enacted, during '07. It remains to be seen if similar legislation will be reintroduced. In the meantime, health care REIT

investments in senior housing will continue to be primarily structured through long-term, triple-net leases. Consequently, the portfolios will retain a much more "bond-like" character than is the case for other REITs that actively own and operate their portfolios. This attribute adds to the perspective that health care REITs will prove to be defensive investments in times of turbulent economic and capital market conditions.

### III. Senior Housing Value Drivers

The key value drivers for the senior housing portfolios owned by the REITs are: geographic location, physical quality, tenant/operator quality, and lease structure.

#### A. Geographic Location

Health care REIT investments are dispersed throughout the United States, and about \$300 million of the Sunrise REIT portfolio purchased by VTR is located in Canada. Demographics and supply/demand characteristics vary considerably by location, but ILF and ALF fundamentals are relatively healthy in most markets across the U.S. The primary large markets where demand is not adequately keeping up with supply include Cleveland, San Jose, and Riverside.

The dismal condition of the traditional housing market is beginning to cause some residual damage to the senior housing market, particularly the ILF segment. Seniors often use the equity extracted from the sale of their traditional homes to pay their senior housing rent and related service fees. Evidence has begun to emerge that some newly developed ILF's, particularly in markets like Miami where the tradi-

#### Exhibit 1

**After being one of the top REIT sectors in terms of total returns in 2006 and 2007, the health care REIT sector has underperformed the NAREIT Equity Index year-to-date. Much of the decline stems from the performance of HCP, the sector's 500-pound gorilla. Year-to-date, HCP's stock is down 13% in part because of its stretched balance sheet following the Manor Care mezzanine investment at the end of last year.**

Sector	Total Returns by Sector (Sorted by YTD '08 returns)							YTD (1)	CAGR (1)
	'02	'03	'04	'05	'06	'07			
Apartments	-6.0%	25.9%	32.7%	13.7%	40.0%	-25.4%	8.1%	12.0%	
<b>Equity REIT Index</b>	<b>3.8%</b>	<b>37.1%</b>	<b>31.6%</b>	<b>12.2%</b>	<b>33.7%</b>	<b>-15.7%</b>	<b>-2.1%</b>	<b>14.6%</b>	
Strip Centers	17.7%	43.1%	36.3%	9.3%	33.5%	-17.7%	-2.9%	17.3%	
Malls	24.6%	52.2%	45.0%	16.5%	20.1%	-15.9%	-3.6%	20.2%	
Office	-6.3%	34.0%	23.3%	13.1%	44.7%	-19.0%	-3.9%	11.6%	
<b>Health Care</b>	<b>4.8%</b>	<b>53.6%</b>	<b>21.0%</b>	<b>1.8%</b>	<b>44.6%</b>	<b>2.1%</b>	<b>-3.9%</b>	<b>18.2%</b>	
Industrial	17.3%	33.1%	34.1%	15.4%	33.3%	0.4%	-11.2%	18.6%	

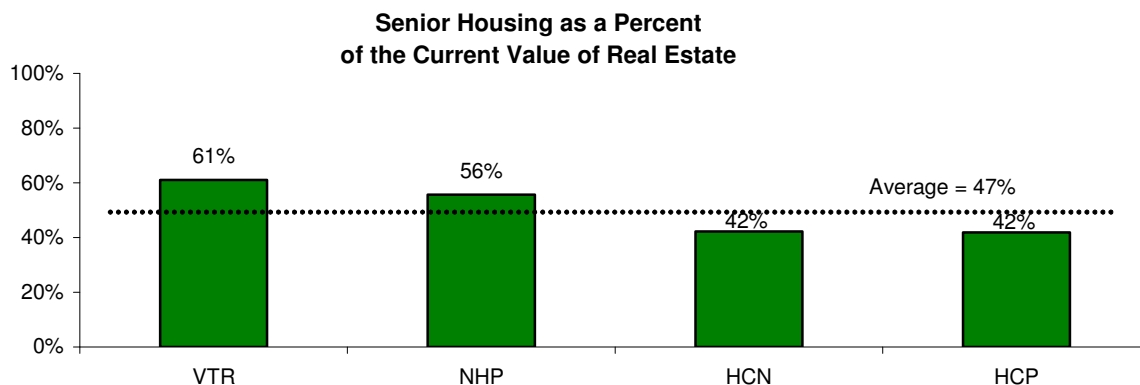
(1) Total returns through 3/11/08.

(2) Compound annual growth rate for total returns from 1/1/02 through 3/11/08.

Source: NAREIT.

## Exhibit 2

**Nearly 50% of the total investment portfolios owned by the health care REITs is in senior housing.**



<sup>1</sup>Percentages based upon estimated current value of real estate from Green Street Advisors' NAVs. Pro forma for NHP's MOB acquisition

tional housing market has crashed, are leasing-up at a disappointing pace.

Cap rate differentials between senior housing markets tend to mirror those seen in the multi-family sector. Larger markets with expanding populations and barriers to new supply tend to be at the low-end of the cap rate range. Properties in secondary and tertiary markets, as well as those in vibrant markets that are susceptible to new construction, are clustered at the other end of the range. In the current market, the nominal cap rate range for senior housing investments is roughly 5% to 8%.

An important misconception regarding ALFs is an assumption that successful properties have to be located in Sun Belt markets popular with retirees. While it is the case that many vibrant facilities are concentrated in warm-weather locations, the decision to enter an ALF usually occurs when a senior becomes too frail to live on his/her own. **In many cases, that relatively immobile ALF resident will want to reside near family members, which often means moving from a Sun Belt location that was appropriate during a healthier stage of life to a community closer to where his/her children and/or siblings live.** Consequently, it is not the case that warm/cold locations correlate directly with low/high ALF cap rates.

### B. Physical Design

Property values and cap rates vary depending on the service mix offered by the property. **ILFs typi-**

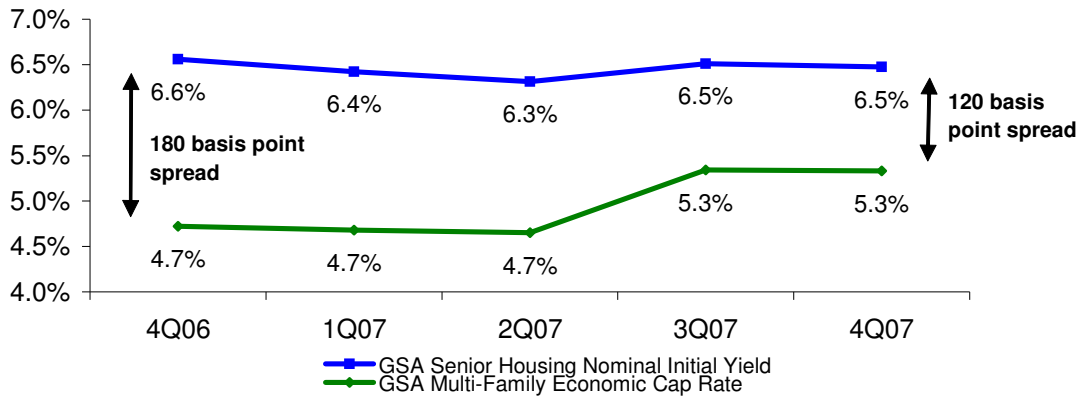
**cally sell at lower cap rates and higher prices per unit compared to similar quality ALFs in the same market.** ILFs tend to be larger and more profitable than ALFs, in part because fewer services are provided and resident turnover is lower. Structurally, ILFs differ from ALFs. Individual units may be larger with more kitchen area. ILF buildings typically include more common space for a fitness center, library and community congregating. Since the decision to enter an ILF is more discretionary, the properties typically are more vulnerable to fluctuations in the economy and housing prices. A REIT's mix of ILFs and ALFs has an important impact on the weighted average cap rate for the senior housing portfolio.

**In the ALF sector, the age of the property often has a material impact on cap rates and values since the physical attributes that help attract residents to the facility have rapidly evolved.** Roughly 50% of the total ALF stock in the largest U.S. markets has been built in the past twelve years. A wave of ALF company IPOs in the mid-to-late '90s created a building frenzy. The greater competition prompted an enhanced focus on ALF design. Newer buildings are typically more valuable than older ones in most property types, and the relationship is particularly true in the ALF sector. Recently built properties often include larger common areas, more amenities, and features such as walking trails. Older properties frequently are configured with studio units, which were popular in the '80's, but are now less desirable than one-bedrooms. ALF residents typically pay \$3,000 /month for rent and services.

## Exhibit 3

**The spread in cap rates between senior housing and traditional multi-family properties has narrowed over the past year. One interpretation is that senior housing is now relatively overpriced. Another is that demand for senior housing, particularly in the ALF sector, is driven primarily by demographics, rather than the state of the economy.**

Multi-Family Economic Cap Rates vs. Senior Housing REIT Initial Yields



Source: Green Street Advisors.

Given the sizeable monthly outlay, the physical appeal of a property is often closely tied to its competitive profile within the market.

### C. Tenant/Operator Quality

Tenant concentration is unusually high in the senior housing portfolios owned by the health care REITs. For HCP and VTR, roughly 75-85% of their portfolios are leased or operated by just three companies. In the case of HCN and NHP, the top three tenants account for 45-55% of the portfolios. **The lack of tenant diversification means that the credit quality and operating prowess of just a small number of ALF and ILF operators will have a significant impact on the value of the REITs' senior housing investments.**

Tenants that are publicly traded provide an opportunity to independently assess credit quality and operating trends. Sunrise Senior Living (SRZ) and Brookdale Senior Living (BKD) are two of the largest and most well-regarded senior housing developers and operators. The two companies have a combined market share of just 5% of the highly fragmented senior housing industry, but they lease and/or operate the majority of the properties owned by HCP and VTR, as well as 40% owned by NHP and

34% owned by HCN. SRZ has not filed audited financial statements in two years, and its board is currently pursuing "strategic alternatives" for the company. While SRZ is considered by most to be a great operator, the uncertainty regarding its corporate future could have important ramifications for the values of the health care REIT portfolios.

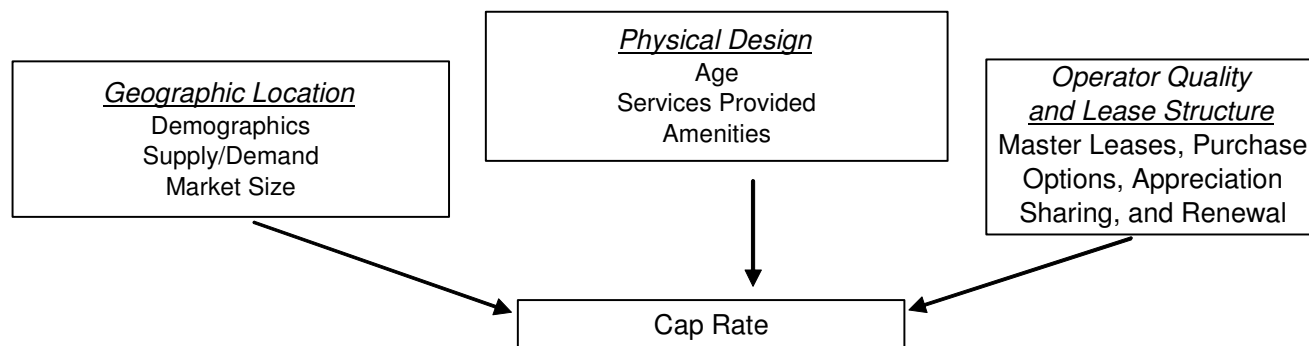
**NHP and HCN have conducted substantial amounts of business with smaller, private tenants/operators.** While these investments typically offer higher initial yields, they also include more risk of default because such tenants typically have less capital and financial flexibility. Both REITs have historically done an admirable job of underwriting the credit quality of these private tenants – defaults have been modest. Nevertheless, a higher cap rate seems appropriate for senior housing properties leased and operated by local and regional private entities.

### D. Lease Structure

The structure of the long-term, triple-net leases under which most REIT investments operate can add to or detract from the value of the senior housing asset on a stand-alone basis. Bundled master leases and shared appreciation with tenants can

## Exhibit 4

Many factors influence the appropriate cap rate for a senior housing property. While the variables are numerous and varied, they generally fall into three main categories: Geographic Location, Physical Quality, and Operator/Lease Structure.



Source: Green Street Advisors.

For the health care REITs, senior housing nominal cap rates range from 6% to 7% and average 6.5%. Not all senior housing portfolios are equal. Location, property quality, and lease terms matter. The largest adjustments were made for geographic market and lease terms. High-barrier markets with good demographic and supply/demand characteristics merit a lower cap rate. Properties with purchase options that allow tenants to share in the appreciation of a property require a higher cap rate.

Senior Housing Nominal Cap Rate Adjustments	HCP	VTR	NHP	HCN
Typical B+ Quality Cap Rate	6.65%	6.65%	6.65%	6.65%
Geographic Adjustment	-0.23%	-0.04%	0.23%	0.09%
Quality Adjustments				
ILF vs. ALF (-50 bps)	-0.17%	-0.15%	-0.03%	-0.12%
Top Tier Operator (-25 bps)	-0.21%	-0.23%	-0.18%	-0.13%
Operating Property vs. Leased Property (+25 bps)	0.00%	0.09%	0.00%	0.00%
Appreciation Sharing (+65 bps)	0.04%	0.04%	0.10%	0.50%
Above Average Coverage (-25 bps)	0.00%	0.00%	0.00%	-0.25%
Revenue Sharing (-12 bps)	-0.02%	0.00%	-0.02%	0.00%
Qualitative Adjustment	-0.37%	-0.26%	-0.13%	0.01%
<b>New Cap Rate Used in NAV Estimate</b>	<b>6.05%</b>	<b>6.35%</b>	<b>6.75%</b>	<b>6.75%</b>
<b>Former Cap Rate</b>	<b>6.20%</b>	<b>6.20%</b>	<b>6.95%</b>	<b>6.70%</b>
<b>Difference</b>	<b>-0.15%</b>	<b>0.15%</b>	<b>-0.20%</b>	<b>0.05%</b>

Source: Green Street Advisors

have a material influence on the cap rate and value of the health care REIT portfolios. Other terms such as contractual rent increases and renewal terms can also affect value, but the practices among the health care REITs in structuring these components are reasonably consistent and do not provide a point of cap rate differentiation.

**Bundled/Master Leases:** These structures can greatly improve the value of low-quality, poorly performing properties by attaching them to stronger assets leased to the same entity. Tenants can not simply walk away from their lease obligations on the weaker assets, since doing so would put the leases

on the strong assets into default. VTR has demonstrated the value embedded in the master lease structure through several deals with Kindred (KND), one its major tenants, that was forced to buy its way out of leases on weak properties at prices well in excess of the assets worth on a one-off market basis. (More details on that transaction can be found [here](#)). Not all master leases are created equal. Although health care REITs report that 80% to 90% of their properties are bundled in master leases, the number of properties per bundled lease varies dramatically. VTR's master leases include 24 properties on average, while HCN's average about five properties per master lease. In gen-

eral, a larger pool should provide more protection for the landlord.

**Appreciation Sharing: HCN is the health care REIT that most actively offers its tenants the right to share in a property's value appreciation.**

By offering a stake in the appreciation, HCN is able to command a higher initial lease rate that it estimates typically adds 60-70 basis points to the investment yield. HCN also believes that the feature encourages tenants to more willingly invest cap-ex into the properties since they ultimately share in the value created by such investments. Offering appreciation sharing has clearly helped HCN's marketing efforts and its ability to become a key capital source for its typical local and regional senior housing operator clients. However, sharing a substantial portion of the property value growth requires a material cap rate increase over the cap rates that those same HCN properties would command absent the sharing provision. Applying a market cap rate to the inflated NOI HCN receives would overstate the value of the property.

**IV. An Improved Approach to Determining Cap Rates**

With the help of improved disclosure, we have enhanced the process for determining cap rates for the senior housing portfolios owned by the health care REITs. The process is still not as complete as it is for other property types, such as apartments or strip centers, since the health care REITs still do not disclose property performance or sector performance (e.g. ALF or ILF) by geographic location. This shortcoming makes it more difficult to identify investment concentrations in stronger or weaker markets, or to compare the REIT's revenue and occupancy results to industry averages. Nevertheless, the enhanced methodology represents a large step forward until more complete information is provided.

There are four primary steps to deriving senior housing cap rates:

1. Assign properties to MSAs.
2. Assign a cap rate to each MSA assuming a "B+" quality asset.
3. Adjust the MSA-specific cap rate for property quality characteristics
4. Adjust the MSA-specific cap rate to reflect differing lease/investment structures.

The output is a weighted average cap rate for each portfolio that more fully reflects the key drivers of senior housing valuations.

**V. Conclusion and Recommendations**

The impact of the geographic and quality assessment conducted here is a 5-20 basis point change in senior housing cap rates and a 1-3% change in NAV for each of the four largest health care REITs. The nominal cap rate changes for senior housing were most pronounced for VTR (+15 basis points) and NHP (-20 basis points). VTR owns some high-end properties with top tier operators and warrants a below average cap rate, but the cap-ex requirement on its SRZ properties and the geographic mix of its entire portfolio results in a higher cap rate than previously estimated. For NHP, the decreased cap rate was primarily due to the fact that closer examination of its properties revealed that they were of higher quality than previously understood.

Senior housing represents an attractive investment option for health care REITs. Despite the near-term spillover of the housing slump, which could result in slower rent growth and pockets of weakness, the overall outlook is still positive. Occupancy levels and rent growth remain near record-high levels. In addition, health care REITs are relatively insulated from a weakening economy because of their triple-net leases and high quality of the typical tenants.

Our investment recommendations at current prices are:

BUY: VTR  
HOLD: HCP, HCN, NHP  
SELL: HR

Jim Sullivan  
Rosemary Pugh

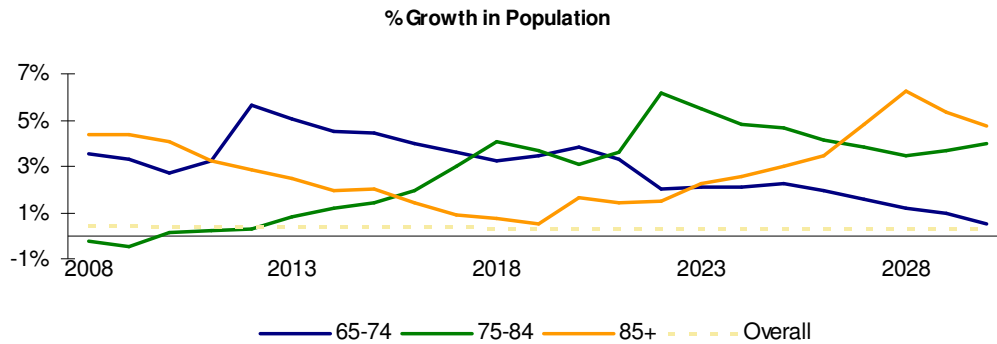
## VI. Total Returns



Source: Bloomberg, as of 3/11/08.

### VII. Senior Housing Market Overview

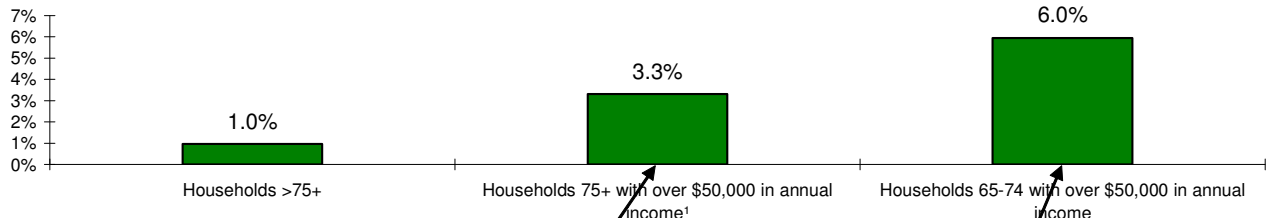
Conventional wisdom is that senior housing is well-positioned given demographics and that is generally the case. But growth rates vary tremendously by age cohort and that has important implications for senior housing. Seniors aged 65-74, the target demographic group for entry into ILFs, is projected to surge. Seniors over 85, the target group for ALFs, faces fast but decelerating growth. Interestingly, due to the Great Depression and subsequent baby bust, the 75-84 age cohort grows more slowly than the overall population for the next few years.



Source: U.S. Census.

Demographics tell only part of the story. More seniors are richer and better able to afford private pay senior housing. For the top markets, while the number of 75+ year old households will grow at a 1% CAGR for the next five years, the number of households in that age bracket with over \$50,000 in annual income is expected to grow at a 3% CAGR. The news is even better for ILFs. For the 65-74 age cohort, targeted by ILFs, the number of households earning over \$50,000 is projected to grow at a 6% CAGR through 2012.

Expected five-year compound annual growth rate for the top 31 MSA's (2007-2012)

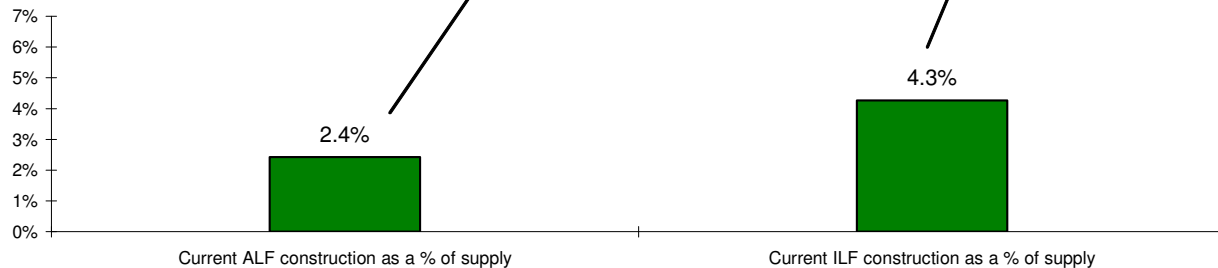


<sup>1</sup>The average annual cost of assisted living is roughly \$30,000 which some underwriters use as the threshold to income qualify a market. Growth rates are similar for annual income levels over \$30,000.

Source: National Investment Center for the Seniors Housing & Care Industry.

ALF and ILF construction is at a reasonable rate in the nation's top markets.

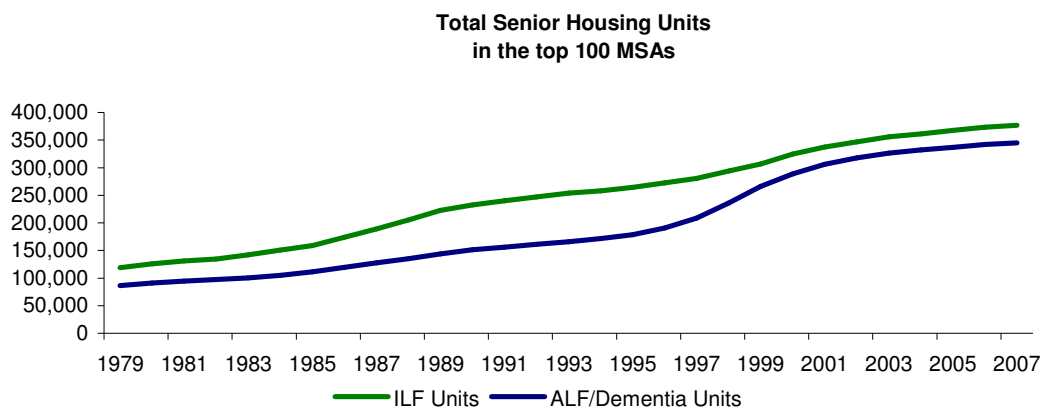
4Q07 Units Under Construction as a Percent of Total Supply for the Top 31 MSA's



Source: National Investment Center for the Seniors Housing & Care Industry.

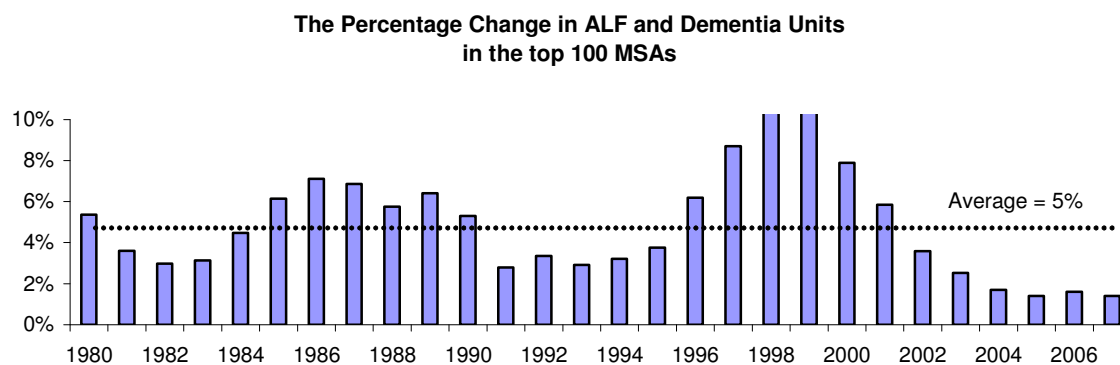
## VII. Senior Housing Market Overview

The number of senior housing units has nearly quadrupled in the past 25 years, but senior housing is still a relatively immature industry.



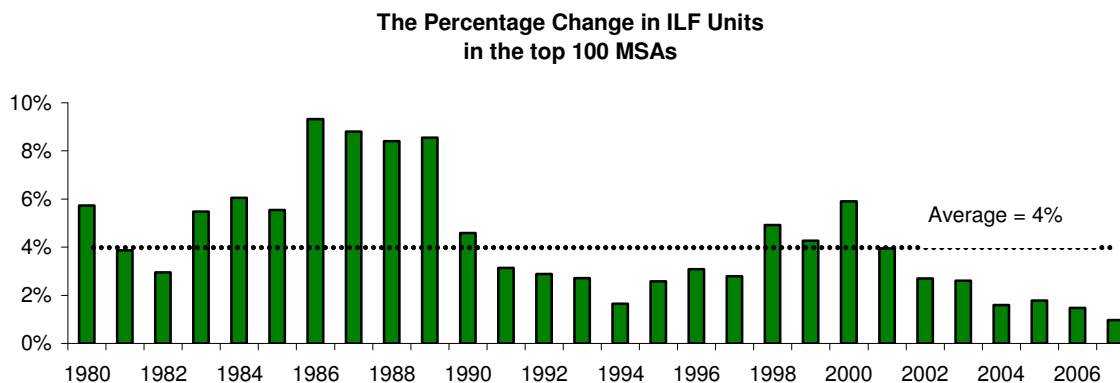
Source: NIC MAP Data and Analysis Service, 2008. Preliminary calculations.

ALFs and ILFs are relatively susceptible to excess supply since there are few restrictions on new construction. Nevertheless, recent supply growth has been well below the 25-year average.



Source: NIC MAP Data and Analysis Service 2008. Preliminary calculations.

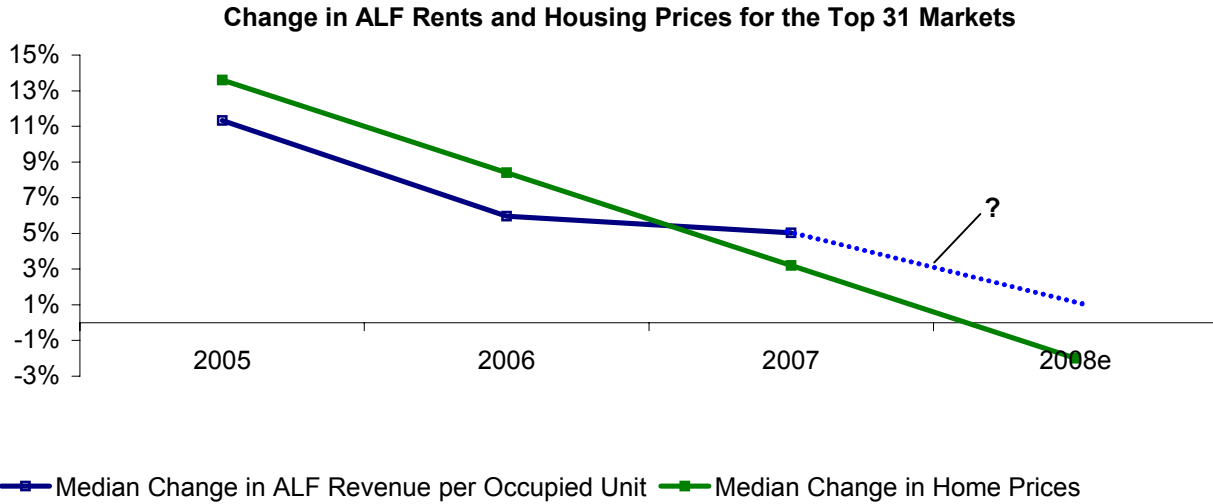
ILF supply growth has also been muted in recent years.



Source: NIC MAP Data and Analysis Service 2008. Preliminary calculations.

**VII. Senior Housing Market Overview**

**ALF rent growth, which has averaged an impressive 7% CAGR over the past three years, is slowing. Rent growth appears to be correlated with the change in median housing prices for the top markets. This makes sense because seniors often use proceeds from their house to pay rent. Going forward, the impact of a housing slump may manifest itself in slower ALF rent growth.**



	Median Change in ALF Rents <sup>1</sup>	Median Change in Home Prices <sup>2</sup>
2005	11%	14%
2006	6%	8%
2007	5%	3%
2008e	?	-2%
<b>Three-year CAGR</b>	<b>7%</b>	<b>9%</b>

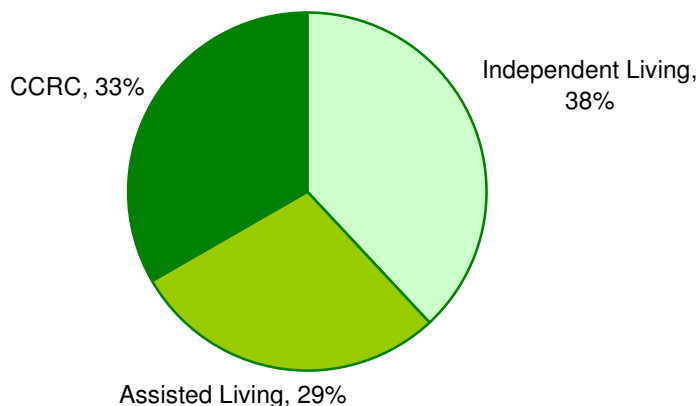
<sup>1</sup>Median change in ALF rents is median change in revenue per occupied unit.

<sup>2</sup>Median change in home prices is based on the change in value of the median home value in each of the top 31 MSA's. Data lags by one quarter. Forecast for change in home prices based on the Mortgage Bankers Association estimates.

Source: National Investment Center for the Seniors Housing & Care Industry, the Mortgage Bankers Association, and Green Street Advisors.

**VII. Senior Housing Market Overview**

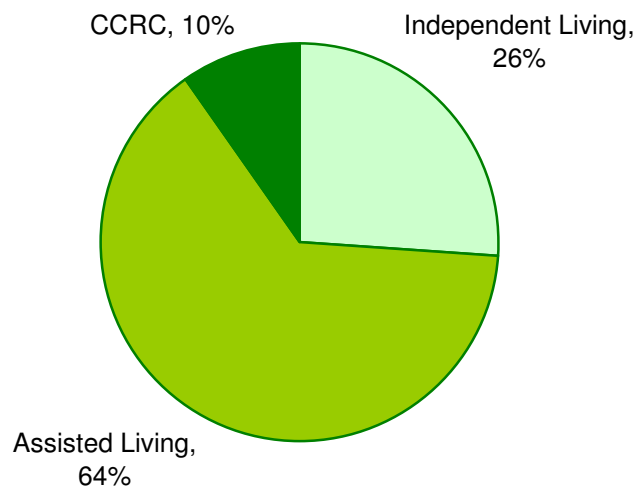
**The existing supply of senior housing totals about \$180 billion and can house roughly 2 million seniors (5% of the 40 million seniors in the U.S. currently). Health care REITs own fewer than 10% of these units.**



Source: Green Street Advisors, NIC, and health care REIT company presentations.

**Senior housing is a defensive niche and the health care REITs are positioned on the defensive end of the niche. They are concentrated in assisted living facilities (ALFs) which serve a more frail population requiring more services. The focus makes them less vulnerable to economic shifts since ALF demand is more need-driven and not highly dependent on the condition of the economy.**

**Estimated Health Care REIT Senior Housing Portfolios**



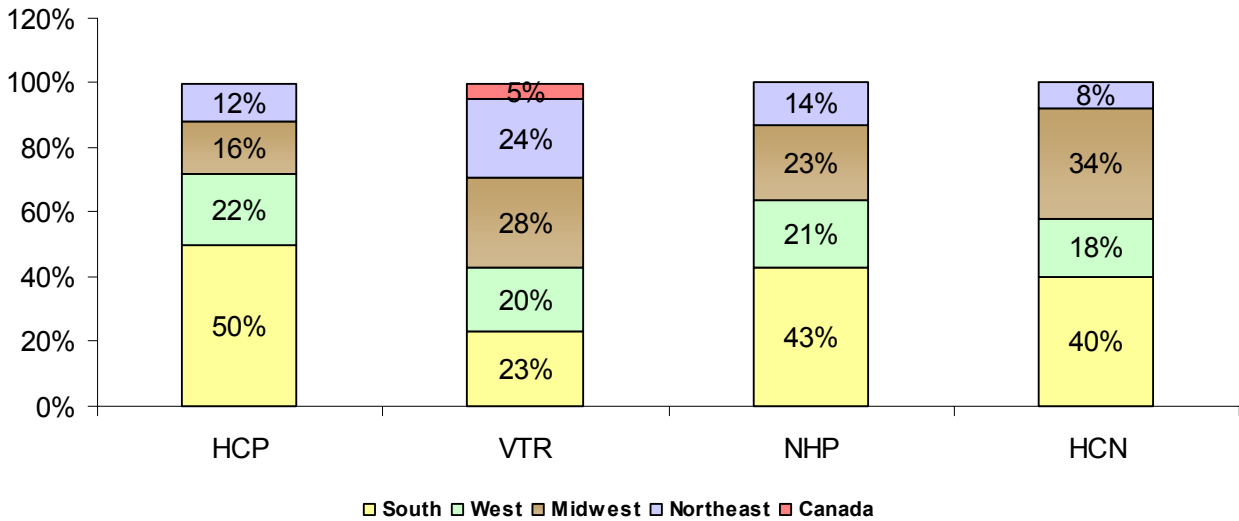
Source: Green Street Advisors and health care REIT company disclosure.

**VIII. Core Drivers Behind Senior Housing Cap Rates**

**Geographic Location**

Health care REIT investment in senior housing is diversified across the U.S. with concentrations in the states with the greatest growth in population over 85 years old. Most health care REITs have nearly half of their portfolios invested in the Southern U.S., except VTR which is more heavily weighted in the Northeast and Midwest.

Geographic Mix of the Health Care REIT Senior Housing Portfolios



<sup>1</sup>As a percent of total property count from 2007 10K data.

Source: Public filings and Green Street estimates.

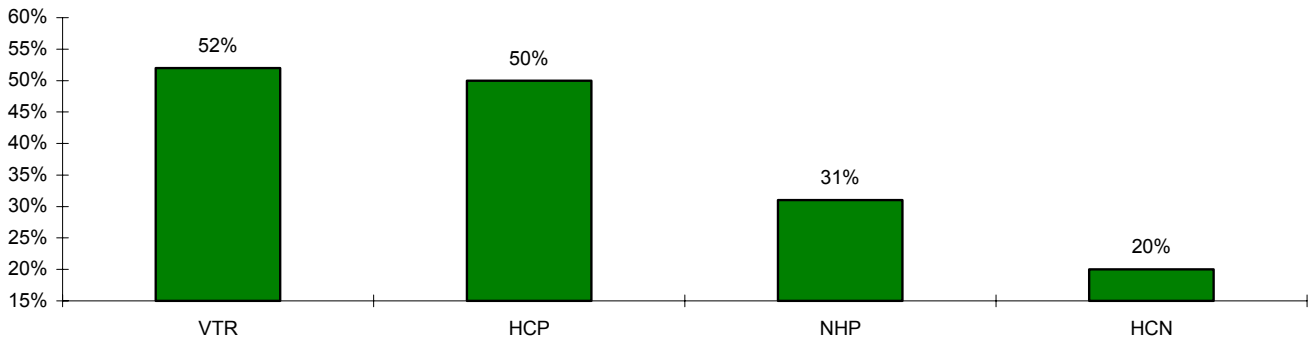
**Top States for Senior Housing<sup>1</sup>**

HCP		VTR		HCN		NHP	
Florida	12%	California	14%	North Carolina	14%	Texas	18%
California	12%	Illinois	11%	Florida	10%	California	11%
Texas	11%	Pennsylvania	7%	Texas	9%	Wisconsin	7%

<sup>1</sup>% of NOI for NHP and HCN, % of rental revenue and interest income for HCP, % of units for VTR. NHP NOI from Florida is also 7%.

Half of the properties owned by VTR and HCP are in the most densely populated cities in the U.S. NHP and HCN have focused their investments in secondary markets.

% of Senior Housing Properties in the Top 31 MSAs



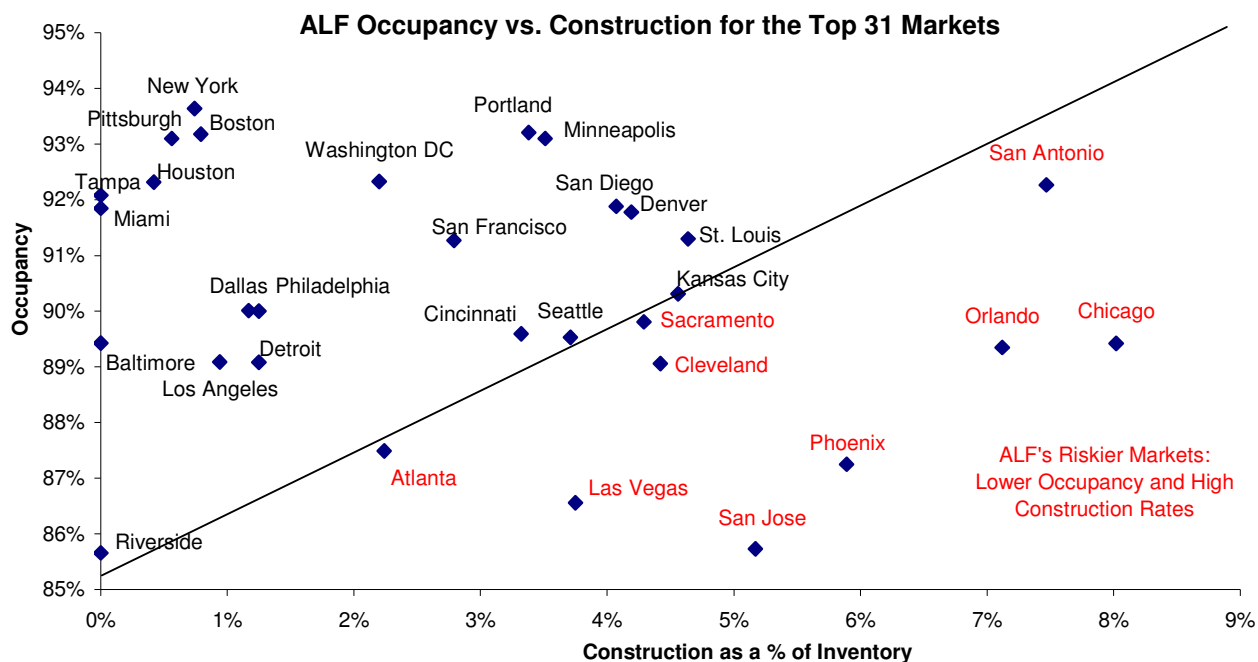
About 75% of VTR's senior housing investment and 68% of HCP's senior housing investment is in the top 31 MSA's and major cities in Canada . This chart provides an estimate of the number of senior housing properties held in the top 31 MSAs.

Source: Public filings and Green Street estimates.

## VIII. Core Drivers Behind Senior Housing Cap Rates

### Geographic Location

For most of the top U.S. markets, ALF supply and demand is in check. Only a handful of markets are out of balance with high rates of construction and relatively low occupancy.



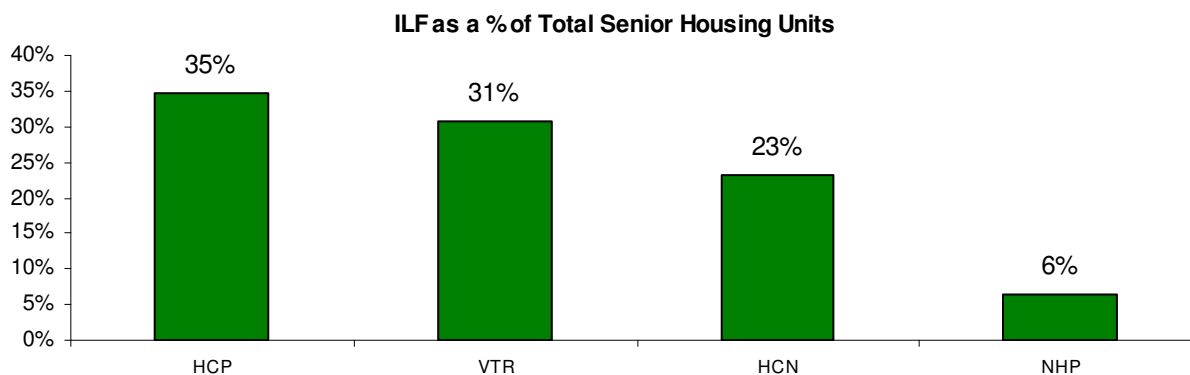
Source: National Investment Center for the Seniors Housing & Care Industry. 4Q 2007.



## VIII. Core Drivers Behind Senior Housing Cap Rates

### Physical Design - ILF vs. ALF

*ILFs serve younger residents who require fewer services and pay less rent. Structurally they contain more units that are often larger and contain more common area. Marketing is more important for ILFs since seniors who don't require services have more options. The average ILF is more profitable and sells for a higher price per unit and lower cap rate than the average ALF unit, but may be more vulnerable to cyclical swings in the economy. HCP, VTR and HCN have a sizable portion of their senior housing investment in ILFs. NHP's investment is minimal.*

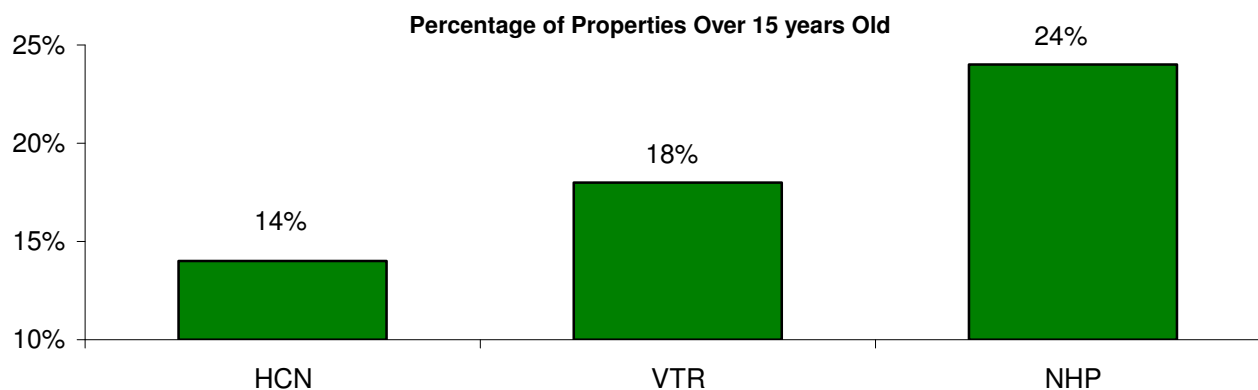


Excludes ILF units in CCRCs. Includes portion of ILFs owned in joint ventures.

Source: Public filings and Green Street estimates.

### Physical Design - Age

*Senior housing properties owned by the health care REITs have an average age of 12 years. The average belies differences in the distribution of properties by age. NHP and VTR have a higher proportion of younger and older properties. HCN has the fewest senior housing properties over 15 years old. Older properties generally sell for higher cap rates due to generally inferior designs, and more wear and tear.*



HCP does not report the year of construction for its properties.

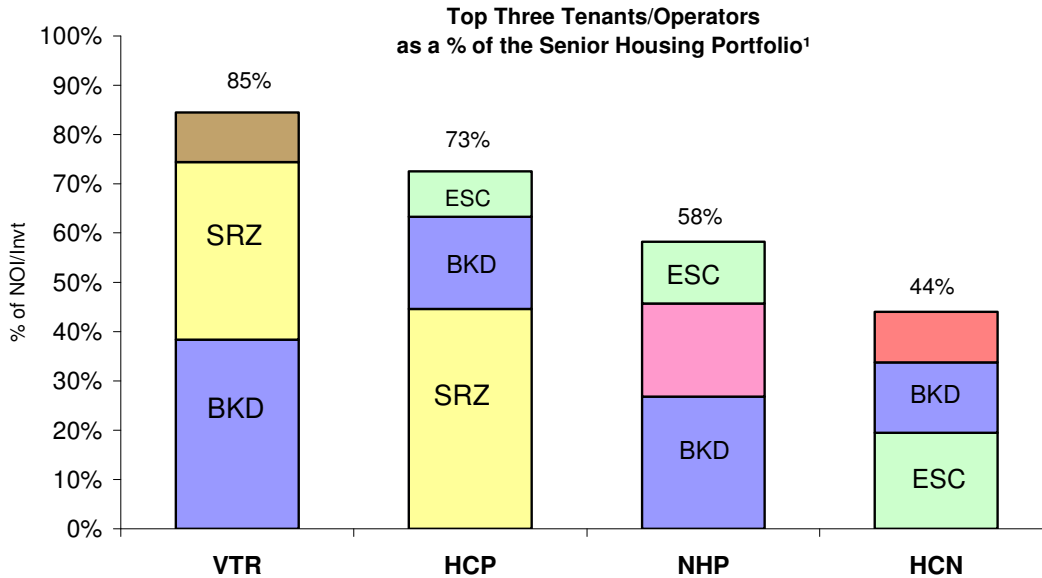
Source: Public filings and Green Street estimates.

**VIII. Core Drivers Behind Senior Housing Cap Rates**

**Tenants/Operators**

**HCP and VTR have the most concentrated investments with the premier operators in senior housing. HCN has the broadest operator base.**

VTR	HCP	NHP	HCN
Brookdale 38%	Sunrise 45%	Brookdale 27%	Emeritus 20%
Sunrise 36%	Brookdale 19%	Hearthstone 19%	Brookdale 14%
Senior Care 10%	Emeritus 9%	Emeritus 13%	Senior Living Comm. 10%



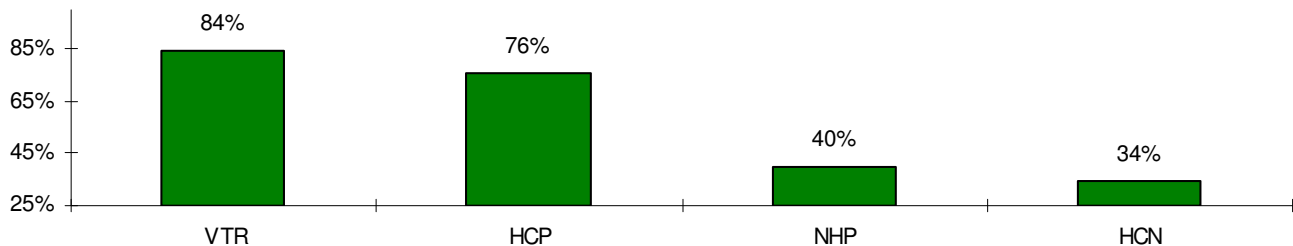
<sup>1</sup>As of 4Q07. HCP VTR and NHP as a % of estimated net operating income. HCN as a % of investment.

Source: Public filings and Green Street estimates.

**Tenants/Operators**

**While publicly-traded operators are not necessarily more creditworthy than their private peers, at least they provide some data for investors to assess creditworthiness. VTR and HCP have much more exposure to publicly-traded tenants in their senior housing portfolios than NHP and HCN.**

**Percentage of Senior Housing NOI from Publicly Traded Tenants**



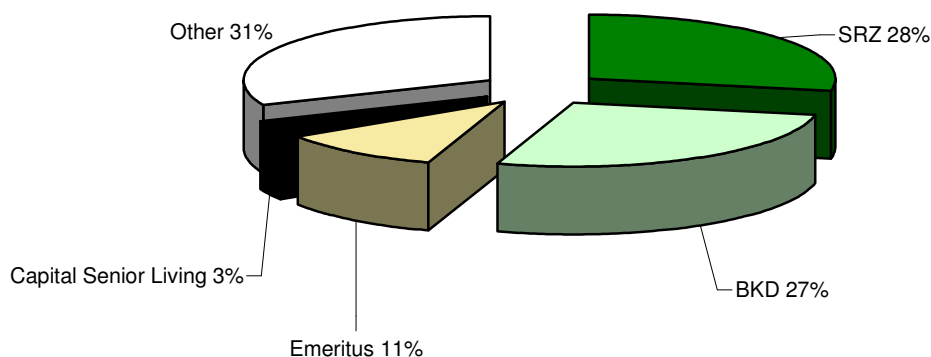
Source: Company disclosure and Green Street estimates

## VIII. Core Drivers Behind Senior Housing Cap Rates

### Tenants/Operators

Although the senior housing market in the US is extremely fragmented with the top three operators managing only 6% of supply, REIT ownership is concentrated. SRZ and BKD account for half of the health care REIT senior housing NOI suggesting that the performance of these two companies is critical to the success of the health care REITs' investment. SRZ in particular is important because of revenue sharing arrangements with HCP and the operating ownership structure for VTR.

Health Care REIT Senior Housing Operator Exposure  
(% of NOI)



Source: Green Street Advisors' estimates.

**Operating results are strong for all the top publicly-traded senior housing operators. BKD and SRZ are the largest and command the highest rents.**

2007		Occupancy	Facility Profit Margin	Avg Revenue Per Occupied Unit	% ILF or CCRC	Equity Mkt Cap	Enterprise Value
Brookdale Senior Living (BKD)	4Q07	90.6%	34%	\$3,681	57%	\$2.7B	\$4.5B
Sunrise Senior Living (SRZ) <sup>1</sup>	4Q07	90.6%	36%	\$4,615	23%	\$1.4B	\$1.4B
Emeritus Corporation (ESC) <sup>2</sup>	3Q07	86.9%	35%	\$3,239	<5%	\$0.9B	\$2.1B
Capital Senior Living (CSU)	3Q07	90.5%	37%	\$2,419	77%	\$0.2B	\$0.4B

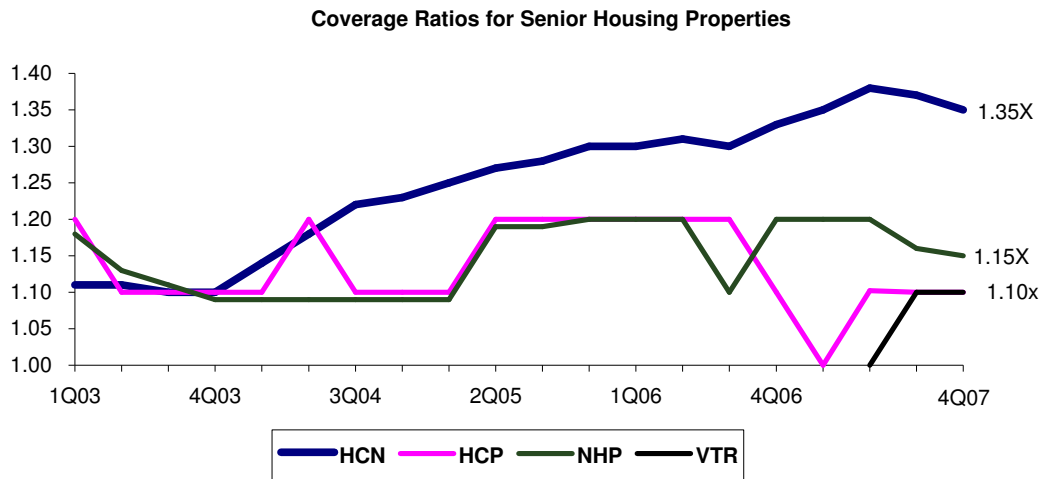
<sup>1</sup>SRZ data are estimates based upon Company disclosure. Audited financials not available.

<sup>2</sup>ESC % ILF or CCRC is an estimate. ESC reported 35 communities out of 203 total that, while primarily ALFs, offer some ILF services (2006 10K). Summerville merger would add more ILF units.

Source: Public filings and Green Street estimates.

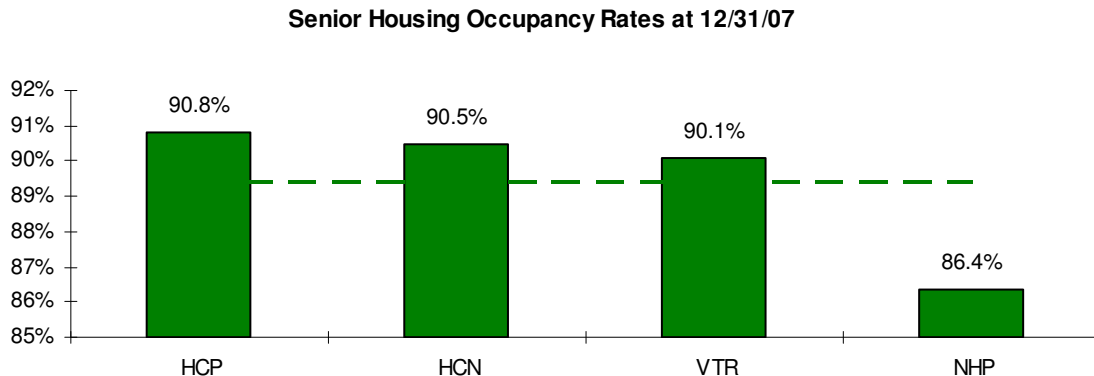
### VIII. Core Drivers Behind Senior Housing Cap Rates

A key measure for evaluating the risk of health care REITs is the cash flow coverage ratio (EBITDAR/RENT), which assesses the portfolio's ability to generate sufficient cash flow to cover the rent. HCN's coverage ratio has steadily improved thanks to strategic dispositions and improved performance on the part of its operators. HCP and VTR have both made large acquisitions in recent years at low coverage ratios in part due to the very competitive bidding climate. They have been willing to accept less coverage from larger, well-capitalized operators that are growing quickly.



Source: Public filings and Green Street estimates.

Long-term, triple-net leases generally insulate health care REITs from the ups and downs of economic cycles. Property-level performance, as measured by occupancy and rent growth, can still provide a window to the state of the senior housing market. NHP's occupancy is lower than the others, dropping from 88% in 2006. On a same-store basis, NHP's occupancy is 88%, indicating that recent acquisitions have brought down the overall occupancy levels. This may provide an opportunity for NHP to add value in the still strong operating environment for senior housing.



Source: Public filings and Green Street estimates.

---

## **IX. Senior Housing Valuation Summary**

### **A Step-by-Step Summary of How Our Senior Housing Nominal Cap Rates are Determined**

#### **Step One - Calculate Location-Adjusted Nominal Cap Rates**

- Assign all senior housing properties to markets.
- Derive the appropriate cap rates for each market.
  - Begin with GSA's proprietary multi-family economic cap rates for the 79 largest markets.
  - Add senior housing spread over multi-family cap rate by market. Multi-family economic cap rates are used (as opposed to nominal) because they already account for estimated capital expenditures. For the health care REIT triple-net portfolios, capital expenditures are primarily shouldered by the tenant.
- Determine the average nominal cap rate for the portfolio based upon geography.

#### **Step Two - Adjust for Portfolio Differences in Property Quality**

- Calculate company-specific score for each physical characteristic such as service offering.
- Derive estimate of the cap rate impact for these differences.
- Apply cap rate adjustment given company profile.

#### **Step Three - Adjust for Differences in Operator Quality and Lease Structure**

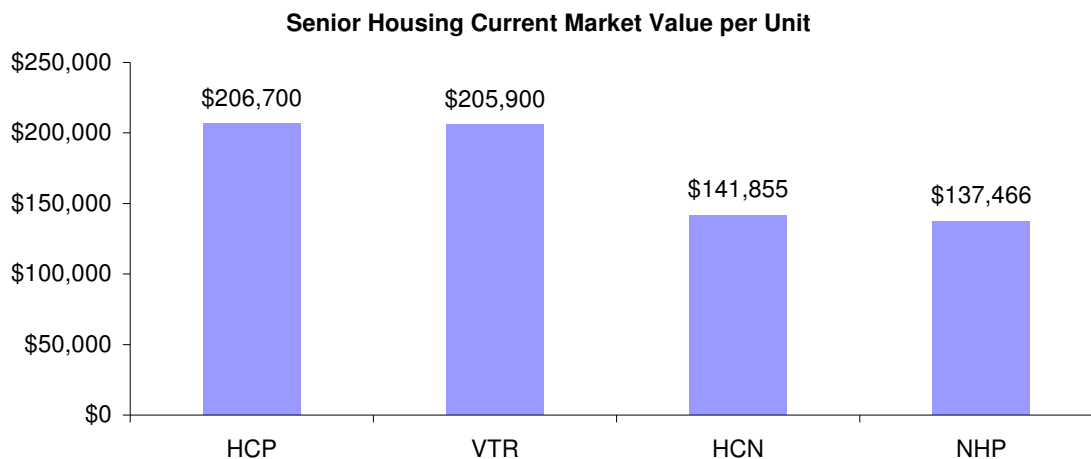
- Identify differences in lease structure and operators.
- Determine the relative impact of differences on cap rates
- Apply to REIT portfolios to determine required adjustment

#### **Step Four - Determine the Weighted Average Cap Rate for Each Portfolio**

---

### **IX. Senior Housing Valuation Summary**

**HCP and VTR's portfolio have similar tenants, similar concentration in the top markets and similar expected NOI per unit. NHP's and HCN's lower per unit values reflect the higher yields they seek serving smaller tenants operating properties in secondary and tertiary markets.**



Source: Public filings and Green Street Estimates.

## X. Company-Specific Commentary

Senior Housing Portfolios	HCP	VTR	NHP <sup>1</sup>	HCN
Market Value of Senior Housing (in \$ millions)	\$4,894	\$5,057	\$2,926	\$2,356
% of NOI	38%	53%	53%	35%
Nominal Cap Rate	6.05%	6.35%	6.75%	6.75%

<sup>1</sup>NHP NOI is pro forma for PMB acquisition.

### VTR: Some Jewels with Impressive Growth Prospects But Expect More Volatility

- Over half of VTR's properties are high-end. The REIT's Sunrise and Brookdale Provident properties are some of the best assets in the business.
- Three-quarters of the portfolio is master leased to premier operators, SRZ and BKD.
- VTR's SRZ assets (36% of VTR's senior housing NOI) offer higher growth, but more volatility than typical triple-net leases. SRZ's same-property revenue growth averaged 6% per year over the past three years. VTR is projecting an estimated 2-6% NOI growth from its stabilized SRZ properties in 2008.
- VTR's portfolio differs geographically from the others with over 50% in the Midwest and Northeast including sizeable chunk near large cities (New York, Chicago, Boston, Washington D.C., and Philadelphia). Less than 20% of properties are in the South and only one property is in Texas. The other health care REITs have nearly half of all properties in the South.
- VTR has exclusive rights to purchase SRZ's Canadian development pipeline and limited rights in the U.S. The REIT expects to acquire 2-5 properties per year (\$40-\$100 million in investment) through this pipeline. SRZ is an experienced developer and its properties are likely to be built and operated successfully.

### HCP: Weighted Toward the Top Markets and Top Operators and Producing Solid Results

- Like VTR. HCP's portfolio is weighted toward the best markets and operators and has been producing solid results. Also like VTR, its tenant's cash flow coverage ratios are lower than those of HCN or NHP.
- Geographically, HCP is in more high barrier, low cap rate markets than other health care REITs. Half of HCP's senior housing properties are in the top 31 MSA's.
- HCP's portfolio can be segmented in three pieces: roughly 50% is operated by SRZ, 20% by BKD, with the balance in the hands of some of the country's top operators such as Aegis, Capital Senior Living, and Erickson Retirement Communities.
- HCP's revenue-sharing arrangement with SRZ offers a means of sharing in the operating upside of the properties it owns.
- HCP has a \$1 billion senior housing JV primarily comprised of ILF units. The REIT would like to expand its investment management platform.

## X. Company-Specific Commentary

Senior Housing Portfolios	HCP	VTR	NHP <sup>1</sup>	HCN
Market Value of Senior Housing (in \$ millions)	\$4,894	\$5,057	\$2,926	\$2,356
% of NOI	38%	53%	53%	35%
Nominal Cap Rate	6.05%	6.35%	6.75%	6.75%

<sup>1</sup>NHP NOI is pro forma for PMB acquisition.

### HCN: An Experienced Manager Partnered with Up-And-Coming Operators in Smaller Markets

- HCN's properties are typically in smaller markets and leased to smaller operators. Nearly half of its portfolio is operated by three larger operators, the other half is operated by 41 different operators with on average about three properties each. Only 20% of properties are in the top 31 MSA's. HCN's strategy is to identify the best, smaller operators to grow with, carefully underwrite each acquisition, and manage the relationship and property performance closely.
- HCN's systematic approach to underwriting and asset management has yielded good results. It has had the most improvement in coverage ratio for its senior housing portfolio of the health care REITs we cover. Cash flow coverage now stands at 1.4x vs. 1.1x average for the other REITs.
- HCN often structures its leases to include a 50/50 real estate appreciation split with the tenant at the end of the lease. This differentiating feature helps HCN secure higher initial yields and keeps the tenant motivated to invest in cap-ex during the lease term. However, it necessitates applying a higher cap rate to its NOI to compensate for the lower residual value.
- HCN's ALF portfolio gets 15% of its revenue from Medicaid, while the other health care REIT ALF investments are virtually all private pay. Medicaid reimbursement rates are generally lower than private pay rates, and HCN faces slightly higher government reimbursement risk with its ALF portfolio.
- HCN is the most active health care REIT developer. Its development pipeline represents 20% of operating assets (vs. 6% for the health care REIT average). Three-quarters of its development pipeline is in senior housing. The REIT's operator-partners assume the lease-up risk by paying full rent from the date of construction completion. The arrangement provides HCN with an attractive pipeline of newly constructed senior housing properties, but the development and tenant credit risks are generally high.

### NHP: Senior Housing Roots Provide a Competitive Edge

- NHP's senior housing portfolio is more heavily concentrated in ALFs and less concentrated in ILFs meaning that the NHP portfolio is more defensive. Since the decision to enter an ALF unit is need driven, they can be less vulnerable to a housing slump and economic swings.
- Like HCN, NHP's portfolio is weighted toward secondary and tertiary markets. Less than 33% of NHP's properties are in the top 31 MSA's.
- The portfolio has the lowest occupancy (86% at 12/31/07) reflecting the relatively low occupancy within a group of recent acquisitions. The low figure offers this management team, with strong senior housing experience, an opportunity to add value. CEO Doug Pasquale and CFO Abdo Khoury formally ran one of the companies that merged to become Atria Senior Living, one of the largest senior housing operators.
- NHP has played a financing role in a couple of management-buyouts, including Hearthstone, who is now the REIT's second largest tenant. A management buyout may mean a less well-capitalized tenant. Hearthstone's estimated EBITDAR coverage is just over 1.0x.
- NHP entered the institutional investment management business with \$0.5 billion invested in a joint venture targeting senior housing and skilled nursing. While initially costly to set-up, the JV pays ongoing asset management fees that boost NHP's value. The fund has another \$0.5 billion of remaining capacity.

## Appendix

**A Primer on Senior Housing and Long-Term Care**

**Senior housing options offer varying levels of assistance from independent living which provides virtually no support to skilled nursing facilities where nearly two-thirds of residents need help with 5-6 daily living activities (eating, transfer, mobility, dressing, bathing and toileting). Although nursing homes comprise the largest number of beds, the percentage of elderly living in nursing homes is falling as lower cost and more "home-like" assisted living facilities win prospective residents. They are excluded from this report because of their high dependence on government reimbursement and weaker growth prospects.**

	Senior Housing			Long-Term Care
	Independent Living Facilities (ILF)	Assisted Living Facilities (ALF)	Continuing Care Retirement Communities (CCRC)	Skilled Nursing Facility (Nursing Home) (SNF)
<b>Target population</b>	Similar to multi-family apartments for seniors who are basically healthy and self-sufficient. Typically have communal dining facilities and smaller in-unit kitchens.	Apartments for seniors who do not have severe medical problems but who need help with personal care such as bathing, dressing, grooming and eating	For seniors who want to remain in one community as they age. Provides independent living, assisted living and nursing home care in one property.	For residents who require skilled nursing and rehabilitation services, but not at the high level of a hospital.
<b>Services Provided</b>	Some meals, weekly housekeeping, transportation to social and recreational activities.	All meals in a communal dining room, housekeeping, transportation as well as some assistance with daily living activities such as eating, bathing, grooming, and administering medication. 24 hour supervision	All the services of ILFs, ALFs and SNFs.	24-hour nursing supervision and significant physical assistance with daily living activities
<b>Median Length of Stay</b>	3 years	2 years	6 years	2 years
<b>Median Units/Beds per Property</b>	124	76	299	115
<b>Median Monthly Revenue per Occupied Unit/Bed</b>	\$2,304	\$3,828	\$3,790	\$6,450
<b>Estimated U.S. Market Size (\$ billions)</b>	\$91	\$69	\$79	\$87
<b>Number of Units/Beds Nationwide</b>	731,932	549,484	635,216	1,730,000
<b>% of Health Care REIT Portfolios</b>	13%	32%	5%	18%

Source: Green Street Advisors, NIC MAP Data and Analysis Service, The State of Seniors Housing 2007, and ASHA.

## Health Care REITs - Comparative Analysis

### PORTFOLIO DATA I

		Number of Properties <sup>1</sup>	Current Value of Real Estate <sup>2</sup>	Concentration of Top 3 Operators	% of NOI from Joint Ventures	Development as a % of Real Estate	Blended Nominal Cap Rate
HCP, INC.	HCP	611	\$11,902,622	40%	6%	4%	6.7%
VENTAS	VTR	524	\$8,397,737	77%	0%	0%	7.2%
HEALTH CARE REIT	HCN	601	\$5,582,095	18%	0%	20%	7.6%
NATIONWIDE HEALTH PROP.	NHP	496	\$4,441,890	34%	3%	0%	7.3%
HEALTHCARE REALTY TRUST	HR	170	\$2,120,752	29%	0%	13%	6.9%
<b>Average:</b>		<b>480</b>	<b>\$6,489,019</b>	<b>40%</b>	<b>1%</b>	<b>6%</b>	<b>7.1%</b>

<sup>1</sup>Property count includes VTR's secured loan portfolio

<sup>2</sup>Current value is based upon Green Street Advisors' most recent NAV estimates and includes share of unconsolidated joint ventures.

<sup>3</sup>As a % of estimated NOI for VTR and NHP. As a % of revenue and direct finance lease income for HCP. As a % of investment for HCN. As a % of estimated revenue for HR.

### PORTFOLIO DATA II

		Estimated NOI Break-Out <sup>1</sup>					
		Senior Housing	Skilled Nursing	Medical Office	Hospitals	Lab Space	Other
HCP, INC.	HCP	39%	5%	23%	15%	18%	
VENTAS	VTR	53%	29%	2%	15%		0%
HEALTH CARE REIT	HCN	38%	37%	19%	7%		
NATIONWIDE HEALTH PROP.	NHP	53%	24%	21%	2%		
HEALTHCARE REALTY TRUST	HR			74%	20%		6%
<b>Weighted Average:</b>		<b>42%</b>	<b>20%</b>	<b>20%</b>	<b>12%</b>	<b>6%</b>	<b>0%</b>

<sup>1</sup>Pro forma for NHP's PMB acquisitions.

## Health Care REITs - Comparative Analysis

### SENIOR HOUSING

		Units	Units/Property	Occupancy	EBITDAR Coverage	Nominal Cap Rate	Implied Value Per Unit
HCP, INC. <sup>12</sup>	HCP	22,495	106	90.8%	1.1X	6.1%	\$206,700
VENTAS <sup>3</sup>	VTR	24,450	95	90.1%	1.1X	6.4%	\$205,900
HEALTH CARE REIT	HCN	20,259	76	90.5%	1.3X	6.8%	\$141,855
NATIONWIDE HEALTH PROP. <sup>1 2 3</sup>	NHP	21,289	79	86.4%	1.1X	6.8%	\$137,466
<b>Average:</b>		<b>22,123</b>	<b>89</b>	<b>89.4%</b>	<b>1.16X</b>	<b>6.5%</b>	<b>\$172,980</b>

### SKILLED NURSING

		Beds	Avg. Age (Years)	Occupancy	EBITDAR Coverage	Nominal Cap Rate	Implied Value Per Bed
HCP, INC.	HCP	6,995	22	86.2%	1.5X	8.7%	\$65,200
VENTAS <sup>3</sup>	VTR	24,577	38	88.0%	1.4X	8.2%	\$84,900
HEALTH CARE REIT	HCN	30,647	30	85.0%	1.7X	8.7%	\$59,500
NATIONWIDE HEALTH PROP. <sup>1 2 3</sup>	NHP	18,190	28	83.8%	1.3X	8.8%	\$56,500
<b>Average:</b>		<b>20,102</b>	<b>30</b>	<b>85.8%</b>	<b>1.4X</b>	<b>8.6%</b>	<b>\$66,525</b>

### MEDICAL OFFICE

		Sq. Ft.	Sq. Ft./Property	Occupancy	Avg. Age (Years)	Nom. Cap Rate	Implied Value Per Sq. Ft.
HCP, INC. <sup>1</sup>	HCP	13,912,000	67,863	90.3%	16	6.5%	\$194
VENTAS	VTR	1,023,061	53,845	96.0%	14	6.5%	\$200
HEALTH CARE REIT	HCN	5,032,333	41,590	90.0%	13	7.2%	\$243
NATIONWIDE HEALTH PROP.	NHP	2,427,748	42,592	91.0%	15	6.9%	\$200
HEALTHCARE REALTY TRUST <sup>4</sup>	HR	8,964,305	54,996	91.0%	N/A	6.5%	\$196
<b>Average:</b>		<b>6,271,889</b>	<b>52,177</b>	<b>91.7%</b>	<b>15</b>	<b>6.7%</b>	<b>\$207</b>

### HOSPITALS

		Type of Hospitals	Beds	Occupancy	EBITDAR Coverage	Nominal Cap Rate	Implied Value Per Bed
HCP, INC.	HCP	Acute, LTAC, Rehab	4,344	55.4%	2.4X	9.2%	\$294,300
VENTAS <sup>3</sup>	VTR	LTACs	3,844	58.0%	2.5X	9.0%	\$261,200
HEALTH CARE REIT	HCN	LTAC, Specialty	1,541	56.0%	2.2X	8.7%	\$220,600
NATIONWIDE HEALTH PROP. <sup>23</sup>	NHP	Rehab, LTAC	303	73.4%	1.9X	8.7%	\$301,300
HEALTHCARE REALTY TRUST	HR	Rehab	757	60.0%	2.9X	8.5%	\$419,152
<b>Average:</b>			<b>2,158</b>	<b>60.6%</b>	<b>2.4X</b>	<b>8.8%</b>	<b>\$299,310</b>

### LIFE SCIENCES

		Square Feet	Square Feet/Property	Occupancy	Nominal Cap Rate	Implied Value Per Square Foot
HCP, INC.	HCP	6,021,000	62,072	82.4%	6.5%	\$375

<sup>1</sup>Owned property only. Does not include share of joint venture assets.

<sup>2</sup>For entire portfolio. HCP and NHP provide same store portfolio statistics as well. NHP's same-property ALF & ILF occupancy is 88% and EBITDAR coverage is 1.2x. HCP's same-property occupancy is 91.8% for senior housing, 93.2% for MOBs and 56% for hospitals.

<sup>3</sup>VTR and NHP provide EBITDARM coverage. Management fees estimated.

<sup>4</sup>HR reported 91% occupancy for its total portfolio including inpatient rehabilitation hospitals and 2.8-3.0x coverage on its hospitals as of 4Q07.

## Health Care REITs - Comparative Analysis

### FINANCIAL RATIOS

		Overhead <sup>1</sup>	Leverage	Variable Rate Debt	Diluted Shares Outstanding	Equity Market Cap. <sup>2</sup>	Implied Cap Rate
HCP, INC.	<b>HCP</b>	0.48%	55%	19%	228,189	\$6,766	6.6%
VENTAS	<b>VTR</b>	0.42%	38%	4%	138,566	\$6,003	6.6%
HEALTH CARE REIT	<b>HCN</b>	0.57%	45%	2%	90,750	\$3,859	7.3%
NATIONWIDE HEALTH PROP.	<b>NHP</b>	0.52%	37%	2%	100,027	\$3,190	7.1%
HEALTHCARE REALTY TRUST	<b>HR</b>	0.89%	40%	6%	50,691	\$1,246	7.4%
<b>Simple Average:</b>		0.58%	43%	7%	121,645	\$4,213	7.0%

<sup>1</sup>Overhead, leverage and variable rate debt are calculated as a percent of current value of assets.

<sup>2</sup>Equity market cap and implied cap rate as of 3/11/08.

### PERFORMANCE

### PRICING (As of 3/11/2008)

		'07 FFO	'08E FFO	'09E FFO	'07 AFFO	'08E AFFO	'09E AFFO	09 vs. '08 Growth in AFFO	Share Price	Annual Dividend	'08 AFFO Yld	'08 AFFO /Dividend	Estimated NAV/sh	Warranted Premium	Warranted Share Price	Prem/(Disc) v Warr Price
HCP, INC.	<b>HCP</b>	\$2.14	\$2.35	\$2.46	\$1.75	\$1.95	\$2.06	5.6%	\$29.65	\$1.82	6.6%	107%	\$29.00	5.5%	\$30.60	-3.1%
VENTAS	<b>VTR</b>	\$2.69	\$2.83	\$3.04	\$2.53	\$2.68	\$2.84	6.0%	\$43.32	\$2.05	6.2%	131%	\$38.00	18.6%	\$45.06	-3.9%
HEALTH CARE REIT	<b>HCN</b>	\$3.12	\$3.32	\$3.51	\$2.81	\$2.98	\$3.19	7.0%	\$42.52	\$2.72	7.0%	110%	\$40.25	2.1%	\$41.11	3.4%
NATIONWIDE HEALTH PROP.	<b>NHP</b>	\$2.08	\$2.22	\$2.30	\$2.02	\$2.09	\$2.17	3.8%	\$31.89	\$1.76	6.6%	119%	\$30.50	7.1%	\$32.66	-2.4%
HEALTHCARE REALTY TRUST	<b>HR</b>	\$1.51	\$1.55	\$1.63	\$1.25	\$1.30	\$1.35	3.8%	\$24.59	\$1.54	5.3%	84%	\$27.50	-15.7%	\$23.19	6.0%
<b>Weighted Average:</b>								5.6%			6.5%	115%				

**Note: Company Snapshots Removed from sample report.**

**Please see website for sample snapshot.**

## Green Street's Disclosure Information

Conflicts of interest can seriously impinge the ability of analysts to do their job, and investors should demand unbiased research. In that spirit, Green Street adheres to the following policies regarding conflicts of interest:

- Our employees are prohibited from owning the shares of any company in our coverage universe.
- Our trading desk does not commit capital or make markets in any securities.
- Our employees do not serve as officers or directors of any company in our coverage universe.
- Companies that we cover do not, in any manner, compensate us for inclusion in our coverage universe.
- A number of companies we cover pay us an annual fee to receive our core research product. We do not solicit this business and, in aggregate, it represents less than 3% of our revenue.
- We do not directly engage in investment banking, underwriting or advisory work with any of the companies in our coverage universe. However, the following are related potential conflicts that should be considered:
  - ♦ GSA is affiliated with Eastdil Secured, a real estate brokerage and investment bank that sometimes engages in investment banking work with companies in GSA's coverage universe. Green Street does not control, have ownership in, or make any business or investment decisions for, Eastdil Secured.
  - ♦ GSA has an advisory practice servicing investors seeking to acquire interests in publicly-traded companies. GSA may provide services to prospective acquirers of companies which are the subject(s) of GSA's research reports. GSA may receive fees that are contingent upon the successful completion of a transaction or other fees for its work on behalf of prospective acquirers.
- GSA publishes research reports covering issuers that may offer and sell securities in an initial or secondary offering. Broker-dealers involved with selling the issuer's securities or their affiliates may pay compensation to GSA upon their own initiative, or at the request of GSA clients in the form of "soft dollars," for receiving research reports published by GSA.
- An affiliate of Green Street Advisors is the investment manager of an equity securities portfolio on behalf of a single client. The portfolio contains securities of issuers covered by Green Street's research department. The affiliate is located in a separate office, employs an investment strategy based on Green Street's published research, and does not trade with Green Street's trading desk.

While minimization of potential conflicts will remain a very important priority for us, we reserve the right to change any of these policies at any time. We encourage a careful comparison of these policies with those of other research providers, and welcome the opportunity to discuss them.

Investment advice proves to be wrong about as often as it is right. While we strive to do better than this, our recommendations will include bad calls and we are certain to make other mistakes as well. This document may well contain errors of fact. We have done our best to utilize data that we believe to be reliable, but no assumption should be made that the data has been verified, or is accurate and complete. This report should not be considered to represent an offer to buy or sell the securities discussed herein, and all opinions are subject to change without notice.

Green Street Advisors is an accredited member of the Investorside<sup>SM</sup> Research Association, whose mission is to increase investor and pensioner trust in the U.S. capital markets system through the promotion and use of investment research that is financially aligned with investor interests.



**Analyst Certification:** I, Jim Sullivan, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject companies or securities. I also certify that my specific recommendation(s) or view(s) in this report are in no way, directly or indirectly, influenced by the source or the structure of my compensation.

I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

This report is a property-sector review and does not contain the amount of in-depth company-specific analysis sufficient to make informed investment decisions about one specific issuer discussed in this report. For a more thorough analysis, please review this report in conjunction with GSA's company-specific research.

### Terms of Use:

This report is the proprietary and confidential information of Green Street Advisors, Inc., and is protected by copyright. This report is not sold, but is licensed for personal, limited, non-transferable use as follows: You may use this report solely for reference for internal business purposes. You may not use this report for any other purpose. You may not reproduce, distribute, sell, lend, license or otherwise transfer or provide this report or a copy of it or any of its contents for any purpose. You may not disclose this report or any of its contents to any person except to fellow employees working at your work location. Except for the rights expressly granted to you above, all rights with respect to this report are reserved by Green Street Advisors, Inc.

### United Kingdom Recipients: For use only by Investment Professionals

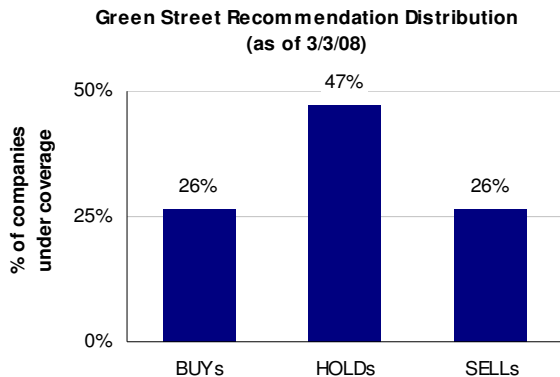
The following provisions apply to the extent that this report is provided to recipients in the United Kingdom.

Green Street is not authorised or regulated by the Financial Services Authority of the United Kingdom. Where issuing this report to recipients in the United Kingdom, Green Street is an "overseas person" for the purpose of Article 72(5) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. This report is provided in the United Kingdom only for the use of the addressees and is intended for use only by a person or entity that qualifies as an authorised person or exempt person within the meaning of section 19 of the Financial Services and Markets Act 2000 ("FSMA") or that qualifies as a person to whom the financial promotion restrictions imposed by the FSMA do not apply by virtue of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

Consequently, this report is intended for use only by persons having professional experience in matters relating to investments. This report is not intended for use by any other person. In particular, this report is not intended for use by "retail clients" in the United Kingdom, as defined by the rules of the Financial Services Authority. Any such person who receives this report should not act on the contents of this report.

Green Street reviews all investment recommendations on at least a monthly basis.

At any given time, Green Street publishes roughly the same number of "BUY" recommendations that it does "SELL" recommendations.



Green Street's "BUYs" have historically achieved far higher total returns than its "HOLDs", which, in turn, have outperformed its "SELLs".<sup>1, 2</sup>

### Total Return of Green Street's Recommendations

Year	Buy	Hold	Sell	NAREIT Eqty <sup>4</sup>
2008 YTD <sup>3</sup>	0.8%	-1.6%	-0.5%	-4.5%
2007	-6.5%	-22.3%	-27.6%	-15.7%
2006	45.4%	29.9%	18.4%	35.1%
2005	26.3%	18.3%	-1.9%	12.2%
2004	42.3%	28.4%	15.6%	31.6%
2003	42.7%	37.2%	20.9%	37.1%
2002	17.7%	2.6%	1.9%	3.8%
2001	35.7%	19.1%	11.9%	13.9%
2000	53.6%	29.3%	4.4%	26.4%
1999	14.2%	-9.2%	-20.2%	-4.6%
1998	-0.6%	-15.1%	-16.4%	-17.5%
1997	37.1%	14.2%	5.8%	20.3%
1996	47.3%	30.2%	17.5%	35.3%
1995	23.6%	14.3%	-0.4%	15.3%
1994	20.5%	-0.7%	-9.3%	3.2%
1993 <sup>3</sup>	29.4%	5.4%	6.7%	12.4%
<b>Total Return<sup>3</sup></b>	<b>3703.9%</b>	<b>347.9%</b>	<b>11.0%</b>	<b>462.7%</b>
<b>Annualized</b>	<b>27.3%</b>	<b>10.5%</b>	<b>0.7%</b>	<b>12.1%</b>

1) Historical results through January 3, 2005 were independently verified by Ernst & Young, LLP. E&Y did not verify stated results subsequent to January 3, 2005. Past performance results cannot be used to predict future performance. For a complete explanation of study, see 5/9/03 report "How are We Doing?".  
 2) Company inclusion in the calculation of total return has been based on whether the companies were listed in the primary exhibit of Green Street's "Real Estate Securities Monthly", pg. 13-16. Beginning with May 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, are not included in the primary exhibit and therefore not included in the calculation of total return. Beginning with March 2003, all Hotel companies are excluded.  
 3) Study uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 29, 1993 through March 3, 2008.  
 4) Not directly comparable to Green Street's performance indices because NAREIT includes more companies and uses market-cap weightings. Green Street's returns are equally-weighted averages.