

3760 KILROY AIRPORT WAY, SUITE 300
LONG BEACH, CA 90806
www.hcpi.com

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KENNETH B. ROATH
CHAIRMAN OF THE BOARD
HEALTH CARE PROPERTY INVESTORS, INC.

MARY A. CIRILLO
FORMER CHAIRMAN AND CHIEF EXECUTIVE
OFFICER, OPCENTER
COMPENSATION COMMITTEE AND NOMINATING
AND CORPORATE GOVERNANCE COMMITTEE

ROBERT R. FANNING JR.
CHIEF OPERATING OFFICER, SAINT VINCENT
CATHOLIC MEDICAL CENTERS OF NEW YORK
AUDIT COMMITTEE

JAMES F. FLAHERTY III
PRESIDENT AND CHIEF EXECUTIVE OFFICER
HEALTH CARE PROPERTY INVESTORS, INC.

DAVID B. HENRY
VICE CHAIRMAN AND CHIEF INVESTMENT
OFFICER, KIMCO REALTY CORPORATION
AUDIT COMMITTEE AND NOMINATING
AND CORPORATE GOVERNANCE COMMITTEE

MICHAEL D. MCKEE
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THE IRVINE COMPANY
COMPENSATION COMMITTEE

Senior Officers

KENNETH B. ROATH
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EXECUTIVE VICE PRESIDENT
MEDICAL OFFICE PROPERTIES

PAUL GALLAGHER
EXECUTIVE VICE PRESIDENT
PORTFOLIO STRATEGY

EDWARD J. HENNING
SENIOR VICE PRESIDENT
GENERAL COUNSEL AND CORPORATE SECRETARY

HCP STOCKHOLDER INFORMATION

Copies of the Company's 10-K report to the Securities and Exchange Commission are available upon request to the Corporate Secretary of Health Care Property Investors, Inc.

HAROLD M. MESSMER, JR.
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
ROBERT HALF INTERNATIONAL INC.
COMPENSATION COMMITTEE AND NOMINATING
AND CORPORATE GOVERNANCE COMMITTEE

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LEAD DIRECTOR
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JOSEPH P. SULLIVAN
FORMER CHAIRMAN
AND CHIEF EXECUTIVE OFFICER
PROTOCOLARE, INC.
AUDIT COMMITTEE

THOMAS M. KLARITCH
SENIOR VICE PRESIDENT
MEDICAL OFFICE PROPERTIES

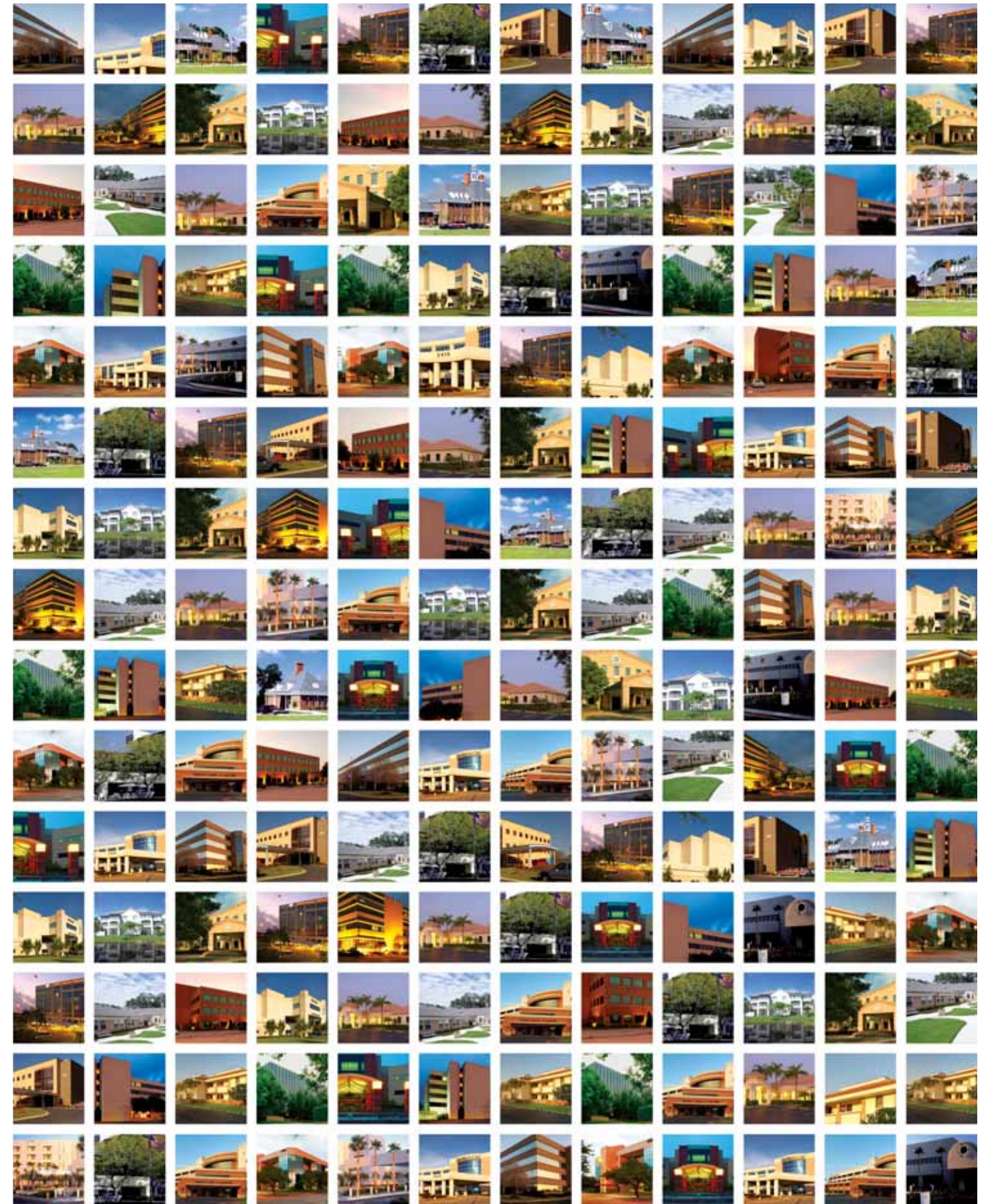
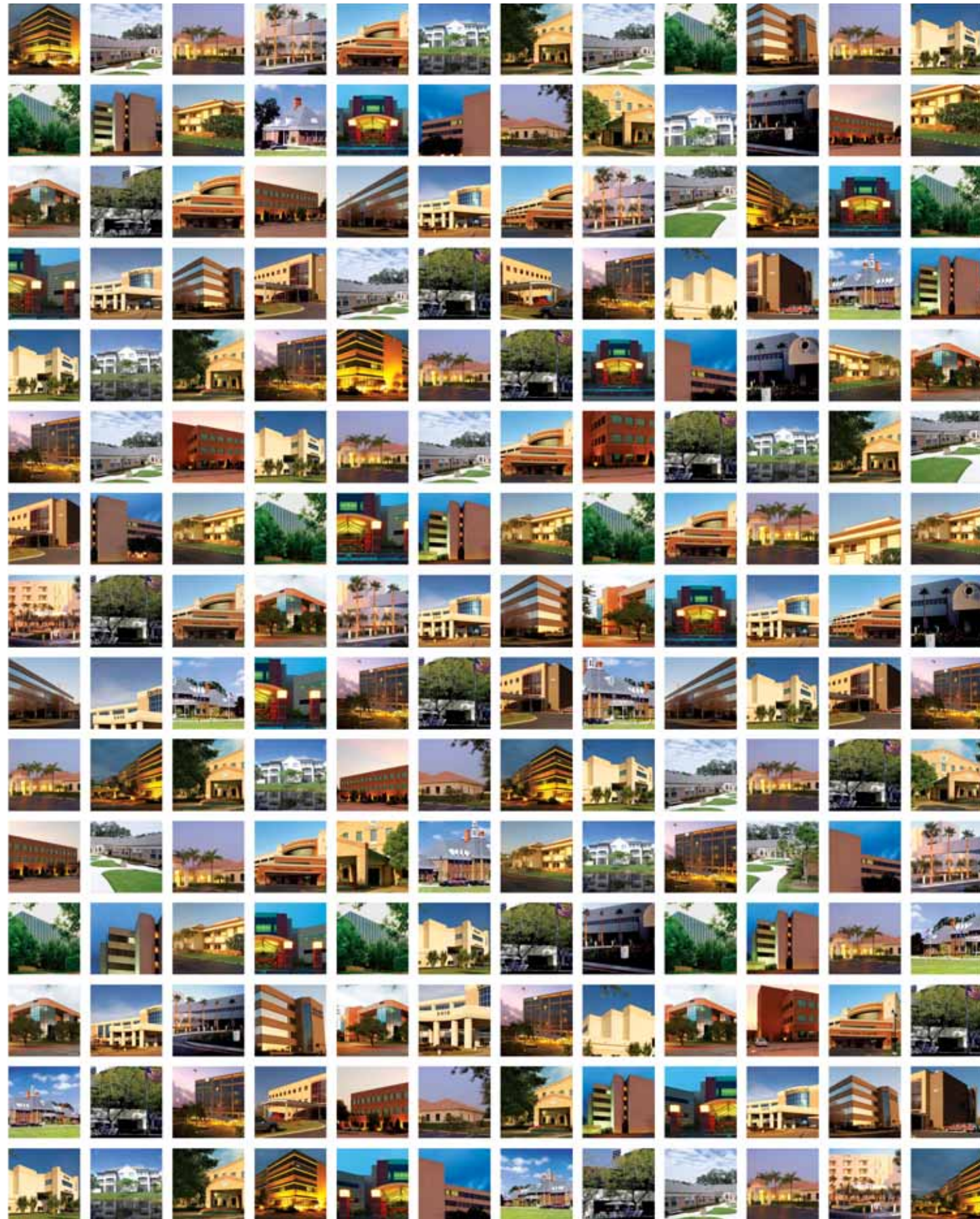
STEPHEN R. MAULBETSCH
SENIOR VICE PRESIDENT
ACQUISITIONS AND DISPOSITIONS

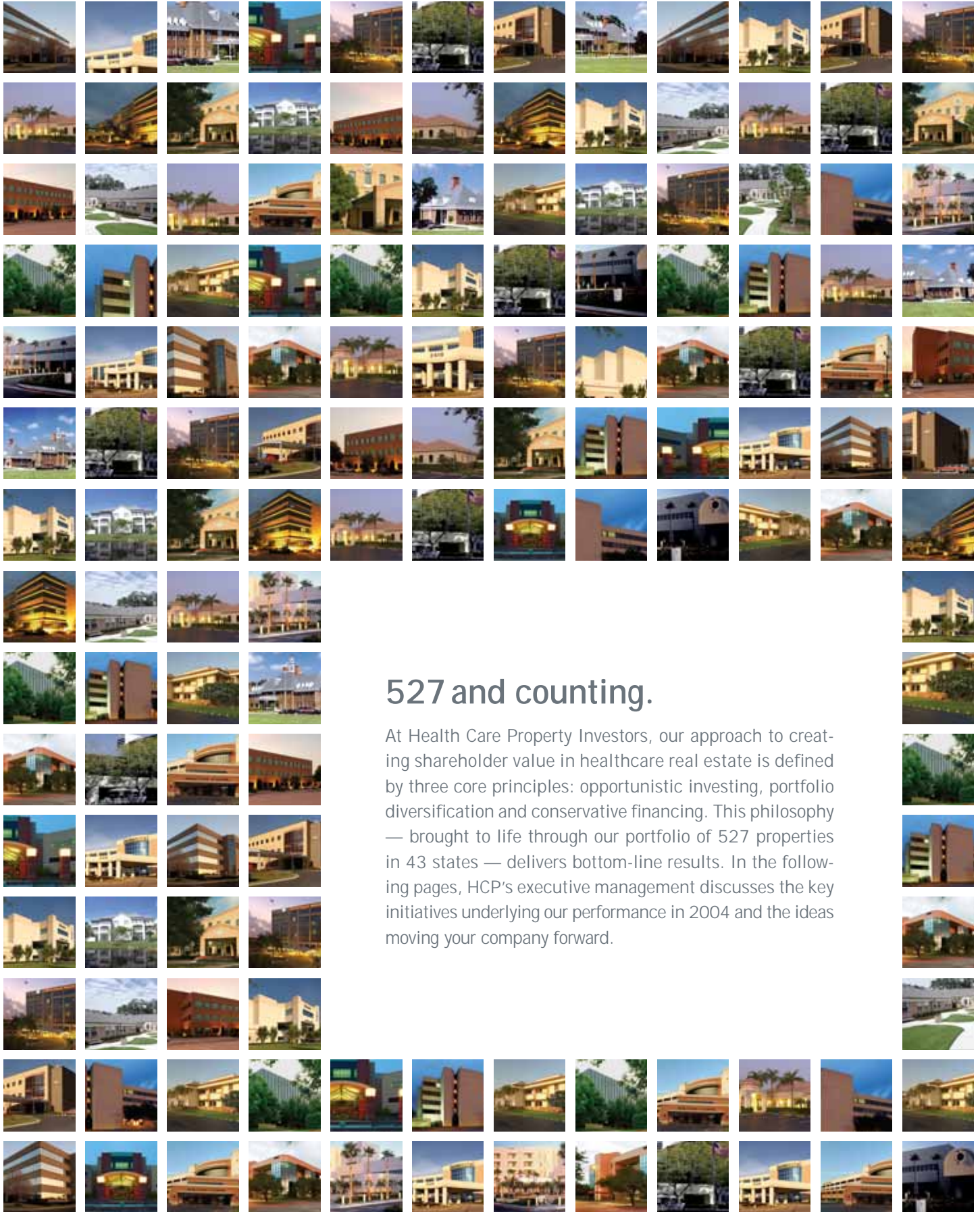
TALYA NEVO-HACOHEN
SENIOR VICE PRESIDENT
STRATEGIC DEVELOPMENT AND TREASURER

MARK A. WALLACE
SENIOR VICE PRESIDENT
CHIEF FINANCIAL OFFICER



How many reasons are there to
invest in healthcare real estate?





527 and counting.

At Health Care Property Investors, our approach to creating shareholder value in healthcare real estate is defined by three core principles: opportunistic investing, portfolio diversification and conservative financing. This philosophy — brought to life through our portfolio of 527 properties in 43 states — delivers bottom-line results. In the following pages, HCP's executive management discusses the key initiatives underlying our performance in 2004 and the ideas moving your company forward.

Twenty years at a glance

(dollars in thousands)	1985*	2004
TOTAL ASSETS	\$163,593	\$3,102,634
TOTAL DEBT	\$ 49,909	\$1,486,206
TOTAL MARKET CAPITALIZATION	\$151,160	\$5,629,649
REVENUES	\$ 10,000	\$ 428,684
CUMULATIVE DIVIDENDS DISTRIBUTED**	\$ 3,541	\$1,739,859
PROPERTY PORTFOLIO		
SKILLED NURSING	38	171
HOSPITAL	4	29
MEDICAL OFFICE	-	184
ASSISTED LIVING & CCRC	-	119
OTHER HEALTHCARE	-	24
TOTAL	42	527
NUMBER OF STATES	16	43
*NOT RESTATED FOR DISCONTINUED OPERATIONS		
**INCLUDES PREFERRED STOCK DIVIDENDS		

“It is our goal to continue to maintain a high standard of performance through the acquisition of additional quality healthcare-related facilities that will provide secure cash flow and a sound basis for future growth in shareholder dividend distributions.”

KENNETH B. ROATH
HCP Founder
March 1986

Dear fellow shareholders,

Ken Roath made the above statement in his initial letter to shareholders as part of Health Care Property Investors' 1985 Annual Report. Two decades later, on the occasion of HCP's twentieth anniversary as a publicly traded company, we continue to embrace this vision. I believe it is fitting to reflect upon the transformation of your Company over this time frame.

This table provides a snapshot of HCP's growth over the past 20 years. Lost in this comparison are the hundreds of tough decisions relating to property acquisitions and dispositions, debt and equity financings, strategic mergers, dividend policy and property diversification that took place during a period of time that saw the introduction of diagnostic related groups (DRGs) to the healthcare industry in the late 1980s, illiquidity in the capital markets — particularly during the fall of 1991 and fall of 1998 — two major recessions, the stock market crash of 1987, the “dot-com era” of 1999–2001 and the growing acceptance of real estate investment trusts on the part of individual and institutional investors both here and abroad. Today at HCP, the legacy that has been created during our Company's first 20 years serves as a constant reminder of the high standards we hold ourselves to and the significant expectations for success that we have for coming decades.

The current operating environment presents business challenges which include (1) the prospect of rising interest rates, (2) unprecedented state and federal budget deficits which are likely to dampen government reimbursement to the Medicare and Medicaid programs in the years to come, (3) a healthcare system in the United States, which currently represents 15.3% of gross domestic product (GDP) and is projected to increase to 17.7% of GDP by 2012 according to the Centers for Medicare & Medicaid Services — a level we believe to be unsustainable and (4) an in-

vestment market for healthcare real estate with unprecedented high valuations driven in part by the emergence of new, well-capitalized entrants into the healthcare real estate marketplace.

The apparent disconnect between the historically high level of valuations for all types of healthcare real estate in the face of the present government deficits and looming healthcare crisis in the U.S. makes decisions on property acquisitions and dispositions especially important. In 2004 HCP made \$438 million of investments and sold \$170 million of properties for \$268 million of net investments, a level that was down from the \$360 million of net investments made in 2003. In addition, following a "bottoms-up" property review of our portfolio, the Company recognized \$17 million in impairment charges against certain properties. In an uncertain investing environment like the one in which we presently find ourselves, it is reassuring to be able to constantly rely upon our three-pronged investment triangle of opportunistic investing, portfolio diversification and conservative financing.

"We should remember that good fortune often comes when opportunity meets with preparation." THOMAS EDISON

What will drive HCP's continued success and what specific actions have HCP's board of directors and management team taken to position the Company for the next period of growth? Two of the more significant initiatives undertaken during 2004 were the reworking of the Company's corporate governance standards and the completion of HCP's senior management team. During 2004, HCP declassified the board of directors — allowing for the annual election of all directors — and eliminated the Company's shareholder rights plan. The addition of three new board members — Mary Cirillo, Dave Henry and Joe Sullivan — resulted in an outside board of directors composed of eight committed individuals, each of whom brings specific skills and experiences to the board and

their respective committees. The March 2004 addition of Senior Vice President and Chief Financial Officer Mark Wallace completed a retooling of the Company's management team that similarly added a strong and complementary collection of skills and abilities to serve the Company in the years ahead. With the leadership of HCP's board of directors and management team in place, the Company undertook a number of significant initiatives during 2004. These included:

- creation of an asset management group
- decision to accelerate the refinancing of our revolving line-of-credit
- major upgrade of the Company's information technology platform
- conversion of two significant short-term mezzanine loans into long-term sale/leaseback investments
- achievement of internal controls over financial reporting as required by the Sarbanes-Oxley Act of 2002

HCP's shareholders will benefit from the programs put in place during 2004 by this talented group of individuals. Rather than have me relate the importance of these decisions in this letter, I invite you to learn more of these actions directly from HCP's senior management team in the pages that follow.

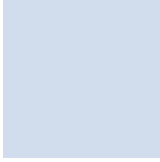
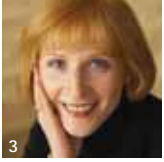
We wish to express our sincere thanks and appreciation to Paul V. Colony who resigned from the board of directors in May 2004. Paul joined our board of directors in 1987 and was generous in making available his time, advice and counsel to the Company during his 17-year tenure as a board member.

Thank you for your interest in Health Care Property Investors,

James F. Flaherty III
Chief Executive Officer
April 2005



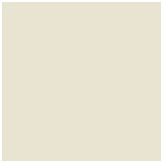
On March 20, 2004, HCP lost a dear friend and trusted advisor, Orville E. Melby. In 1985, "Orv" was named one of the original board members of HCP. Orv had a remarkably successful career as an executive at The Boeing Company and Rainier National Bank. Orv also served as a board member for the Hillhaven Corporation. When I accepted my job at HCP in late 2002, Orv took me aside and told me, "A lot of people depend on that dividend — protect it!" I will not forget those words. Our thoughts continue to be with Orv's wonderful wife, Arvilla, and their family. —JFF



3 TALYA NEVO-HACOHEN
*SENIOR VICE PRESIDENT
STRATEGIC DEVELOPMENT AND TREASURER*

4 IRVINE REGIONAL HOSPITAL
IRVINE, CALIFORNIA

5 ED HENNING
*SENIOR VICE PRESIDENT
GENERAL COUNSEL*



How does HCP's capital structure support its investment philosophy?

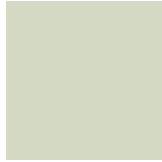
Talya Nevo-Hacohen: An opportunistic investment philosophy requires us to be prepared to move quickly at all times. For us, financial agility means having access to multiple sources of low-cost capital and maintaining a balance sheet that can facilitate potentially large transactions. The cost of that capital is affected by our credit rating, which is Baa2 from Moody's and BBB+ from Fitch and Standard & Poor's. These are among the highest ratings for all publicly traded domestic real estate investment trusts (REITs) and reflect an investment grade balance sheet that is conservative in its capitalization.

Our credit ratings lower the cost of our capital, including short-term borrowings, and help ensure that our access to capital will support our acquisition goals. We refinanced our revolving line of credit in 2004 to take advantage of a strong bank loan market. With financial institutions eager for funded assets,

we were able to accomplish several objectives: better align our banking relationships, adjust our covenants to reflect current standards and, most importantly, improve pricing. The terms of our revolving line of credit are significantly more flexible and cost-effective than our previous facility and will allow us to continue implementing our investment philosophy by providing real-time access to well-priced capital.

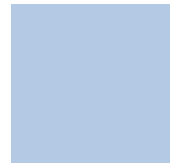
What changes did HCP make to its corporate governance practices during 2004?

Ed Henning: We made three important changes to our corporate governance practices that align HCP and its management team with the interests of shareholders. First, in January 2004, the board amended the HCP shareholder rights plan — also known as a “poison pill” — so that the rights expired in February 2004 (rather than the scheduled expiration in 2010). Second, in May 2004, the shareholders approved an amendment to the Company's articles of incorporation “declassifying” the board of directors. Before the amendment, HCP's board was divided into three classes with members of each class elected for three-year terms. Now, shareholders elect every director annually. Finally, in October 2004, the board selected Richard Rosenberg, an independent member of the board and past Chairman and Chief Executive Officer (CEO) of Bank of America, to be Lead Director and act as a liaison between the independent directors and the Chairman and CEO of HCP. All of these changes are important steps in our ongoing goal of increasing HCP's accountability and transparency to shareholders.



1 EMERALD HILLS
AUBURN, CALIFORNIA

2 PAUL GALLAGHER
EXECUTIVE VICE PRESIDENT
PORTFOLIO STRATEGY



What is HCP's investment philosophy?

Paul Gallagher: Our investment philosophy is best described by our "Investment Triangle." The three points of the triangle are opportunistic investing, portfolio diversification and conservative financing. All three of these concepts are intrinsically connected. Investing opportunistically means taking advantage of new possibilities that exist within our current portfolio of properties and relationships, as well as with new operators and partners — without "following the herd." These opportunistic investments are well underwritten and result in above-average returns. Through diversification, we proactively manage our exposure to risk by investing capital in multiple healthcare sectors — hospitals, medical office buildings, skilled nursing facilities and senior housing — in different markets throughout the U.S. We also focus on diversification within our investment structures by using customized financing solutions for each transaction. By being conservative in how we capitalize our investments, we maintain a strong balance sheet that allows us to execute on those

diversified, opportunistic investments. The strength of our balance sheet also gives us the wherewithal we need to remain competitive in the marketplace, providing the speed and agility to respond to opportunities quickly and the capacity to take on large transactions. As a result, we can use our expertise to allocate HCP's capital across a wide and constantly changing spectrum of opportunities in the healthcare industry while achieving attractive risk-adjusted returns. By utilizing our Investment Triangle approach, HCP is better positioned to deliver long-term, consistent, profitable growth to our shareholders.

OUR MISSION

Led by interdisciplinary teams of industry experts, HCP creates value for its shareholders through customized healthcare real estate solutions that deliver win-win results for the Company and its partners and customers. The Company owns properties across multiple sectors, geographic locations and operators, effectively protecting HCP against risks associated with any individual property, location or tenant. HCP's conservative balance sheet contributes to the Company's strong financial health and also provides the flexibility to invest wherever and whenever opportunities emerge.



1 CHUCK ELCAN
*EXECUTIVE VICE PRESIDENT
MEDICAL OFFICE PROPERTIES*

2 STEVE MAULBETSCH
*SENIOR VICE PRESIDENT
ACQUISITIONS AND DISPOSITIONS*



What is the significance of HCP's focus on the medical office building sector?

Chuck Elcan: HCP creates long-term shareholder value in the medical office sector by acquiring high-quality, reasonably priced assets that are located on the campuses of leading acute care hospitals in their market. In these situations, the hospital is typically the owner of the medical office building assets. By divesting of these assets, hospitals are able to refocus their attention on the business of delivering healthcare services and redeploy the capital into new patient wings, medical equipment, technology and other improvements.

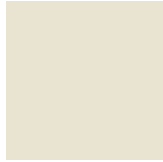
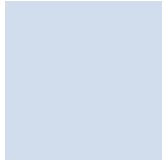
HCP has a strong track record in operating medical office buildings. We have a history of building solid tenant relationships, working in conjunction with hospital administrators, maintaining properties at the highest standards and undertaking capital improvements to increase tenant satisfaction. All of these activities serve to enhance and grow the value of our real estate. Hospitals are experts in providing healthcare while we are experts in managing healthcare real estate. For this reason, our customers recognize the value of a strategic relationship with HCP.

A prime example of our participation in the sector is our recent acquisition of a portfolio of medical office buildings from Swedish Medical Center, the leading not-for-profit hospital system in the Seattle metropolitan area. The transaction, which includes more than 481,000 square feet of rentable area and 2,000 structured parking spaces, is expected to provide steady growth in property operating income. Swedish occupies nearly 100,000 square feet, and the physician tenants demonstrate a history of dedication to the hospital through high renewal rates and expansion of their practices within these medical office buildings. HCP is well positioned to serve as Swedish Medical Center's medical office building partner of choice in the future and to deliver consistent, long-term value to HCP shareholders.

How does HCP identify opportunistic investments?

Steve Maulbetsch: Since we focus exclusively on the healthcare industry, one of HCP's core strengths is understanding the unique challenges that our customers face and then providing a tailored solution to fit their needs. A good example of this was the series of transactions we completed with American Retirement Corporation (ARC) beginning in 2002. ARC had built a number of assisted living facilities and needed to refinance many of the construction loans on these properties while they were still in the "fill-up stage." Because of significant cash requirements and the approaching maturity of \$125 million of unsecured debt, ARC was considering a cash infusion from a private equity source, which would have resulted in substantial dilution to ARC's shareholders.

Instead, HCP provided a creative solution. To repay the unsecured debt, HCP issued a high-yield, short-term mezzanine loan secured by ARC's high-quality continuing care retirement community (CCRC) assets. We also took



3 MARK WALLACE
 SENIOR VICE PRESIDENT
 CHIEF FINANCIAL OFFICER

4 PHYSICIANS PARK
 NASHVILLE, TENNESSEE



How does HCP protect shareholders from risks?

Mark Wallace: Risk can be broadly categorized into four key areas: strategic, operational, reporting and compliance. Recently, there has been a substantial focus on risks associated with integrity in financial reporting. The Sarbanes-Oxley Act of 2002 requires that we evaluate and report on our internal controls over financial reporting this year and that our independent public accountants express their views as well. We invested considerable resources during 2004 to enhance our internal controls, including the establishment of an internal audit function, implementation of a new information system and adoption of the internal control framework developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. All of these activities are under the oversight of our Audit Committee and an internal management Disclosure Committee.

However, financial reporting risk is just one piece of a much larger puzzle. Enterprise Risk Management (ERM) is a risk management framework covering all four key areas that is receiving renewed attention. Generally, ERM

focuses on optimizing and integrating the assessment, evaluation and management of both financial and business risks across the company — all in the context of a company's risk appetite, tolerance and the interplay of complex relationships. ERM takes a portfolio view of risks. For example, investment risk is initially addressed at HCP in the underwriting process through portfolio strategy, transaction structure, collateral and other due diligence. This is complemented with insurance, financing and reporting decisions and controls. An example would be our strategy of maintaining a conservative balance sheet to give us the flexibility to commit to opportunistic transactions. Risk management is an important area of management focus and continues to evolve.

a small equity position in those assets because we believe that ARC is an experienced and proficient operator. Following these transactions, ARC was able to substantially increase the occupancy rates at these properties and, subsequently, repay the mezzanine loan early through a sale and leaseback transaction with HCP on these CCRC assets. The result was a win-win transaction for both companies. We now own some of the best assets in the CCRC industry and ARC's stock price has improved dramatically, moving from \$3 per share when these transactions were initiated to more than \$13 per share in recent months.

Selected financial information

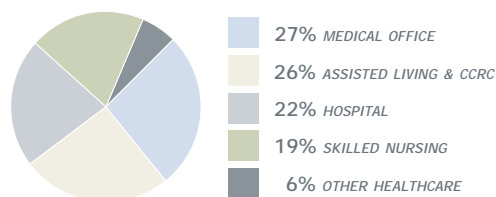
(dollars in thousands except per share data)	2004	2003	2002	2001	2000
TOTAL ASSETS	3,102,634	3,035,957	2,748,417	2,431,153	2,394,852
TOTAL REVENUE	428,684	376,304	325,787	292,646	287,973
DIVIDENDS PAID PER COMMON SHARE	1.67	1.66	1.63	1.55	1.47

COMPANY PROFILE

Health Care Property Investors is a self-administered real estate investment trust (REIT) that invests directly or through joint ventures in healthcare facilities and is headquartered in Long Beach, California, with operations in Nashville, Tennessee. The Company's portfolio of properties includes interests in 527 properties in 43 states and consists of hospitals, skilled nursing facilities, assisted living and continuing care retirement communities, medical office buildings and other healthcare facilities. With a total market capitalization of \$5.6 billion (see chart at lower right), HCP is the largest publicly traded healthcare REIT (NYSE:HCP) and has achieved an 18% compound rate of return over the last two decades.

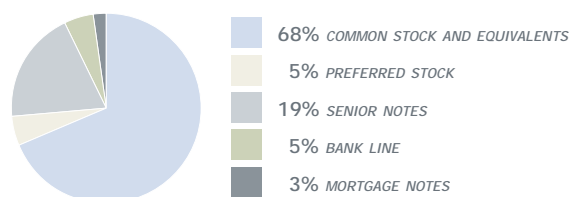
In 2005, HCP is celebrating its twentieth anniversary as a public company with the strongest financial position in the Company's history.

HCP DIVERSIFICATION BY PROPERTY TYPE*



*CHART BASED ON THE HISTORICAL COST OF HCP'S REAL ESTATE INVESTMENTS AND THE CARRYING VALUE OF HCP'S UNCONSOLIDATED JOINT VENTURES, EXCEPT FOR HCP MEDICAL OFFICE PROPERTIES, LLC, AND SECURED LOANS RECEIVABLE, AS OF DECEMBER 31, 2004. THE CHART INCLUDES HCP'S PRO RATA SHARE (33%) OF THE HISTORICAL COST OF MEDICAL OFFICE BUILDINGS HELD BY HCP MEDICAL OFFICE PROPERTIES, LLC ON DECEMBER 31, 2004.

HCP TOTAL MARKET CAPITALIZATION**



**AS OF DECEMBER 31, 2004.

HEALTH CARE PROPERTY INVESTORS, INC. 2004

10-K

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, 2004

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 1-8895

HEALTH CARE PROPERTY INVESTORS, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

33-0091377

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

3760 Kilroy Airport Way, Suite 300

Long Beach, California

(Address of principal executive offices)

90806

(Zip Code)

Registrant's telephone number, including area code (562) 733-5100

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

7.25% Series E Cumulative Redeemable Preferred Stock

New York Stock Exchange

7.10% Series F Cumulative Redeemable Preferred Stock

New York Stock Exchange

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 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 an accelerated filer (as defined in 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: \$3,157,233,420.

As of February 28, 2005 there were 134,183,176 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's 2005 Annual Meeting of Stockholders have been incorporated into Part III of this Report.

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PART I

ITEM 1. Business

Business Overview

Health Care Property Investors, Inc., a Maryland corporation organized in 1985, is a real estate investment trust (“REIT”) that, together with its consolidated subsidiaries and joint ventures (collectively, “HCP” or the “Company”), invests in health care related properties located throughout the United States. The Company acquires health care facilities and leases them to health care providers. Additionally, the Company provides mortgage financing on health care facilities.

References herein to “HCP”, the “Company”, “we”, “us” and “our” include Health Care Property Investors, Inc. and our consolidated subsidiaries and joint ventures, unless the context otherwise requires.

As of December 31, 2004, our total investment in our properties, excluding assets held for sale and including investments through unconsolidated joint ventures and mortgage loans, was \$3.5 billion. Our portfolio, consisting of interests in 527 properties in 43 states, included:

- 29 hospitals
- 171 skilled nursing facilities
- 119 assisted living and continuing care retirement communities (“CCRCs”)
- 184 medical office buildings (“MOBs”)
- 24 other health care facilities

You can access, free of charge, a copy of the periodic and current reports we file with the SEC on our website at www.hcpi.com. Our periodic and current reports are made available on our website as soon as reasonably practicable after these reports are filed with the SEC.

Business Strategy

We are organized to invest in income-producing health care related facilities. Our primary goal is to increase shareholder value through profitable growth. Our investment strategy to achieve this goal is based on three principles — opportunistic investing, portfolio diversification, and conservative financing.

Opportunistic Investing

We make real estate investments that are expected to drive profitable growth and create long-term shareholder value. We attempt to position ourselves to create and take advantage of situations where we believe the opportunities meet our goals and investment criteria. We invest in properties directly and through joint ventures, and provide secured financing, depending on the nature of the investment opportunity.

Portfolio Diversification

We believe in maintaining a portfolio of health care related real estate diversified by sector, geography, operator and investment product. Diversification within the health care industry reduces the likelihood that a single event would materially harm our business. This allows us to take advantage of opportunities in different markets based on individual market dynamics. While pursuing our strategy of attaining diversification in our portfolio, there are no specific limitations on the percentage of our total assets that may be invested in any one property, property type, geographic location or in the number of properties in which we seek to invest or lease to a single operator.

Conservative Financing

We believe a conservative balance sheet provides us with the ability to execute our opportunistic investing approach and portfolio diversification principles. We maintain our conservative balance sheet by actively managing our debt to equity levels and maintaining available sources of liquidity, such as our line of credit. Our debt is primarily fixed rate, which reduces the impact of rising interest rates on our operations. Generally, we attempt to match the long-term duration of our leases with long-term fixed rate financing.

In underwriting our investments, we structure and adjust the price of the investment in accordance with our assessment of risks. We may structure transactions as master leases, require indemnifications, obtain enhancements in the form of letters of credit or security deposits, and take other measures to mitigate risks. We finance our investments based on our evaluation of available sources of funding. We may incur additional indebtedness or issue preferred or common stock. For short-term purposes, we may utilize our revolving line of credit, or arrange for other short-term borrowings from banks or others. We arrange for long-term borrowings through public offerings or from institutional investors.

We may incur additional mortgage indebtedness on real estate we acquire through purchase, foreclosure or otherwise. Where properties are encumbered by debt, we may assume existing loans. We also may obtain non-recourse or other mortgage financing on unleveraged properties in which we have invested or may refinance properties acquired on a leveraged basis.

Competition

Our properties are subject to competition from the facilities of other landlords and health care providers. The landlords and operators of these competing properties may have capital resources substantially in excess of some of the operators of our facilities. The occupancy and rental income at our properties depend upon several factors, including the number of physicians using the health care facilities or referring patients to the facilities, competing properties and health care providers, and the size and composition of the population in the surrounding area. Private, federal and state payment programs and the effect of other laws and regulations may also have a significant influence on the profitability of the properties and their tenants. Virtually all of our properties operate in a competitive environment with tenants, patients and referral sources, including physicians, who may change their preferences for a health care facility from time to time.

Investing in real estate is highly competitive. We face competition from other REITs, investment companies, health care operators and other institutional investors when we attempt to acquire properties. Increased competition reduces the number of opportunities that meet our investment criteria. If we do not identify investments that meet our investment criteria, our ability to increase shareholder value through profitable growth may be limited.

2004 Overview

Real Estate Transactions

- On January 16, 2004, we acquired a healthcare laboratory and biotech research facility located in San Diego, California for a purchase price of approximately \$40 million.
- On February 27, 2004, we sold a portfolio of seven MOBs and ten other health care facilities for \$127.6 million and used a portion of the proceeds to retire \$31.3 million of related mortgage debt at an average interest rate of 7.67%.

- On April 30 and June 1, 2004, we acquired nine skilled nursing facilities with a total of 934 beds for approximately \$63 million in related transactions. The nine facilities, leased to the same operator, have an initial lease term of five years with three five-year renewal options. The first year annual lease rate is approximately 9.3%.
- On June 10, 2004, we acquired a 79,000 square foot MOB located in Las Vegas, Nevada, for a purchase price of \$22 million.
- On July 15, 2004, we acquired substantially all of American Retirement Corporation's ("ARC") interest in three CCRCs and one assisted living facility for \$113 million. The transaction was structured as a sale-leaseback with an initial lease term of ten years and three ten-year renewal options. The first year lease rate is 9% with additional rents contingent on facility revenue exceeding certain thresholds. ARC used a portion of the proceeds to repay its existing \$82.6 million secured loan and interest thereon to us. Additionally, we provided ARC with a new \$5.7 million mortgage loan at 9%, which was repaid in 2005.
- On July 28, 2004, we acquired eleven assisted living facilities from Emeritus Corporation for \$84 million, including \$56 million of assumed debt, through a sale-leaseback transaction. These facilities have an initial lease term of 15 years, with two ten-year renewal options. The initial annual lease rate is approximately 9.25% with Consumer Price Index ("CPI") based escalators not exceeding 3% annually. Emeritus used \$17 million of the proceeds to repay existing debt owed to us. The \$56 million of assumed debt was subsequently repaid by us in December 2004.
- On December 17, 2004, we acquired three MOBs, a 42% condominium interest in a fourth medical office building and one retail/garage building for \$111 million from Swedish Medical Center in Seattle, Washington. These properties include approximately 481,000 rentable square feet and nearly 2,000 parking spaces. Swedish Medical Center occupies 20% of the rentable square feet and the properties were 96% occupied when acquired.
- In mid-2004 we placed into service \$70 million of MOB development properties.
- During 2004 we sold properties valued at approximately \$170 million, including \$127.6 million of properties sold on February 27, 2004 as noted above, principally comprised of MOBs.

Financing Transactions

- In January 2004, we received \$92 million of net proceeds in connection with the completion of \$288 million of non-recourse mortgage financings by HCP Medical Office Portfolio, LLC ("HCP MOP"), a joint venture between us and an affiliate of General Electric Company ("GE"). The weighted average fixed interest rate on \$254 million of such indebtedness was 5.57% with the balance at variable interest rates based on the London Interbank Offered Rate ("LIBOR") plus 1.75%.
- On June 3, 2004, we issued \$25 million in aggregate principal amount of 6.00% senior notes due 2014 and \$25 million in aggregate principal amount of variable-rate senior notes due 2014. On July 13, 2004, we issued \$37 million in aggregate principal amount of 6.00% senior notes due 2014.
- On October 26, 2004, we closed a new \$500 million three-year unsecured revolving credit facility which replaced our previous \$490 million line of credit. The new agreement accrues interest, based upon our current credit ratings, at 65 basis points over LIBOR with a 15 basis point facility fee.

Other Events

- On January 22, 2004, we announced that our Board of Directors approved a 2-for-1 stock split effective March 2, 2004.

- On October 15, 2004, we and GE authorized the expansion of our HCP MOP joint venture from \$600 million to \$1.1 billion of total capitalization.
- Dividends paid were \$1.67 per share for 2004 and are expected to be \$1.68 per share in 2005. Our Board of Directors has determined to continue the policy established in 2003 of considering dividend increases on an annual rather than quarterly basis.

Properties

Portfolio Summary

Our portfolio of investments at December 31, 2004 includes direct investments in health care related properties, mortgage loans, and investments through joint ventures. Our properties include hospitals, skilled nursing facilities, assisted living facilities and CCRCs, medical office buildings and other health care facilities. As of December 31, 2004, our property interests consist of the following (dollars in thousands):

Property Type	Number of Properties	Capacity(1)	Investment(2)	2004 Revenue	Revenue Less Operating Expenses(3)	Percentage of Revenue Less Operating Expenses(3)
Owne d properties:						
Hospitals	27	3,352 Beds	\$ 729,957	\$ 92,768	\$ 92,768	24%
Skilled nursing facilities . . .	157	18,548 Beds	656,454	81,890	81,890	21
Assisted living facilities and CCRCs	103	11,124 Units	905,643	88,527	83,454	22
Medical office buildings . . .	90	5,210,000 Sq. ft.	830,905	98,432	69,471	18
Other health care facilities	<u>24</u>	1,463,000 Sq. ft.	<u>213,970</u>	<u>26,531</u>	<u>21,202</u>	<u>5</u>
Total owned properties	<u>401</u>		<u>\$3,336,929</u>	<u>\$388,148</u>	<u>\$348,785</u>	<u>90%</u>
Mortgage loans:						
Hospitals	2	114 Beds	\$ 57,667			
Skilled nursing facilities . . .	14	1,921 Beds	54,081			
Assisted living facilities and CCRCs	<u>10</u>	703 Units	<u>28,952</u>			
Total mortgage loans . . .	<u>26</u>		<u>\$ 140,700</u>			
Unconsolidated joint ventures:						
HCP MOP—medical office buildings	94	5,336,000 Sq. ft.	\$ 53,710			
Assisted living facilities and CCRCs	<u>6</u>	1,123 Units	<u>6,796</u>			
Total unconsolidated joint ventures	<u>100</u>		<u>\$ 60,506</u>			
Total	<u>527</u>		<u>\$3,538,135</u>			

- (1) Hospitals and skilled nursing facilities are measured by licensed bed count. Assisted living facilities and CCRCs are stated in units (studio, one or two bedroom units). Medical office buildings and other health care facilities are measured in square feet.
- (2) Represents the carrying amount of our real estate assets after adding back accumulated depreciation for owned properties. Represents the carrying amount of our investment in unconsolidated joint ventures and mortgage loans receivable. Excludes assets to be sold and classified as discontinued operations.
- (3) Because the tenant is responsible for operating expenses under a triple net lease, management believes revenues are not comparable between property types without deducting our operating expenses for properties leased under gross or modified gross leases. Operating expenses are property level costs and exclude depreciation expense. Revenue includes tenant reimbursements for operating costs.

Unconsolidated Joint Ventures

The following is summarized unaudited information for our unconsolidated joint ventures (dollars in thousands):

<u>Property Type</u>	<u>Number of Properties</u>	<u>Capacity</u>	<u>Investment(1)</u>	<u>2004 Revenue</u>	<u>Revenue Less Operating Expense(2)</u>
Medical office buildings	94	5,336,000 Sq. ft.	\$474,769	\$83,035	\$43,610
Assisted living facilities and CCRCs . . .	6	1,123 Units	135,048	13,244	13,244
Total	<u>100</u>		<u>\$609,817</u>	<u>\$96,279</u>	<u>\$56,854</u>

- (1) Represents the carrying amount of real estate assets within the joint venture after adding back accumulated depreciation.
- (2) Because the tenant is responsible for operating expense under a triple net lease, management believes revenues are not comparable between property types without deducting operating expenses for properties leased under gross or modified gross leases. Operating expenses are property level costs and exclude depreciation expense. Revenue includes tenant reimbursements for operating costs.

Health Care Sectors and Property Types

We have investments in hospitals, skilled nursing facilities, assisted living and CCRCs, medical office buildings and other health care facilities. The following describes the nature of the operations of our tenants and borrowers.

Hospitals. We have interests in 29 medical and surgical general and long-term acute care and rehabilitation hospitals. General hospitals offer a wide range of services such as fully-equipped operating and recovery rooms, obstetrics, radiology, intensive care, open heart surgery and coronary care, neurosurgery, neonatal intensive care, magnetic resonance imaging, nursing units, oncology, clinical laboratories, respiratory therapy, physical therapy, nuclear medicine, rehabilitation services and outpatient services. Long-term acute care hospitals provide care for patients with complex medical conditions that require longer stays and more intensive care, monitoring, or emergency back-up than that available in most skilled nursing-based sub-acute programs. Services are paid for by private sources, third party payors (e.g., insurance and HMOs), or through the Medicare and Medicaid programs.

Rehabilitation hospitals provide inpatient and outpatient care for patients who have sustained traumatic injuries or illnesses, such as spinal cord injuries, strokes, head injuries, orthopedic problems, work related disabilities and neurological diseases, as well as treatment for amputees and patients with severe arthritis. Rehabilitation programs encompass physical, occupational, speech and inhalation therapies, rehabilitative nursing and other specialties. Services are paid for by the patient or the patient’s family, third party payors (e.g., insurance and HMOs), Medicaid or Medicare.

Skilled Nursing Facilities. We have invested in 171 skilled nursing facilities. Various health care providers operate these facilities. Skilled nursing facilities offer restorative, rehabilitative and custodial nursing care for people not requiring the more extensive and sophisticated treatment available at hospitals. Ancillary revenues and revenue from sub-acute care services are derived from providing services to residents beyond room and board and include occupational, physical, speech, respiratory and intravenous therapy, wound care, oncology treatment, brain injury care and orthopedic therapy as well as sales of pharmaceutical products and other services. Certain skilled nursing facilities provide some of the foregoing services on an out-patient basis. Skilled nursing facilities are designed to supplement hospital care and depend to some degree upon referrals from practicing physicians and hospitals. Skilled nursing services are paid for either by private sources, or through the Medicare and Medicaid programs.

Skilled nursing facilities generally provide patients with accommodation, complete medical and nursing care, and rehabilitation services including speech, physical and occupational therapy. As a part of the

Omnibus Budget Reconciliation Act (OBRA) of 1981, Congress established a waiver program under Medicaid to offer an alternative to institutional skilled nursing services. The provisions of OBRA and the subsequent OBRA Acts of 1987 and 1990 allow states, with federal approval, greater flexibility in program design as a means of developing cost-effective alternatives to delivering services traditionally provided in the skilled nursing setting. This was a contributing factor to the past increase in the number of assisted living facilities, which adversely affected some skilled nursing facilities, as some individuals chose the residential environment and lower cost delivery system provided in the assisted living setting.

Assisted Living Facilities and CCRCs. We have investments in 110 assisted living facilities which are leased to operators, who offer studio, one and two bedroom apartments on a month-to-month basis primarily to individuals who are over 75 years of age with various levels of assistance requirements. More ambulatory residents are provided meals and eat in a central dining area; they may also be assisted with some daily living activities with programs and services that allow residents certain conveniences and make it possible for them to live independently. Staff is also available when residents need assistance and for group activities. Services provided to residents who require more assistance with daily living activities, but who do not require the constant supervision other skilled nursing facilities provide, include personal supervision and assistance with eating, bathing, grooming and administering medication. Charges for room and board are generally paid from private sources.

We have investments in nine CCRCs, which are large, residential communities in a congregate care and continuing care living setting combined with onsite amenities and services. Residents are provided various services which eliminate the need to seek other living accommodations or arrangement for alternative levels of care. Ancillary and health care services are available at these properties that provide nursing and assisted living care. The full continuum of senior living environment includes independent living apartments and cottages, assisted living and, in some communities, skilled nursing and Alzheimer's care. Various accommodation terms are available to residents, including monthly rentals, rental life care, fully refundable entrance fees, non-refundable endowments, cooperatives, and condominiums.

Medical Office Buildings. We have interests in 184 medical office buildings, including 94 MOBs owned by HCP MOP. We have a 33% ownership interest in HCP MOP. Many of these buildings are located adjacent to, or on the campus of, acute care hospitals. Medical office buildings contain physicians' offices and examination rooms, and may also include pharmacies, hospital ancillary service space and day-surgery operating rooms. MOBs require more extensive plumbing, electrical, heating and cooling capabilities than commercial office buildings for sinks, brighter lights, special equipment and biological waste mechanisms required for the proper operation of a medical office. Most of our owned MOBs are managed by third party property management companies and 22 are leased on a single-tenant triple net basis while 68 are leased under gross or modified gross leases to multiple tenants under which we are responsible for certain operating expenses.

Other Health Care Facilities. We have investments in nine health care laboratory and biotech research facilities. These facilities are typically located on research campuses of major universities. The facilities are designed to accommodate research and development in the biopharmaceutical industry, drug discovery and development, and predictive and personalized medicine.

We also have investments in nine physician group practice clinic facilities and six health and wellness centers that are leased to five different tenants and, a single tenant, respectively, under triple net or modified gross leases. The physician group practice clinics generally provide a broad range of medical services through organized physician groups representing various medical specialties. Health and wellness centers provide testing and preventative health maintenance services.

Investment Products

Leases

As of December 31, 2004, of our 401 owned properties, 324 are single-tenant properties under triple net leases with 80 health care providers. We leased 77 properties pursuant to gross or modified gross leases with multiple tenants. Under a triple net lease, in addition to the rent obligation, the tenant is responsible for all operating expenses of the property such as utilities, property taxes, insurance and repairs and maintenance. Under gross or modified gross leases, we are responsible for a share of property operating costs. Certain leases provide for additional rents that are based upon a percentage of the facility's revenue in excess of the revenue for specific base periods or other thresholds. Others have rent increases based on inflation indices, fixed escalators, or other factors.

The first year annual base rental rates on properties we acquired during 2004 ranged from 9% to 11% of the purchase price of the property. Rental rates vary by lease, taking into consideration many factors, such as:

- creditworthiness of the tenant;
- operating performance of the facility;
- interest rates at the beginning of the lease;
- location, type and physical condition of the facility; and
- lease term.

Our hospitals, skilled nursing facilities, and assisted living facilities and CCRC's are typically leased to operators on a triple-net basis with initial terms that range from five to fifteen years, and generally have one or more renewal options. The weighted average remaining initial term on these triple-net leases as of December 31, 2004, is approximately seven years. Our medical office buildings are leased on a gross, modified gross, and triple-net basis, and typically have an initial term ranging from one to fourteen years, with a weighted average remaining term of five years as of December 31, 2004.

The following table reflects the annual impact, by year, in terms of 2004 revenue for single tenant properties resulting from lease expirations (in thousands):

<u>Year</u>	<u>Revenue</u>
2005	\$ 5,034
2006	8,007
2007	10,130
2008	18,674
2009	60,914
Thereafter	186,942

Development

We provide development services and construction financing on projects that are typically pre-leased. Upon completion, the assets are placed in service and included in our portfolio of directly owned properties or held by joint ventures. We use our in-house construction management expertise to evaluate local market conditions, construction costs and other factors to seek appropriate risk adjusted returns. During 2004, we completed and placed into service approximately \$70 million of medical office buildings. As of December 31, 2004, we have an interest in two properties under development, one of which is held by HCP MOP.

Mortgage Loans

We have investments in mortgage loans secured by properties that are owned and operated by 10 health care providers. At December 31, 2004, the carrying amount of these mortgage loans totaled \$140.7 million. Initial interest rates on mortgage loans outstanding at December 31, 2004 range from 9% to 13% per annum.

Customer Concentration

The following table provides information about the major operators of our properties for the year ended December 31, 2004 (dollars in thousands):

<u>Operators</u>	<u>Facilities</u>	<u>Investment(1)</u>	<u>Percentage of Revenue</u>
Tenet Healthcare Corporation (NYSE:THC)	8	\$422,539	12%
American Retirement Corporation (NYSE:ARC)	17	405,678	12
Emeritus Corporation (AMEX:ESC)	37	248,852	6
HealthSouth Corporation (OTC:HLSH.PK)	9	108,432	4
Kindred Healthcare, Inc. (NASDAQ:KIND)	20	79,554	4

(1) Represents our carrying amount after adding back accumulated depreciation.

All of our properties associated with the aforementioned tenants are under triple net leases. These companies are subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended, and are required to file periodic reports with the Securities and Exchange Commission. Financial and other information relating to these operators may be obtained from their public reports.

According to public disclosures by Tenet and HealthSouth, each is experiencing significant legal, financial, and regulatory difficulties. We cannot predict with certainty the impact, if any, of the outcome of these uncertainties on their financial statements. The failure or inability of these operators to pay their obligations could materially reduce our revenues, net income and cash flows, which could in turn reduce the amount of cash available for the payment of dividends, cause our stock price to decline and cause us to incur impairment charges or a loss on the sale of the properties.

One of our hospitals located in Tarzana, California is operated by Tenet and is affected by State of California Senate Bill 1953, which requires certain seismic safety building standards for acute care hospital facilities. See "Government Regulation — California Senate Bill 1953" for more information.

Joint Ventures

Consolidated Joint Ventures

At December 31, 2004, we held ownership interests in 21 limited liability companies and partnerships that together own 82 properties and one mortgage, as follows:

- A 77% interest in Health Care Property Partners, which owns two hospitals, 15 skilled nursing facilities and has one mortgage on a skilled nursing facility.
- Interests varying between 90% and 97% in six partnerships (HCPI/San Antonio Ltd. Partnership, HCPI/Colorado Springs Ltd. Partnership, HCPI/Little Rock Ltd. Partnership, HCPI/Kansas Ltd. Partnership, Fayetteville Health Associates Ltd. Partnership and Wichita Health Associates Ltd. Partnership), each of which was formed to own a hospital.
- A 90% interest in three limited liability companies (ARC La Barc Real Estate Holdings, LLC, ARC Holland Real Estate Holdings, LLC, and ARC Sun City Real Estate Holdings, LLC) that each own an assisted living facility or CCRC.
- An 80% interest in five limited liability companies (Vista-Cal Associates, LLC, Statesboro Associates, LLC, Ft. Worth-Cal Associates, LLC, Perris-Cal Associates, LLC, and Louisiana-Two Associates, LLC) which own a total of six skilled nursing facilities.
- A 92.5% interest in HCPI/Sorrento, LLC, which owns a life science facility.

- A 94% interest in HCPI/Indiana, LLC, which owns six medical office buildings.
- A 15% interest in HCPI/Tennessee, LLC, which owns seven medical office buildings and one assisted living facility.
- A 69% interest in HCPI/Utah, LLC, which owns 18 medical office buildings.
- A 65% interest in HCPI/Utah II, LLC which owns eight medical office buildings and eight other health care facilities.
- An initial 100% interest in HCPI/Idaho Falls, LLC, which owns one hospital.

Unconsolidated Joint Ventures

- A 33% interest in HCP Medical Office Portfolio, LLC which owns 94 medical office buildings.
- A 45% — 50% interest in each of four limited liability companies (Seminole Shores Living Center, LLC — 50%, Edgewood Assisted Living Center, LLC — 45%, Arborwood Living Center, LLC — 45%, and Greenleaf Living Center, LLC — 45%) each owning an assisted living facility.
- A 6% to 10% interest in two limited liability companies (ARC Lake Seminole Square Real Estate Holdings, LLC and ARC Brandywine Real Estate Holdings, LLC) which each own a CCRC.

Taxation of HCP

We believe that we have operated in such a manner as to qualify for taxation as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended (the “Code”), commencing with our taxable year ended December 31, 1985, and we intend to continue to operate in such a manner. No assurance can be given that we have operated or will be able to continue to operate in a manner so as to qualify or to remain so qualified. This summary is qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretations thereof.

If we qualify for taxation as a REIT, we will generally not be required to pay federal corporate income taxes on the portion of our net income that is currently distributed to stockholders. This treatment substantially eliminates the “double taxation” (i.e., at the corporate and stockholder levels) that generally results from investment in a corporation. However, we will be required to pay federal income tax under certain circumstances.

The Code defines a REIT as a corporation, trust or association (i) which is managed by one or more trustees or directors; (ii) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest; (iii) which would be taxable, but for Sections 856 through 860 of the Code, as a domestic corporation; (iv) which is neither a financial institution nor an insurance company subject to certain provisions of the Code; (v) the beneficial ownership of which is held by 100 or more persons; (vi) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals; and (vii) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets. The Code provides that conditions (i) to (iv), inclusive, must be met during the entire taxable year and that condition (v) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

There presently are two gross income requirements. First, at least 75% of our gross income (excluding gross income from “prohibited transactions” as defined below) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property or from certain types of temporary investment income. Second, at least 95% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from income that qualifies under the 75% test and all other dividends, interest and gain from the sale or other disposition of stock or securities. A

“prohibited transaction” is a sale or other disposition of property (other than foreclosure property) held for sale to customers in the ordinary course of business.

At the close of each quarter of our taxable year, we must also satisfy four tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by real estate assets, certain stock or debt instruments purchased with the proceeds of a stock offering or long term public debt offering by us (but only for the one year period after such offering), cash, cash items and government securities. Second, not more than 25% of our total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class, the value of any one issuer’s securities owned by us may not exceed 5% of the value of our total assets and we may not own more than 10% of the vote or value of the securities of a non-REIT corporation, other than certain debt securities and interests in taxable REIT subsidiaries, as defined below. Fourth, not more than 20% of the value of our total assets may be represented by securities of one or more taxable REIT subsidiaries.

We own interests in various partnerships and limited liability companies. In the case of a REIT that is a partner in a partnership or a member of a limited liability company that is treated as a partnership under the Code, Treasury Regulations provide that for purposes of the REIT income and asset tests, the REIT will be deemed to own its proportionate share of the assets of the partnership or limited liability company and will be deemed to be entitled to the income of the partnership or limited liability company attributable to such share. The ownership of an interest in a partnership or limited liability company by a REIT may involve special tax risks, including the challenge by the Internal Revenue Service (the “Service”) of the allocations of income and expense items of the partnership or limited liability company, which would affect the computation of taxable income of the REIT, and the status of the partnership or limited liability company as a partnership (as opposed to an association taxable as a corporation) for federal income tax purposes.

We also own interests in a number of subsidiaries which are intended to be treated as qualified REIT subsidiaries (each a “QRS”). The Code provides that such subsidiaries will be ignored for federal income tax purposes and all assets, liabilities and items of income, deduction and credit of such subsidiaries will be treated as our assets, liabilities and items. If any partnership, limited liability company, or subsidiary in which we own an interest were treated as a regular corporation (and not as a partnership, QRS or taxable REIT subsidiary, as the case may be) for federal income tax purposes, we would likely fail to satisfy the REIT asset tests described above and would therefore fail to qualify as a REIT, unless certain relief provisions apply. We believe that each of the partnerships, limited liability companies, and subsidiaries (other than taxable REIT subsidiaries) in which we own an interest will be treated for tax purposes as a partnership, or disregarded entity (in the case of a 100% owned partnership or limited liability company) or QRS, as applicable, although no assurance can be given that the Service will not successfully challenge the status of any such organization.

As of December 31, 2004, we owned interests in two subsidiaries which are intended to be treated as taxable REIT subsidiaries (each a “TRS”). A REIT may own any percentage of the voting stock and value of the securities of a corporation which jointly elects with the REIT to be a TRS, provided certain requirements are met. A TRS generally may engage in any business, including the provision of customary or noncustomary services to tenants of its parent REIT and of others, except a TRS may not manage or operate a hotel or health care facility. A TRS is treated as a regular corporation and is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. In addition, a 100% tax may be imposed on a REIT if its rental, service or other agreements with its TRS, or the TRS’s agreements with the REIT’s tenants, are not on arm’s-length terms.

In order to qualify as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders in an amount at least equal to (A) the sum of (i) 90% of our “real estate investment trust taxable income” (computed without regard to the dividends paid deduction and our net capital gain) and (ii) 90% of the net income, if any (after tax), from foreclosure property, minus (B) the sum of certain items of

non-cash income. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for such year, if paid on or before the first regular dividend payment date after such declaration and if we so elect and specify the dollar amount in our tax return. To the extent that we do not distribute all of our net long-term capital gain or distribute at least 90%, but less than 100%, of our “real estate investment trust taxable income”, as adjusted, we will be required to pay tax thereon at regular corporate tax rates. Furthermore, if we should fail to distribute during each calendar year at least the sum of (i) 85% of our ordinary income for such year, (ii) 95% of our capital gain income for such year, and (iii) any undistributed taxable income from prior periods, we would be required to pay a 4% excise tax on the excess of such required distributions over the amounts actually distributed.

If we fail to qualify for taxation as a REIT in any taxable year, and certain relief provisions do not apply, we will be required to pay tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify will not be deductible by us nor will they be required to be made. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to the statutory relief. Failure to qualify for even one year could substantially reduce distributions to stockholders and could result in our incurring substantial indebtedness (to the extent borrowings are feasible) or liquidating substantial investments in order to pay the resulting taxes.

We and our stockholders may be required to pay state or local tax in various state or local jurisdictions, including those in which we or they transact business or reside. The state and local tax treatment of us and our stockholders may not conform to the federal income tax consequences discussed above.

Government Regulation

The health care industry is heavily regulated by federal, state and local laws. This government regulation of the health care industry affects us because:

- (1) The financial ability of some of our tenants and mortgagors to make rent and debt payments to us may be affected by governmental regulations such as licensure, certification for participation in government programs, and government reimbursement, and
- (2) Our additional rents are often based on our tenants’ gross revenue from operations, which in turn may be affected by the amount of reimbursement such tenants receive from the government and other third parties.

These laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. These changes may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by both government and other third-party payors. These changes may be applied retroactively. The ultimate timing or effect of these changes cannot be predicted. The failure of any tenant or borrower to comply with such laws, regulations and requirements could affect its ability to operate its facility or facilities and could adversely affect such tenant’s or borrower’s ability to make debt or lease payments to us.

Fraud and Abuse Laws. There are various federal and state laws prohibiting fraud and abusive business practices by health care providers who participate in, receive payments from or are in a position to make referrals in connection with a government-sponsored health care program, including, but not limited to the Medicare and Medicaid programs. These include:

- The Federal Anti-Kickback Statute, which prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of Medicare and Medicaid patients.

- The Federal Physician Self-Referral Prohibition (Stark), which restricts physicians who have financial relationships with health care providers from making referrals for certain designated health services for which payment may be made under Medicare or Medicaid programs to an entity with which the physician (or an immediate family member) has a financial relationship.
- The False Claims Act, which prohibits any person from knowingly presenting false or fraudulent claims for payment to the federal government (including the Medicare and Medicaid programs).
- The Civil Monetary Penalties Law, which is imposed by the Department of Health and Human Services for fraudulent acts.

Each of these laws include criminal and/or civil penalties for violations that range from punitive sanctions, damage assessments, penalties, imprisonment, denial of Medicare and Medicaid payments, and/or exclusion from the Medicare and Medicaid programs. Imposition of any of these types of penalties on our tenants or borrowers could result in a material adverse effect on their operations, which could adversely affect our business. Additionally, certain laws, such as the False Claims Act, allow for individuals to bring *qui tam* (or whistleblower) actions on behalf of the government for violations of fraud and abuse laws. Some Medicare fiscal intermediaries (private companies that contract with Centers for Medicare & Medicaid Services (“CMS”) to administer the Medicare program) have also increased scrutiny of cost reports filed by skilled nursing providers.

Environmental Matters. A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect health care facility operations. Under various federal, state and local environmental laws, ordinances and regulations, an 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 the owner’s or secured lender’s liability therefore could exceed the value of the property, and/or the assets of the owner or secured lender. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner’s ability to sell or rent such property or to borrow using such property as collateral which, in turn, would reduce our revenue. Although the mortgage loans that we provide and leases covering our properties require the borrower and the tenant to indemnify us for certain environmental liabilities, the scope of such obligations may be limited and we cannot assure that any such borrower or tenant would be able to fulfill its indemnification obligations.

The Medicare and Medicaid Programs. Sources of revenue for tenants and mortgagors may include the federal Medicare program, state Medicaid programs, private insurance carriers, health care service plans and health maintenance organizations, among others. 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 operators. For example, President Bush’s fiscal year 2006 budget includes a proposed reduction in Medicare spending of approximately \$1.5 billion, including specific reductions in reimbursement to skilled nursing facilities. It is uncertain to what extent President Bush’s budgetary proposals will be enacted into law. In addition, the failure of any of our operators to comply with various laws and regulations could jeopardize their certification and ability to continue to participate in the Medicare and Medicaid programs.

State Medicaid Programs. Medicaid programs differ from state to state but they are all subject to federally-imposed requirements. At least 50% of the funds available under these programs are provided by the federal government under a matching program. Medicaid programs generally pay for acute and rehabilitative care based on reasonable costs at fixed rates; skilled nursing facilities are generally reimbursed using fixed daily rates. Medicaid payments are generally below retail rates for tenant-operated facilities. Increasingly, states have introduced managed care contracting techniques in the administration of Medicaid programs. Such mechanisms could have the impact of reducing utilization of and reimbursement to facilities.

Other third party payors in various states and areas base payments on costs, retail rates or, increasingly, negotiated rates. Negotiated rates can include discounts from normal charges, fixed daily rates and prepaid capitated rates.

Entrance Fee Communities. Certain of the facilities mortgaged to or owned by us 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. Such oversight and the rights of residents within these entrance fee communities may have an effect on the revenue or operations of the operators of such facilities and therefore may adversely impact us.

Health Care Facilities. The health care facilities in our portfolio, including hospitals, skilled nursing facilities, assisted living facilities, and physician group practice clinics, are subject to extensive federal, state and local licensure, certification and inspection laws and regulations. Failure to comply with any of these laws could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from federal and state health care programs, loss of license or closure of the facility. Such actions may have an effect on the revenue of the operators of properties owned by or mortgaged to us and therefore adversely impact us.

California Senate Bill 1953. Our hospital located in Tarzana, California is affected by State of California Senate Bill 1953 (SB 1953), which requires certain seismic safety building standards for acute care hospital facilities. This hospital is operated by Tenet under a lease expiring in February 2009. We and Tenet are currently reviewing the SB 1953 compliance of this hospital, multiple plans of action to cause such compliance, the estimated time for completing the same, and the cost of performing necessary remediation of the property. We cannot currently estimate the remediation costs that will need to be incurred prior to 2013 in order to make the facility SB 1953-compliant through 2030, and the final allocation of any remediation costs between us and Tenet. Rent on the hospital in 2004 and 2003 was \$10.6 million and \$10.8 million, respectively, and our carrying amount is \$78.4 million at December 31, 2004.

Nurse Staffing Ratios. On January 1, 2004, a California law became effective mandating specific minimum nurse staffing ratios for acute care hospitals. As a result of this requirement, hospital labor costs will be materially increased. Facilities may also be forced to limit patient admissions due to an inability to hire the necessary number of nurses to meet the required ratio, which affects net operating revenue. It is unclear the extent to which compliance with these nurse staffing ratios in California may adversely affect hospital operators in California.

Current Developments

The health care industry continues to face various challenges, including increased government and private payor pressure on health care providers to control costs, the migration of patients from acute care facilities into extended care and home care settings, and the vertical and horizontal consolidation of health care providers.

Changes in the law, new interpretations of existing laws, and changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement furnished by both government and other third-party payors. These changes may be applied retroactively under certain circumstances. The ultimate timing or effect of legislative efforts cannot be predicted and may impact us in different ways.

In December of 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act established an 18-month moratorium on the "whole hospital

exception” to the Stark law, whereby physicians have been permitted to refer patients for Designated Health Services to hospitals in which they have an ownership interest. The moratorium removes specialty hospitals from the “whole hospital exception” from December 8, 2003 through June 7, 2005. Specialty hospitals include hospitals primarily or exclusively engaged in the care and treatment of cardiac conditions or orthopedic conditions, or hospitals that perform certain surgical procedures. Specialty hospitals in operation or under development as of November 18, 2003 are grandfathered under the moratorium. The Act requires that MedPAC, an independent federal body established to advise Congress on issues affecting the Medicare program, and HHS conduct studies on the costs of service, utilization, quality of care and financial impact of specialty hospitals and their physician owners relative to community hospitals, particularly nonprofits. On January 14, 2005 MedPAC announced that it would recommend that Congress extend the Stark specialty hospital moratorium for an additional 18 months to address concerns about the effects of physician investments in specialty hospitals. MedPAC’s recommendations were based upon its findings that when compared with community hospitals, physician owned specialty hospitals tend to concentrate on certain more profitable Diagnostic Related Groups (“DRGs”) and on patients with relatively low severity within those DRGs, and tend to treat lower percentages of Medicare patients. Congress is not obligated to follow MedPAC’s recommendations. Congress may take legislative action implementing MedPAC’s recommendations or wait for the HHS report on specialty hospital quality, which could lead to further restrictions on hospital ownership by physicians.

In addition to the reforms enacted and considered by Congress from time to time, state legislatures periodically consider various health care reform proposals. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems, new regulatory enforcement initiatives, and new payment methodologies.

We believe that government and private efforts to contain or reduce health care costs will continue. These trends are likely to lead to reduced or slower growth in reimbursement for certain services provided by some of our tenants and mortgagors. We believe the vast nature of the health care industry, the financial strength and operating flexibility of our operators, and the diversity of our portfolio will mitigate the impact of any such diminution in reimbursements. However, we cannot predict what legislation will be adopted, and no assurance can be given the health care reforms will not have a material adverse effect on our financial condition or results of operations.

Employees

At December 31, 2004, the Company had 74 full-time employees and one part-time employee, none of whom are subject to a collective bargaining agreement.

Legal Entities

We conduct our business through various legal entities, including the following at December 31, 2004:

<u>100% Owned</u>	<u>Consolidated Joint Ventures</u>	<u>Unconsolidated Joint Ventures</u>
AHP of Nevada, Inc.	ARC Holland Real Estate Holdings, LLC	Arborwood Living Center, LLC
AHP of Washington, Inc.	ARC LaBarc Real Estate Holdings LLC	ARC Brandywine Real Estate Holdings, LLC
ARC Richmond Place Real Estate Holdings, LLC	ARC Sun City Real Estate Holdings, LLC	ARC Lake Seminole Square Real Estate Holdings, LLC
Aurora HCP, LLC	Fayetteville Health Associates Limited Partnership	Edgewood Assisted Living Center, LLC
Birmingham HCP, LLC	Ft. Worth-Cal Associates, LLC	Greenleaf Living Centers, LLC
Emeritus Realty III, LLC	HCPI/Colorado Springs Ltd. Partnership	HCP Medical Office Portfolio, LLC
Emeritus Realty V, LLC	HCPI/Idaho Falls LLC	Seminole Shores Living Center, LLC
ESC-La Casa Grande, LLC	HCPI/Indiana, LLC	
Health Care Investors III	HCPI/Kansas Limited Partnership	
HCP 1101 Madison MOB, LLC	HCPI/Little Rock Limited Partnership	
HCP 600 Broadway MOB, LLC	HCPI/San Antonio Limited Partnership	
HCP Arnold MOB, LLC	HCPI/Sorrento, LLC	
HCP Ballard MOB, LLC	HCPI/Tennessee, LLC	
HCP Medical Office Buildings I, LLC	Medical Office Buildings of California LLC	
HCP Medical Office Buildings II, LLC	Medical Office Buildings of Utah LLC	
HCP MOP Member, LLC	Westminster HCP, LLC	
HCP NE Retail MOB, LLC	HCPI/Utah, LLC	
HCP TRS, Inc.	Davis North I, LLC	
HCPI Knightdale, Inc.	HCPI/Utah II, LLC	
HCPI Mortgage Corp.	HCPI/Stansbury, LLC	
HCPI Trust	HCPI/Wesley, LLC	
HCP Virginia, Inc.	Health Care Property Partners	
Jackson HCP, LLC	Louisiana-Two Associates, LLC	
McKinney HCP GP, LLC	Perris-Cal Associates, LLC	
McKinney HCP, L.P.	Statesboro Associates, LLC	
Meadowdome, LLC	Vista-Cal Associates, LLC	
Medcap HCPI Development, LLC	Wichita Health Associates Limited Partnership	
Medical Office Buildings of Colorado II, LLC		
Medical Office Buildings of Nevada-Southern Hills, LLC		
Medical Office Buildings of Reston, LLC		
Mission Springs AL, LLC		
Overland Park AL, LLC		
Tampa HCP, LLC		
Texas HCP G.P., Inc.		
Texas HCP Holding, L.P.		
Texas HCP Medical G.P., Inc.		
Texas HCP Medical Office Buildings, L.P.		
Texas HCP, Inc.		

RISK FACTORS

You should carefully consider the risks described below as well as the risks described in “Competition”, “Government Regulation”, and “Taxation of HCP” and elsewhere in this report, which risks are incorporated by reference into this section, before making an investment decision in our company. The risks and uncertainties described herein are not the only ones facing us and there may be additional risks that we do not presently know of or that we currently consider not likely to have a significant impact. All of these risks could adversely affect our business, financial condition, results of operations and cash flows.

Risks Related to Our Operators

If our tenants and mortgagors are unable to operate our properties in a manner sufficient to generate income, they may be unable to make rent and loan payments to us.

The health care industry is highly competitive and we expect that it may become more competitive in the future. Our tenants and mortgagors are subject to competition from other health care providers that provide similar health care services, including from newly constructed facilities. The profitability of health care facilities depends upon several factors, including the number of physicians using the health care facilities or referring patients there, competitive systems of health care delivery and the size and composition of the population in the surrounding area. Private, federal and state payment programs, including a reduction in reimbursement by any of them, and the effect of other laws and regulations may also have a significant influence on the revenues and income of the properties. If our tenants and mortgagors are not competitive with other health care providers and are unable to generate income, they may be unable to make rent and loan payments to us.

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

Our financial position and our ability to make distributions to our stockholders may be adversely affected by financial difficulties experienced by any of our major operators, including bankruptcy, insolvency or a general downturn in the business, or in the event any of our major operators do not renew or extend their relationship with us as their lease terms expire.

We are exposed to the risk that our operators may not be able to meet their obligations, which may result in their bankruptcy or insolvency. Although our leases and loans provide us the right to terminate an investment, evict an operator, demand immediate repayment and other remedies, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. An operator in bankruptcy may be able to restrict our ability to collect unpaid rents or interest during the bankruptcy proceeding.

Tenet Healthcare Corporation accounts for a significant percentage of our revenues and is currently experiencing significant legal, financial and regulatory difficulties.

During 2004, Tenet Healthcare Corporation accounted for approximately 12% of our revenues. According to public disclosures, Tenet is experiencing significant legal, financial and regulatory difficulties. We cannot predict with certainty the impact, if any, of the outcome of these uncertainties on our consolidated financial statements. The failure or inability of Tenet to pay its obligations could materially reduce our revenue, net income and cash flows and could have a material adverse effect on the value of our common stock.

Our operators are faced with increased litigation and rising insurance costs that may affect their ability to pay their lease or mortgage payments.

In some states, advocacy groups have been created to monitor the quality of care at health care facilities, and these groups have brought litigation against operators. Also, in several instances, private litigation by patients has succeeded in winning very large damage awards for alleged abuses. The effect of this litigation and potential litigation has been to materially increase the costs of monitoring and reporting quality of care compliance incurred by our tenants. In addition, the cost of liability and medical malpractice insurance has increased and may continue to increase so long as the present litigation environment affecting the operations of health care facilities continues. Continued cost increases could cause our tenants to be unable to pay their lease or mortgage payments, potentially decreasing our revenue and increasing our collection and litigation costs. Moreover, to the extent we are required to take back the affected facilities, our revenue from those facilities could be reduced or eliminated for an extended period of time.

Risks Related to Real Estate Investment and Our Structure

We rely on external sources of capital to fund future capital needs, and if our access to such capital is difficult or on commercially unreasonable terms, we may not be able to meet maturing commitments or make future investments necessary to grow our business.

In order to qualify as a REIT under the Internal Revenue Code, among other things, we are required to distribute to our stockholders at least 90% of our REIT taxable income each year, and we will be subject to tax to the extent we distribute less than 100% of our REIT taxable income to our stockholders each year. Because of these distribution requirements, we may not be able to fund all future capital needs, including capital needs in connection with acquisitions, from cash retained from operations. As a result, we rely on external sources of capital. If we are unable to obtain needed capital at all or only on unfavorable terms from these sources, we might not be able to make the investments needed to grow our business, or to meet our obligations and commitments as they mature, which could negatively affect the ratings of our debt and even, in extreme circumstances, affect our ability to continue operations. Our access to capital depends upon a number of factors over which we have little or no control, including general market conditions, interest rates, the market's perception of our growth potential, our current and potential future earnings, and our cash distributions and the market price of the shares of our capital stock.

If we are unable to purchase suitable health care facilities at a favorable cost, we will be unable to continue to grow through acquisitions.

The acquisition and financing of health care facilities at favorable costs is highly competitive. If we cannot identify and purchase a sufficient quantity of health care facilities at favorable prices, or if we are unable to finance such acquisitions on commercially favorable terms, our business will suffer.

Unforeseen costs associated with the acquisition of new properties could reduce our profitability.

Our business strategy contemplates future acquisitions. The acquisitions we make may not prove to be successful. We might encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities. We might never realize the anticipated benefits of an acquisition, which could adversely affect our profitability.

Since real estate investments are illiquid, we may not be able to sell properties when we desire.

Real estate investments generally cannot be sold quickly. We may not be able to vary our portfolio promptly in response to vacancies or economic conditions. This inability to respond to changes in the performance of our investments could adversely affect our ability to service debt and make distributions to our stockholders. In addition, there are limitations under the federal income tax laws applicable to REITs that may limit our ability to recognize the full economic benefit from a sale of our assets.

Transfers of health care facilities generally require regulatory approvals and alternative uses of health care facilities are limited.

Because transfers of health care facilities may be subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate, there may be delays in transferring operations of our facilities to successor tenants or we may be prohibited from transferring operations to a successor tenant. In addition, many of our properties are health care facilities that may not be easily adapted to non-health care related uses. If we are unable to transfer properties at times opportune to us, our revenue and operations may suffer.

Some potential losses may not be covered by insurance.

We generally require our tenants and mortgagors to secure and maintain comprehensive liability and property insurance that covers us, as well as the tenants or mortgagors, on most of our properties. Some types of losses, however, either may be uninsurable or too expensive to insure against. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. We cannot assure you that material losses in excess of insurance proceeds will not occur in the future.

Loss of our tax status as a REIT would have significant adverse consequences to us.

We believe we currently operate and have operated commencing with our taxable year ended December 31, 1985, in a manner that allows us to qualify as a REIT for federal income tax purposes under the Internal Revenue Code, as amended.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must satisfy a number of requirements regarding the composition of our assets. Also, we must make distributions to stockholders aggregating annually at least 90% of our REIT taxable income, excluding capital gains. In addition, new legislation, regulations, administrative interpretations or court decisions may adversely affect our investors or our ability to qualify as a REIT for tax purposes. Although we believe that we have been organized and have operated in such manner, we can give no assurance that we have qualified or will continue to qualify as a REIT for tax purposes.

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 our stockholders. If we fail to qualify as a REIT:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;
- we could be subject to the federal alternative minimum tax and increased state and local taxes; and
- unless we are entitled to relief under statutory provisions, we also would be disqualified from taxation as a REIT for four taxable years following the year during which we lost our qualification.

In addition, if we fail to qualify as a REIT, we would not be required to make distributions to stockholders.

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

ITEM 2. Properties

We are organized to invest in income-producing health care related facilities. In evaluating potential investments, we consider such factors as:

- The location, construction quality, condition and design of the property;
- The geographic area, proximity to other health care facilities, type of property and demographic profile;
- Whether the rent provides a competitive market return to our investors;
- The duration, rental rates, tenant quality and other attributes of in-place leases;
- The current and anticipated cash flow and its adequacy to meet our operational needs;
- The potential for capital appreciation;
- The expertise and reputation of the operator;
- Occupancy and demand for similar health facilities in the same or nearby communities;
- An adequate mix between private and government sponsored patients at health facilities;
- The availability of qualified operators or property managers or whether we can manage the property;
- Potential alternative uses of the facilities;
- The regulatory and reimbursement environment in which the properties operate;
- The tax laws related to real estate investment trusts;
- Prospects for liquidity through financing or refinancing; and
- Our cost of capital.

The following summarizes our direct property investments and interests held through joint ventures and mortgage loans (square feet and dollars in thousands).

<u>Facility Location</u>	<u>Number of Facilities</u>	<u>Capacity(1)</u>	<u>Investment(2)</u>	<u>Average Occupancy(3)</u>	<u>2004 Revenue</u>	<u>Operating Expenses(4)</u>	<u>Revenue Less Operating Expenses(4)</u>
Owned Properties:							
<i>Hospitals:</i>		<i>(Beds)</i>					
California	4	828	\$227,439	58%	\$29,509	\$ —	\$29,509
Florida	2	312	75,719	65	9,521	—	9,521
Georgia	1	167	61,759	72	7,305	—	7,305
Idaho	1	22	27,238	55	3,247	—	3,247
Kansas	2	145	27,049	65	3,448	—	3,448
Louisiana	2	325	32,391	37	5,276	—	5,276
Other (10 States)	15	1,553	278,362	57	34,462	—	34,462
	<u>27</u>	<u>3,352</u>	<u>\$729,957</u>	<u>56%</u>	<u>\$92,768</u>	<u>\$ —</u>	<u>\$92,768</u>

Facility Location	Number of Facilities	Capacity(1)	Investment(2)	Average Occupancy(3)	2004 Revenue	Operating Expenses(4)	Revenue Less Operating Expenses(4)
<i>Skilled Nursing</i>							
<i>Facilities:</i>							
		<i>(Beds)</i>					
California	12	1,162	\$ 31,599	85%	\$ 4,163	\$ —	\$ 4,163
Colorado	5	693	22,595	67	3,573	—	3,573
Florida	8	930	33,140	92	4,878	—	4,878
Indiana	32	3,716	149,752	79	17,082	—	17,082
Maryland	3	438	22,123	81	1,808	—	1,808
North Carolina	7	862	21,893	92	3,924	—	3,924
Ohio	12	1,543	55,585	80	8,606	—	8,606
Tennessee	14	1,981	63,854	81	10,918	—	10,918
Texas	9	1,079	34,705	88	4,277	—	4,277
Virginia	9	934	62,655	96	3,762	—	3,762
Other (20 States)	46	5,210	158,553	78	18,899	—	18,899
	<u>157</u>	<u>18,548</u>	<u>\$656,454</u>	<u>82%</u>	<u>\$81,890</u>	<u>\$ —</u>	<u>\$81,890</u>
<i>Assisted Living</i>							
<i>Facilities and CCRCs:</i>							
		<i>(Units)</i>					
Arizona	3	554	\$ 35,897	91%	\$ 4,074	\$ —	\$ 4,074
California	8	629	43,518	84	4,208	—	4,208
Colorado	1	236	38,831	100	4,332	—	4,332
Florida	17	2,473	197,429	90	16,354	2,478	13,876
Michigan	2	570	61,314	93	3,168	—	3,168
New Jersey	4	279	21,720	87	2,475	—	2,475
Ohio	3	375	20,351	73	2,799	—	2,799
South Carolina	6	650	44,653	81	4,575	—	4,575
Texas	25	2,539	224,496	82	27,235	84	27,151
Washington	4	320	22,099	96	2,112	—	2,112
Other (18 States)	30	2,499	195,335	84	17,195	2,511	14,684
	<u>103</u>	<u>11,124</u>	<u>\$905,643</u>	<u>86%</u>	<u>\$88,527</u>	<u>\$ 5,073</u>	<u>\$83,454</u>
<i>Medical Office</i>							
<i>Buildings:</i>							
		<i>(Sq. Ft.)</i>					
Arizona	7	301	\$ 42,366	90%	\$ 5,266	\$ 1,730	\$ 3,536
California	11	607	128,021	92	18,115	5,086	13,029
Colorado	2	166	24,944	79	2,690	1,141	1,549
Indiana	13	393	73,808	90	12,374	6,368	6,006
Minnesota	2	141	23,676	100	4,490	1,962	2,528
Nevada	4	388	82,312	96	8,214	1,022	7,192
Tennessee	4	410	37,719	94	5,551	1,526	4,025
Texas	10	905	106,840	95	14,728	3,921	10,807
Other (9 States)	37	1,899	311,219	92	27,004	6,205	20,799
	<u>90</u>	<u>5,210</u>	<u>\$830,905</u>	<u>94%</u>	<u>\$98,432</u>	<u>\$28,961</u>	<u>\$69,471</u>

<u>Facility Location</u>	<u>Number of Facilities</u>	<u>Capacity(1)</u>	<u>Investment(2)</u>	<u>Average Occupancy(3)</u>	<u>2004 Revenue</u>	<u>Operating Expenses(4)</u>	<u>Revenue Less Operating Expenses(4)</u>
<i>Other Health Care Facilities:</i>							
		(Sq. Ft.)					
California	3	421	\$ 87,148	100%	\$ 11,496	\$ 3,212	\$ 8,284
Connecticut	3	137	9,157	100	1,074	—	1,074
Massachusetts	1	39	4,668	100	454	—	454
Rhode Island	2	75	4,274	100	520	—	520
Tennessee	2	101	12,991	100	1,365	—	1,365
Utah	8	510	75,537	100	9,528	2,117	7,411
Wisconsin	5	180	20,195	100	2,094	—	2,094
	<u>24</u>	<u>1,463</u>	<u>\$ 213,970</u>	<u>100%</u>	<u>\$ 26,531</u>	<u>\$ 5,329</u>	<u>\$ 21,202</u>
Total Owned Properties	<u>401</u>		<u>\$3,336,929</u>		<u>\$388,148</u>	<u>\$39,363</u>	<u>\$348,785</u>
Mortgage Loans	<u>26</u>		<u>\$ 140,700</u>				
Unconsolidated Joint Ventures:							
HCP MOP	94		\$ 53,710				
Other	<u>6</u>		<u>6,796</u>				
Total	<u>100</u>		<u>\$ 60,506</u>				
Total Portfolio	<u>527</u>		<u>\$3,538,135</u>				

- (1) Hospitals and skilled nursing facilities are measured by licensed bed count. Assisted living facilities and CCRCs are apartment-like facilities and are therefore stated in units (studio, one or two bedroom apartments). Medical office buildings and other health care facilities are measured in square feet.
- (2) Represents the carrying amount of our real estate assets after adding back accumulated depreciation for owned properties. Represents the carrying amount of our investment in unconsolidated joint ventures and mortgage loans receivable. Excludes assets to be sold and classified as discontinued operations.
- (3) This information is derived from information provided by our tenants for the most recently provided quarter through September 30, 2004. Excluded are facilities under construction, newly completed facilities under start-up, vacant facilities, and facilities where the data is not available or not meaningful. Occupancy computations are weighted by number of beds/units/square feet. Long-term care facilities are computed using available beds which can sometimes be less than the number of licensed beds a facility may have. All occupancy percentages represent occupancy performance by our tenants' health care operations except for MOB and other health care facilities data which represents the Company's occupancy performance.
- (4) Because the tenant is responsible for operating expenses under a triple-net lease, management believes revenues are not comparable between property types without deducting our operating expenses for properties leased under gross or modified gross leases. Operating expenses are property level costs and exclude depreciation expense. Revenue includes tenant reimbursements of operating expenses.

The following is summarized unaudited information for HCP MOP:

<u>Facility Location</u>	<u>Number of Facilities</u>	<u>Capacity</u>	<u>Investment(1)</u>	<u>Average Occupancy</u>	<u>2004 Revenue</u>	<u>Operating Expenses(2)</u>	<u>Revenue Less Operating Expenses(2)</u>
		<i>(Sq. Ft.)</i>					
Alaska	1	98	\$ 10,549	100%	\$ 1,558	\$ 729	\$ 829
California	1	22	4,859	100%	772	328	444
Colorado	1	118	23,546	100%	3,659	1,167	2,492
Florida	14	827	85,043	90%	11,277	5,060	6,217
Georgia	5	154	8,265	92%	1,866	1,167	699
Kentucky	1	22	1,050	62%	177	111	66
Louisiana	11	428	23,115	80%	5,228	3,075	2,153
Nevada	5	359	29,952	78%	5,962	2,978	2,984
South Carolina	1	53	3,041	64%	594	313	281
Tennessee	18	1,210	94,639	88%	17,376	8,916	8,460
Texas	29	1,801	175,825	91%	31,399	13,777	17,622
Virginia	4	116	6,323	84%	1,281	774	507
Washington	1	59	4,525	92%	850	395	455
West Virginia	<u>2</u>	<u>69</u>	<u>4,037</u>	<u>88%</u>	<u>1,036</u>	<u>635</u>	<u>401</u>
Total	<u>94</u>	<u>5,336</u>	<u>\$474,769</u>	<u>88%</u>	<u>\$83,035</u>	<u>\$39,425</u>	<u>\$43,610</u>

- (1) Represents the carrying amount of real estate assets within the joint venture after adding back accumulated depreciation.
- (2) Because the tenant is responsible for operating expense under a triple net lease, management believes revenues are not comparable between property types without deducting operating expenses for properties leased under gross or modified gross leases. Operating expenses are property level costs and exclude depreciation expense. Revenue includes tenant reimbursements for operating costs.

ITEM 3. Legal Proceedings

On March 12, 2004, James G. Reynolds, our former Executive Vice President and Chief Financial Officer, filed a lawsuit against us and Kenneth B. Roath, the Company's Chairman, and James F. Flaherty III, our Chief Executive Officer and a director. As previously reported, the Company settled this lawsuit on August 24, 2004. The settlement included a payment of \$2.9 million to Mr. Reynolds of which our insurance carrier reimbursed us approximately \$1.3 million.

During 2004 and at December 31, 2004, we were not a party to any other material legal proceedings.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

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. Set forth below for the fiscal quarters indicated are the reported high and low closing prices of our common stock on the New York Stock Exchange.

	2004		2003		2002	
	High	Low	High	Low	High	Low
First Quarter	\$29.09	\$25.30	\$19.66	\$16.68	\$20.68	\$17.90
Second Quarter	28.60	21.68	21.18	16.76	21.95	19.45
Third Quarter	26.00	23.89	23.35	20.84	22.25	18.40
Fourth Quarter	28.85	26.18	25.63	22.52	22.54	18.64

As of February 28, 2005, there were approximately 5,568 stockholders of record and approximately 124,539 beneficial stockholders of our common stock.

It has been our policy to declare quarterly dividends to the common stock shareholders so as to comply with applicable provisions of the Internal Revenue Code governing REITs. The cash dividends per share paid on common stock are set forth below:

	2004	2003	2002
First Quarter	\$0.4175	\$0.4150	\$0.4000
Second Quarter	0.4175	0.4150	0.4050
Third Quarter	0.4175	0.4150	0.4100
Fourth Quarter	0.4175	0.4150	0.4150

HCPI/Indiana. On December 4, 1998, we completed the acquisition of a managing member interest in HCPI/Indiana, LLC, a Delaware limited liability company ("HCPI/Indiana"), in exchange for a cash contribution of approximately \$31.6 million. In connection with this acquisition, three individuals affiliated with Bremmer & Wiley, Inc. contributed a portfolio of seven medical office buildings to HCPI/Indiana with an aggregate equity value (net of assumed debt) of approximately \$2.8 million. In exchange for this capital contribution, the contributing individuals received 89,452 non-managing member units of HCPI/Indiana.

The Amended and Restated Limited Liability Company Agreement of HCPI/Indiana, LLC provides that only we are authorized to act on behalf of HCPI/Indiana and that we have responsibility for the management of its business.

Each non-managing member unit of HCPI/Indiana is exchangeable for an amount of cash approximating the then-current market value of two shares of our common stock or, at our option, two shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications). HCPI/Indiana relied on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended, in connection with the issuance and sale of the non-managing member units. We have registered 178,904 shares of our common stock for issuance from time to time in exchange for units.

HCPI/Utah. On January 25, 1999, we completed the acquisition of a managing member interest in HCPI/Utah, LLC, a Delaware limited liability company ("HCPI/Utah"), in exchange for a cash contribution of approximately \$18.9 million. In connection with this acquisition, several entities affiliated with The Boyer Company, L.C. ("Boyer") contributed a portfolio of 14 medical office buildings (including two ground leaseholds associated therewith) to HCPI/Utah with an aggregate equity value (net of assumed debt) of approximately \$18.9 million. In exchange for this capital contribution, the contributing entities received

593,247 non-managing member units of HCPI/Utah. At the initial closing, HCPI/Utah was also granted the right to acquire additional medical office buildings. Four additional buildings have been contributed to HCPI/Utah and the contributing entities received 133,134 non-managing member units of HCPI/Utah. An additional 56,488 non-managing member units were received by the contributing entities as a result of earn-out agreements on certain of the buildings.

The Amended and Restated Limited Liability Company Agreement of HCPI/Utah provides that only we are authorized to act on behalf of HCPI/Utah and that we have responsibility for the management of its business.

Each non-managing member unit of HCPI/Utah is exchangeable for an amount of cash approximating the then-current market value of two shares of our common stock or, at our option, two shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications). HCPI/Utah relied on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended, in connection with the issuance and sale of the non-managing member units. We have registered 1,506,546 shares of our common stock for issuance from time to time in exchange for units.

HCPI/Utah II. On August 17, 2001, we completed the acquisition of a managing member interest in HCPI/Utah II, LLC, a Delaware limited liability company (“HCPI/Utah II”), in exchange for a cash contribution of approximately \$32.8 million. In connection with the acquisition, several entities affiliated with Boyer contributed a portfolio of four medical office buildings, six health care laboratory and biotech research facilities (seven buildings are owned through ground leasehold interests) and undeveloped land with an aggregate equity value (net of assumed debt) of approximately \$25.7 million to HCPI/Utah II. In exchange for this capital contribution, the contributing entities received 738,923 non-managing member units of HCPI/Utah II. At the initial closing, HCPI/Utah II was also granted the right to acquire eight additional medical office buildings. Subsequent contributions have resulted in the acquisition of six additional buildings. In connection with the contribution of these six additional buildings, the contributing entities received 184,169 non-managing member units since the initial closing. An additional 93,276 non-managing member units were received by the contributing entities as a result of earn-out agreements on certain buildings.

The Amended and Restated Limited Liability Company Agreement of HCPI/Utah II provides that only we are authorized to act on behalf of HCPI/Utah II and that we have responsibility for the management of its business.

Each non-managing member unit of HCPI/Utah II is exchangeable for an amount of cash approximating the then-current market value of two shares of our common stock or, at our option, two shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications). HCPI/Utah II relied on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended, in connection with the issuance and sale of the non-managing member units. We have registered 2,032,736 shares of our common stock for issuance from time to time in exchange for units.

HCPI/Tennessee. On October 2, 2003, we completed the acquisition of a managing member interest in HCPI/Tennessee, LLC, a Delaware limited liability company (“HCPI/Tennessee”), in exchange for the contribution of property interests with an aggregate equity value of approximately \$7.0 million and \$169,000 in cash. In connection with the formation of the LLC, MedCap Properties, LLC (“MedCap”) contributed certain property interests to HCPI/Tennessee with an aggregate equity value of approximately \$48.2 million. In exchange for this capital contribution, MedCap received 1,064,539 non-managing member units of HCPI/Tennessee. MedCap distributed its non-managing member units in HCPI/Tennessee to the owners of MedCap, including Charles A. Elcan, who is now an Executive Vice President of HCP.

The Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee provides that only we are authorized to act on behalf of HCPI/Tennessee and that we have responsibility for the management of its business.

Each non-managing member unit of HCPI/Tennessee is exchangeable for an amount of cash approximating the then-current market value of two shares of our common stock or, at our option, two shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications). HCPI/Tennessee relied on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended, in connection with the issuance and sale of the non-managing member units. We have registered 2,129,078 shares of our common stock for issuance from time to time in exchange for units.

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, 2004.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share data)				
Income statement data:					
Total revenue	\$ 428,684	\$ 376,304	\$ 325,787	\$ 292,646	\$ 287,973
Income from continuing operations	157,846	145,942	130,312	107,181	99,541
Net income applicable to common shares	147,910	121,849	112,480	96,266	108,867
Income from continuing operations applicable to common shares:					
Basic earnings per common share	1.04	0.87	0.92	0.76	0.73
Diluted earnings per common share	1.03	0.87	0.90	0.76	0.73
Net income applicable to common shares:					
Basic earnings per common share	1.12	0.98	0.98	0.89	1.07
Diluted earnings per common share	1.11	0.97	0.96	0.89	1.07
Balance sheet data:					
Total assets	3,102,634	3,035,957	2,748,417	2,431,153	2,394,852
Debt obligations(1)	1,486,206	1,407,284	1,333,848	1,057,752	1,158,928
Stockholders' equity	1,419,442	1,440,617	1,280,889	1,246,724	1,139,283
Other data:					
Dividends paid	243,250	223,231	213,349	190,123	175,079
Dividends paid per common share	1.67	1.66	1.63	1.55	1.47

(1) Includes bank line of credit, senior unsecured notes and mortgage debt.

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

Cautionary Language Regarding Forward Looking Statements

Statements in this Annual Report that are not historical factual statements are "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The statements include, among other things, statements regarding the intent, belief or expectations of Health Care Property Investors, Inc. and its officers and can be identified by the use of terminology such as "may," "will," "expect," "believe," "intend," "plan," "estimate," "should" and other comparable terms or the negative thereof. In addition, we, through our senior management, from time to time make forward looking oral and written public statements concerning our expected future operations and other developments. Readers are cautioned that, while forward looking statements reflect our good faith belief and best judgment based upon current information, they are not guarantees of future performance and are subject to known and unknown risks and uncertainties. Actual results may differ materially from the expectations contained in the forward looking statements as a result of various factors. In addition to the factors set forth under "Risk Factors" in this Annual Report, readers should consider the following:

- (a) Legislative, regulatory, or other changes in the health care industry at the local, state or federal level which increase the costs of or otherwise affect the operations of, our tenants and mortgageors;
- (b) Changes in the reimbursement available to our tenants and mortgageors by governmental or private payors, including changes in Medicare and Medicaid payment levels and the availability and cost of third party insurance coverage;
- (c) Competition for tenants and mortgageors, including with respect to new leases and mortgages and the renewal or rollover of existing leases;
- (d) Availability of suitable health care facilities to acquire at a favorable cost of capital and the competition for such acquisition and financing of health care facilities;
- (e) The ability of our tenants and mortgageors to operate our properties in a manner sufficient to maintain or increase revenues and to generate sufficient income to make rent and loan payments;
- (f) The financial weakness of some operators, including potential bankruptcies, which results in uncertainties in our ability to continue to realize the full benefit of such operators' leases;
- (g) Changes in national or regional economic conditions, including changes in interest rates and the availability and cost of capital;
- (h) The risk that we will not be able to sell or lease facilities that are currently vacant;
- (i) The potential costs of SB 1953 compliance with respect to our hospital in Tarzana, California;
- (j) The financial, legal and regulatory difficulties of two significant operators, Tenet and HealthSouth; and
- (k) The potential impact of existing and future litigation matters.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Summary

We are a real estate investment trust ("REIT") that invests in health care related properties located throughout the United States. We develop, acquire and manage health care real estate, and provide mortgage financing to health care providers. We invest directly, often structuring sale-leaseback transactions, and through joint ventures. At December 31, 2004, our real estate portfolio, including those held through joint ventures and mortgage loans, consisted of interests in 527 facilities located in 43 states.

The current operating environment presents many business challenges including (i) the prospect of rising interest rates, (ii) unprecedented state and federal budget deficits that are likely to dampen government reimbursement to the Medicare and Medicaid programs in the years to come, and (iii) a healthcare system in the United States that is projected to increase from 15.3% of gross domestic product (“GDP”) to 17.7% of GDP by 2012, according to the Centers for Medicare and Medicaid Services. Furthermore, health care real estate valuations are at unprecedented high levels driven, in part, by the emergence of new well-capitalized entrants into the health care real estate marketplace.

Our business strategy is based on three principles: (i) opportunistic investing, (ii) portfolio diversification, and (iii) conservative financing. We actively redeploy capital from investments with lower return potential into assets with higher return potential, and recycle capital from shorter term to longer term investments. We make investments where the expected risk-adjusted return exceeds our cost of capital and strive to leverage our operator and other business relationships.

Our strategy contemplates acquiring and developing properties on favorable terms. We attempt to structure transactions that are tax-advantaged and mitigate risks in our underwriting process. Generally, we prefer larger, more complex “negotiated” transactions that leverage our management team’s experience and infrastructure. During 2004, we made gross investments of \$538 million, including \$70 million of MOB development properties placed into service mid-year. These investments had an average first year yield on cost of just over 9% and allowed us to recycle \$100 million of capital with two operators — ARC and Emeritus — from shorter term loans into long term leases. Our 2004 net investments of \$438 million were allocated among the following healthcare sectors: (i) 23% assisted living facilities and CCRCs, (ii) 19% skilled nursing facilities, (iii) 49% MOBs, and (iv) 9% life sciences properties.

We follow a disciplined approach to enhancing the value of our existing portfolio, including the ongoing evaluation of properties for potential disposition that no longer fit our strategy. We sold 32 properties during 2004 for \$170 million and had 12 properties with a carrying amount of \$13.0 million as held for sale at year-end.

We primarily generate revenue by leasing health care related properties under long-term operating leases. Most of our rents are received under triple net leases; however, MOB rents are typically structured as gross or modified gross leases. Accordingly, for MOBs we incur certain property operating expenses, such as real estate taxes, repairs and maintenance, property management fees, utilities and insurance. Our growth depends, in part, on our ability to (i) increase rental income by increasing occupancy levels and rental rates, (ii) maximize tenant recoveries, and (iii) control operating and other expenses. Our operations are impacted by property specific, market specific, general economic and other conditions.

Access to external capital on favorable terms is critical to the success of our strategy. We attempt to match the long-term duration of our leases with long-term fixed rate financing. At December 31, 2004, 23% of our consolidated debt is at variable interest rates. We intend to maintain an investment grade rating on our fixed income securities and manage various capital ratios and amounts within appropriate parameters. Our senior debt is rated BBB+ by both Standard & Poor’s and Fitch Ratings and Baa2 by Moody’s Investors Service.

Capital market access impacts our cost of capital and our ability to refinance existing indebtedness as it matures, as well as to fund future acquisitions and development through the issuance of additional securities. Our ability to access capital on favorable terms is dependent on various factors, including general market conditions, interest rates, credit ratings on our securities, perception of our potential future earnings and cash distributions, and the market price of our capital stock.

2004 Overview

Real Estate Transactions

- On January 16, 2004, we acquired a health care laboratory and biotech research facility located in San Diego, California for a purchase price of approximately \$40 million.
- On February 27, 2004, we sold a portfolio of seven MOBs and ten other health care facilities for \$127.6 million and used a portion of the proceeds to retire \$31.3 million of related mortgage debt at an average interest rate of 7.67%.
- On April 30 and June 1, 2004, we acquired nine skilled nursing facilities with a total of 934 beds for approximately \$63 million in related transactions. The nine facilities, leased to the same operator, have an initial lease term of five years with three five-year renewal options. The first year annual lease rate is approximately 9.3%.
- On June 10, 2004, we acquired a 79,000 square foot MOB located in Las Vegas, Nevada, for a purchase price of approximately \$22 million.
- On July 15, 2004, we acquired substantially all of American Retirement Corporation's ("ARC") interest in three CCRCs and one assisted living facility for \$113 million. The transaction was structured as a sale-leaseback with an initial lease term of ten years and three ten-year renewal options. The first year lease rate is 9% with additional rents contingent on facility revenue exceeding certain thresholds. ARC used a portion of the proceeds to repay its existing \$82.6 million secured loan and interest thereon to us. Additionally, we provided ARC with a new \$5.7 million mortgage loan at 9%, which was repaid in 2005.
- On July 28, 2004, we acquired eleven assisted living facilities from Emeritus Corporation for \$84 million, including \$56 million of assumed debt, through a sale-leaseback transaction. These facilities have an initial lease term of 15 years, with two ten-year renewal options. The initial annual lease rate is approximately 9.25% with Consumer Price Index ("CPI") based escalators not exceeding 3% annually. Emeritus used \$17 million of the proceeds to repay existing debt owed to us. The \$56 million of assumed debt was subsequently repaid by us in December 2004.
- On December 17, 2004, we acquired three MOBs, a 42% condominium interest in a fourth MOB and one retail/garage building for \$111 million from Swedish Medical Center in Seattle, Washington. These properties include approximately 481,000 rentable square feet and nearly 2,000 parking spaces. Swedish Medical Center occupies 20% of the rentable square feet and the properties were 96% occupied when acquired.
- In mid-2004, we placed into service \$70 million of MOB development properties.
- During 2004, we sold properties valued at approximately \$170 million, including \$127.6 million of properties sold on February 27, 2004 as noted above, principally comprised of MOBs.

Financing Transactions

- In January 2004, we received \$92 million of net proceeds in connection with the completion of \$288 million of non-recourse mortgage financings by HCP Medical Office Portfolio, LLC ("HCP MOP"), a joint venture between us and an affiliate of General Electric ("GE"). The weighted average fixed interest rate on \$254 million of such indebtedness was 5.57% with the balance at variable interest rates based on LIBOR plus 1.75%.
- On June 3, 2004 we issued \$25 million in aggregate principal amount of 6.00% senior notes due 2014 and \$25 million in aggregate principal amount of variable-rate senior notes due 2014. On July 13, 2004, we issued \$37 million in aggregate principal amount of 6.00% senior notes due 2014.

- On October 26, 2004, we closed a new \$500 million, three-year, unsecured revolving credit facility which replaced our previous \$490 million line of credit. The new agreement is priced, based upon our current credit rating, at 65 basis points over LIBOR with a 15 basis point facility fee.

Other Events

- On January 22, 2004, we announced that our Board of Directors approved a 2-for-1 stock split effective March 2, 2004.
- On October 15, 2004, we and GE authorized the expansion of our HCP MOP joint venture from \$600 million to \$1.1 billion of total capitalization.
- Dividends paid were \$1.67 per share for 2004 and are expected to be \$1.68 per share in 2005. Our Board of Directors has determined to continue the policy established in 2003 of considering dividend increases on an annual rather than quarterly basis.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”), requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base estimates on our experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting would have been applied resulting in a different presentation of our financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain.

Revenue Recognition

Rental income from tenants is our principal source of revenue and is recognized in accordance with GAAP, including Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 104, *Revenue Recognition* (“SAB 104”). For leases with minimum scheduled rent increases, we recognize income on a straight-line basis over the lease term when collectibility is reasonably assured. Recognizing rental income on a straight-line basis for leases results in recognized revenue exceeding amounts contractually due from the tenant. Such cumulative excess amounts are included in other assets in our consolidated balance sheets. In the event we determine that collectibility of amounts for straight-line rents is not reasonably assured, we limit future recognition to amounts contractually owed and, where appropriate, we establish an allowance for estimated losses.

We monitor the liquidity and creditworthiness of our tenants and borrowers on an ongoing basis. Our evaluation considers industry and economic conditions, property performance, security deposits and guarantees, and other matters. We establish provisions and maintain an allowance for estimated losses resulting from the possible inability of our tenants and borrowers to make payments sufficient to recover recognized assets. For straight-line rent amounts, our assessment is based on income recoverable over the term of the lease. Our ability to assess the collectibility potential of amounts to be received from tenants and borrowers directly affects our reported financial position and results of operations.

Real Estate

Real estate, consisting of land, buildings, and improvements, is recorded at cost. We allocate the cost of the acquisition to the acquired tangible and identified intangible assets and liabilities, primarily lease related

intangibles, based on their estimated fair values in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, *Business Combinations*.

We assess fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

We record acquired “above and below” market leases at their fair value, using a discount rate which reflects the risks associated with the leases acquired, equal to the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management’s estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed-rate renewal options for below-market leases. Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant’s lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related costs.

Real estate assets are periodically reviewed for potential impairment by comparing the carrying amount to the expected undiscounted future cash flows to be generated from the assets. If the sum of the expected future net undiscounted cash flows is less than the carrying amount of the property, we will recognize an impairment loss by adjusting the asset’s carrying amount to its estimated fair value. Fair value for properties to be held and used is based on the present value of the future cash flows expected to be generated from the asset. Properties held for sale are recorded at the lower of carrying amount or fair value less costs to dispose. Our ability to accurately predict future cash flows impacts the determination of fair value, which may significantly impact our reported results of operations.

Consolidation and Investments in Joint Ventures

Our consolidated financial statements include the accounts of Health Care Property Investors, Inc., its wholly owned subsidiaries and its controlled, through voting rights or other means, joint ventures. We adopted Interpretation No. 46R, *Consolidation of Variable Interest Entities*, an Interpretation of Accounting Research bulletin No. 51” (“FIN 46”) effective January 1, 2004 for variable interest entities created before February 1, 2003, and effective January 1, 2003 for variable interest entities created after January 31, 2003. FIN 46 provides guidance on the identification of entities for which control is achieved through means other than voting rights (“variable interest entities” or “VIEs”) and the determination of which business enterprise is the primary beneficiary of the VIE. Application of FIN 46 requires complex judgments and estimates. Our ability to correctly assess our influence or control over an entity affects our reported financial condition and results of operations. A variable interest entity is broadly defined as an entity where either (i) the equity investors as a group, if any, do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance that entity’s activities without additional financial support. We consolidate investments in VIEs when we determine that we are the primary beneficiary of the VIE. The adoption of FIN 46 resulted in the consolidation of five joint ventures effective January 1, 2004, that were previously accounted for under the equity method. The consolidation of these joint ventures did not have a significant effect on our consolidated financial statements or results of operations.

Investments in entities in which we do not consolidate but over which we have the ability to exercise significant influence over operating and financial policies are reported under the equity method. Generally, under the equity method of accounting, our share of the investee’s earnings or loss is included in our operating results.

Results of Operations

Year Ended December 31, 2004 as Compared to Year Ended December 31, 2003

Rental income. Triple net rental income increased 17% to \$280.1 million primarily due to acquisitions completed in 2004. We also recognized \$5.7 million of rental income during the fourth quarter of 2004 resulting from a change in estimate related to the collectibility of straight-line rental income from ARC. The consolidation of five joint ventures upon the adoption of FIN 46 effective January 2004 increased reported triple net rental income by approximately \$2.8 million.

Medical office building rental income increased 28% to \$108.6 million in 2004. The increase is primarily related to 13 properties purchased from MedCap in October 2003, including four development properties we placed in service in mid-2004, and other MOB acquisition activities.

Equity income. Equity income from unconsolidated joint ventures reflects a full year of operations from HCP MOP in 2004 versus three months in 2003. This was offset by higher HCP MOP interest expense following HCP MOP obtaining \$288 million of non-recourse mortgage debt in early 2004. During 2004 and 2003, we recognized \$1.5 million and \$1.7 million of equity income from HCP MOP, respectively. At December 31, 2004, 100 properties were held by unconsolidated joint ventures, including HCP MOP, compared to 115 properties at December 31, 2003.

Interest and other income. Interest and other income for 2004 was \$37.9 million representing a decline of 22%. The change reflects the net effects of (i) \$4.6 million of revenue from the recognition of ARC related interest income upon the repayment during 2004 to us by ARC of \$83 million of debt and accrued interest thereon, and (ii) a reduced level of loans receivable following the aforementioned repayment from ARC and a \$17 million repayment from Emeritus. During 2004 and 2003, we also recognized management and other fees from HCP MOP of \$3.1 million and \$2.5 million, respectively. Other income in 2003 includes a \$3.4 million tax related accrual reversal related to our 1999 acquisition of American Health Properties.

Interest expense. Interest expense increased slightly over 2003. The increase was due to the net effects of (i) the assumption of \$81 million of mortgage debt in conjunction with the ARC and Emeritus transactions in July 2004, (ii) the retirement of \$31 million of mortgage debt in the first quarter of 2004 in connection with the sale of \$127 million of MOB and other health care properties, and (iii) other changes in average borrowings levels. Interest expense in 2004 also included \$0.8 million of previously unamortized deferred financing costs that were written off in connection with the refinancing of our revolving credit agreement.

Operating costs and expenses. Operating costs were \$43.3 million during 2004 representing an increase of 33%. Operating costs are predominately related to MOB properties that are leased under gross or modified gross lease agreements where we share certain costs with tenants. Additionally, we contract with third party property managers on most of our MOB properties. Accordingly, the number of properties in our MOB portfolio directly impacts operating costs. The increases were primarily attributable to the acquisition of 13 properties from MedCap in October 2003, including four development properties we placed in service in mid-2004. In the fourth quarter of 2004, we increased our allowance for loan losses by \$1.6 million on certain unsecured loans. The provision resulted from one operator who defaulted on the payment of two of four unsecured notes upon their maturity and our recent credit assessment of another operator.

General and administrative expenses. General and administrative expenses were \$36.0 million in 2004 compared to \$24.4 million in 2003, primarily reflecting higher employee compensation costs. Also contributing to the increase was \$0.7 million in expenses associated with the move of our corporate offices to Long Beach, CA, \$1.5 million in income tax expense on income from certain assets held in a TRS, and a charge of \$1.6 million related to the settlement of a lawsuit filed against us by our former Executive Vice President and Chief Financial Officer. Additionally, during 2004 we implemented a new information

technology system to enhance our reporting and asset management activities and expended considerable resources towards compliance with recent regulatory requirements, principally the Sarbanes-Oxley Act of 2002.

Depreciation and amortization. Real estate depreciation and amortization increased primarily due to the acquisition and construction of properties aggregating approximately \$538 million during 2004 and \$239 million during 2003.

Impairments. Impairment losses on real estate were \$17.1 million in 2004 and \$14.0 million in 2003. Included in continuing operations were impairments of \$3.2 million and \$2.1 million for 2004 and 2003, respectively, which relate to two and one properties, respectively.

Discontinued operations. Income from discontinued operations for 2004 and 2003 were \$11.2 million and \$12.6 million, respectively. The decrease is due to a decline in operating income from discontinued operations of \$8.4 million to \$4.0 million for 2004 partially offset by a net gain on real estate dispositions and impairments of \$7.2 million in 2004 compared to a net gain on real estate dispositions and impairments of \$0.2 million in 2003.

Year Ended December 31, 2003 as Compared to Year Ended December 31, 2002

Rental income. Triple net related income increased 6% to \$240.2 million during 2003, primarily attributable to acquisitions. MOB rental income for 2003 increased 17% primarily due to acquisition and development activity.

Equity income. Equity income from unconsolidated joint ventures was \$2.9 million for 2003 compared to \$0.9 million in 2002 reflecting our investment in HCP MOP in October 2003. During 2003, we recognized \$1.7 million of equity income from HCP MOP. At December 31, 2003, 115 properties were held by unconsolidated joint ventures, including HCP MOP, compared to 19 properties at December 31, 2002.

Interest and other income. Interest and other income increased primarily due to the September 2002 loan to ARC, as well as a partial prepayment of that loan in September 2003. Other income in 2003 includes a \$3.4 million tax related accrual reversal related to our 1999 acquisition of American Health Properties.

Interest expense. Interest expense was higher in 2003 due to the issuance of \$200 million principal amount of 6% long term debt in February 2003 and \$250 million principal amount of 6.45% long term debt in June 2002.

Operating cost and expenses. Operating costs were \$32.5 million for 2003 representing an increase of 28%. The increase was primarily attributable to the acquisition of 13 properties from MedCap in October 2003.

General and administrative. General and administrative expenses increased 31% to \$24.4 million for 2003. Higher general and administrative expenses were caused by costs related to vacant properties, an increase in troubled operators, duplicate asset management functions resulting from the acquisition and transition of MedCap, and higher employee compensation costs.

Depreciation and amortization. Real estate depreciation and amortization increased 8% to \$73.3 million as a result of the acquisition of properties totaling approximately \$239 million during 2003 and \$233 million in 2002.

Impairments. Impairment losses included in continuing operations were \$2.1 million and zero for the 2003 and 2002, respectively. Impairment losses included in continuing operations during 2003 relate to one property.

Preferred stock redemptions. Preferred stock redemption charges were \$18.6 million in 2003 and relate to the repurchase of outstanding preferred stock at an amount in excess of the carrying amount.

Discontinued operations. The increase in income from discontinued operations for 2003 is due to a net gain on real estate dispositions and impairments of \$0.2 million compared to a net loss on real estate dispositions and impairments of \$10.3 million in 2002, partially offset by a decline in operating income from discontinued operations of \$5.0 million to \$12.4 million for 2003 from \$17.4 million in 2002. Discontinued operations include impairment charges of \$11.9 million and \$11.0 million for 2003 and 2002, respectively.

Liquidity and Capital Resources

Our principal liquidity needs are to (i) fund normal operating expenses, (ii) meet debt service requirements, (iii) fund capital expenditures including tenant improvements and leasing costs, (iv) fund acquisition and development activities, and (v) make minimum distributions required to maintain our REIT qualification under the Internal Revenue Code, as amended.

We believe these needs will be satisfied using cash flows generated by operations and provided by financing activities. We intend to repay maturing debt with proceeds from future debt and/or equity offerings and anticipate making future investments dependent on the availability of cost-effective sources of capital. We use the public debt and equity markets as our principal source of financing. As of December 31, 2004, our senior debt is rated BBB+ by both Standard & Poor's Ratings Group and Fitch Ratings and Baa2 by Moody's Investors Service.

Net cash provided by operating activities was \$272.5 million and \$263.6 million for 2004 and 2003, respectively. Cash flow from operations reflects increased revenues offset by higher costs and expenses, and changes in receivables, payables, accruals, and deferred revenue. Our cash flows from operations are dependent upon the occupancy level of multi-tenant buildings, rental rates on leases, our tenants' performance on their lease obligations, the level of operating expenses, and other factors. See Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations.

Net cash used in investing activities was \$82.0 million during 2004 and principally reflects the net effect of: (i) \$127.6 million received from the sale of seven medical office buildings and 10 other health care related facilities in the first quarter, (ii) \$340.9 million principally used to fund acquisitions, (iii) \$92.0 million received from HCP MOP upon the completion of \$288 million of non-recourse mortgage financing, and (iv) \$25.6 million in principal repayments received on loans. The ARC and Emeritus transactions retired approximately \$100 million of aggregate loans owed to us simultaneously with the related property acquisitions. Accordingly, this portion of these transactions has been considered a non-cash activity. See Note 12 to the Consolidated Financial Statements. During 2004 and 2003, we used \$3.4 million and \$6.5 million to fund lease commissions and tenant and capital improvements, respectively.

Net cash used in financing activities was \$187.8 million for 2004 and includes: (i) the repayment of approximately \$92.0 million of senior notes, (ii) payment of common and preferred dividends aggregating \$243.3 million, and (iii) repayments on mortgage debt of \$69.4 million, including \$56.6 million of debt we assumed in connection with the Emeritus transaction. These uses were partially offset by proceeds of \$42.6 million from common stock issuances, \$87.0 million from senior note issuances, and \$102.1 million from net proceeds on our line of credit. In order to qualify as a REIT for federal income tax purposes, we must distribute at least 90% of our taxable income to our shareholders. Accordingly, we intend to continue to make regular quarterly distributions to holders of our common and preferred stock.

At December 31, 2004, we held approximately \$16.9 million in deposits and \$27.6 million in irrevocable letters of credit from commercial banks securing tenants' lease obligations and borrowers' loan obligations. We may draw upon the letters of credit or depository accounts if there are defaults under the related leases or loans. Amounts available under letters of credit could change based upon facility operating conditions and other factors and such changes may be material.

Debt

At December 31, 2004, we have the following outstanding debt:

Revolving line of credit. Borrowings under the line of credit were \$300 million at December 31, 2004 with a weighted average interest rate of 3.14%. On October 26, 2004, we closed a new \$500 million three-year unsecured revolving credit facility. The facility accrues interest, based on our current credit ratings, at 65 basis points over LIBOR with a 15 basis point facility fee. In addition, a competitive bid option, whereby the lenders participating in the credit facility bid on the interest to be charged which may result in a reduced interest rate, is available for up to 50% of borrowings. The credit facility also contains an “accordion” feature allowing borrowings to be increased by \$100 million in certain conditions.

The new credit agreement contains certain financial restrictions and requirements customary in transactions of this type. The more significant covenants, using terms defined in the agreements, limit (i) Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) Secured Debt to Consolidated Total Asset Value to 30% and (iii) Unsecured Debt to Consolidated Unencumbered Asset Value to 60%. We must also maintain (i) a Fixed Charge Coverage ratio, as defined, of 1.75 times and (ii) a formula-determined Minimum Tangible Net Worth. As of December 31, 2004 we were in compliance with each of these restrictions and requirements.

Mortgage debt. At December 31, 2004, we had \$139.4 million in mortgage debt secured by 28 health care facilities with a carrying amount of \$268.4 million. Interest rates on the mortgage notes ranged from 1.07% to 9.32% with a weighted average rate of 7.86% at December 31, 2004.

The instruments encumbering the properties restrict title transfer of the respective properties subject to the terms of the mortgage, prohibit additional liens, require payment of real estate taxes, maintenance of the properties in good condition, maintenance of insurance on the properties and include a requirement to obtain lender consent to enter into material tenant leases.

Senior unsecured notes. At December 31, 2004 we had \$1.0 billion in aggregate principal amount of senior unsecured notes outstanding. Interest rates on the notes ranged from 3.39% to 7.875% with a weighted average rate of 6.55% at December 31, 2004.

Senior unsecured notes include \$200 million principal amount of 6.875% Mandatory Par Put Remarketed Securities (“MOPPRS”) due June 8, 2015. The MOPPRS contain an option (the “MOPPRS Option”) exercisable by the Remarketing Dealer, an investment bank affiliate, which derives its value from the yield on ten-year U.S. Treasury rates relative to a fixed strike rate of 5.565%. Generally, the value of the option to the Remarketing Dealer increases as ten-year Treasury rates decline and the option’s value to the Remarketing Dealer decreases as ten-year Treasury rates rise. The ten year U.S. Treasury rate at December 31, 2004 was 4.24%. The value of this option to the Remarketing Dealer approximated \$20 million at December 31, 2004. Conversely, such amount represents a potential unrecognized loss to us.

On June 8, 2005, if the ten-year Treasury rate is less than 5.565%, we expect that the Remarketing Dealer will exercise the MOPPRS Option, redeem the securities from the holders at par plus accrued interest, and reissue the senior notes as ten-year notes at a premium based on a fixed coupon interest rate set at our applicable credit spread plus 5.565%. However, if the ten-year Treasury rate is above 5.565%, we expect that the Remarketing Dealer will redeem the outstanding senior notes and we will be required to repurchase the outstanding MOPPRS at par plus accrued interest.

Debt Maturities

The following table summarizes our stated debt maturities and scheduled principal repayments at December 31, 2004 (in thousands):

<u>Year</u>	<u>Amount</u>
2005	\$ 247,198
2006	142,391
2007	444,161
2008	7,178
2009	4,605
Thereafter	<u>643,404</u>
	<u>\$1,488,937</u>

Equity

At December 31, 2004, we have outstanding 4,000,000 shares of 7.25% Series E cumulative redeemable preferred stock, 7,820,000 shares of 7.10% Series F cumulative redeemable preferred stock, and 133.7 million shares of common stock.

During 2004, we issued approximately 853,000 shares of our common stock under our Dividend Reinvestment and Stock Purchase Plan at an average price per share of \$25.37 for an aggregate amount of \$21.7 million. We also received \$21.1 million in proceeds from stock option exercises. At December 31, 2004, stockholders' equity totaled \$1.4 billion and our equity securities had a market value of \$4.1 billion.

As of December 31, 2004, there were a total of 2.5 million non-managing member units outstanding in four limited liability companies of which we are the managing member: HCPI/Tennessee, LLC; HCPI/Utah, LLC; HCPI/Utah II, LLC; and HCPI/Indiana, LLC. The non-managing member units are exchangeable for an amount of cash approximating the then-current market value of two shares of our common stock or, at our option, two shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications). During the year ended December 31, 2004, we issued 20,287 non-managing member units.

As of December 31, 2004, we had \$1.5 billion available for future issuances of debt and equity securities under a shelf registration statement filed with the SEC. These securities may be issued from time to time in the future based on our needs and the then-existing market conditions.

Off-Balance Sheet Arrangements

We own interests in certain unconsolidated joint ventures, including HCP MOP, as described under Note 6 to the Consolidated Financial Statements. Except in limited circumstances, our risk of loss is limited to our investment carrying amount and any outstanding loans receivable.

See Liquidity and Capital Resources — Debt for a discussion of the MOPPRS Option related to our senior unsecured notes.

We have no other material off balance sheet arrangements that we expect to materially effect our liquidity and capital resources except these described under "Contractual Obligations".

Contractual Obligations

Following are our material contractual payment obligations and commitments at December 31, 2004 (in thousands):

	<u>Less than One Year</u>	<u>2006-2007</u>	<u>2008-2009</u>	<u>More than Five Years</u>	<u>Total</u>
Unsecured senior notes and mortgage debt	\$247,198	\$286,452	\$11,783	\$643,404	\$1,188,837
Revolving line of credit	—	300,100	—	—	300,100
Acquisition and construction commitments	5,028	—	—	—	5,028
Operating leases	1,037	2,138	2,227	95,725	101,127
Interest expense	70,628	95,667	81,521	130,518	378,334
Total	<u>\$323,891</u>	<u>\$684,357</u>	<u>\$95,531</u>	<u>\$869,647</u>	<u>\$1,973,426</u>

See Liquidity and Capital Resources — Debt for a discussion of the MOPPRS Option related to our senior unsecured notes.

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 our tenant's facility revenue. Substantially all of our MOB leases require the tenant to pay a share of property operating costs such as real estate taxes, insurance, utilities, etc. We believe that inflationary increases in expenses will be offset, in part, by the tenant expense reimbursements and contractual rent increases described above.

New Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for the impact of new accounting standards.

ITEM 7a. Quantitative and Qualitative Disclosures About Market Risk

At December 31, 2004, we are exposed to market risks related to fluctuations in interest rates on \$11.9 million of variable rate mortgage notes payable, \$300.1 million of variable rate bank debt and \$25 million of variable senior notes. Of our consolidated debt of \$1.5 billion at year end 2004, approximately 23% is at variable interest rates with the balance at fixed interest rates.

Fluctuation in the interest rate environment will not affect our future earnings and cash flows on our fixed rate debt until that debt must be replaced or refinanced. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt would change our future earnings and cash flows, but not affect the fair value of those instruments. Assuming a one percentage point increase in the interest rate related to the variable-rate debt including the mortgage notes payable, the bank line of credit and senior notes, and assuming no change in the outstanding balance as of December 31, 2004, interest expense for 2004 would increase by approximately \$3.4 million, or \$0.03 per common share on a diluted basis.

The principal amount and the average interest rates for our mortgage loans receivable and debt categorized by maturity dates is presented in the table below. The fair value estimates for the mortgage loans receivable are based on the estimates of management and on rates currently prevailing for comparable loans. The fair market value estimates for debt securities are based on discounting future cash flows utilizing current rates offered to us for debt of the same type and remaining maturity.

	<u>Maturity</u>						<u>Total</u>	<u>Fair Value</u>
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>		
	(dollars in thousands)							
Loans Receivable:								
Secured loans receivable	\$ 16,377	\$ 62,345	\$ 12,854	\$ 2,280	\$ 7,076	\$ 39,768	\$ 140,700	\$ 161,960
Weighted average interest rate	11.57%	10.32%	13.79%	10.50%	12.15%	11.02%	10.90%	
Liabilities:								
Variable rate debt:								
Bank notes payable	—	—	\$ 300,100	—	—	—	\$ 300,100	\$ 300,100
Weighted average interest rate	—	—	3.140%	—	—	—	3.14%	
Senior notes payable	—	—	—	—	—	\$ 25,000	\$ 25,000	\$ 25,000
Weighted average interest rate	—	—	—	—	—	3.39%	3.39%	
Mortgage notes payable . . .	\$ 245	\$ 3,655	—	—	—	\$ 8,010	\$ 11,910	\$ 11,910
Weighted average interest rate	1.60%	1.07%	—	—	—	1.07%	1.08%	
Fixed rate debt:								
Senior notes payable	\$ 231,000	\$ 135,000	\$ 140,000	—	—	\$ 518,421	\$ 1,024,421	\$ 1,100,379
Weighted average interest rate	6.95%	6.71%	7.49%	—	—	6.22%	6.62%	
Mortgage notes payable . . .	\$ 15,953	\$ 3,736	\$ 4,061	\$ 7,178	\$ 4,605	\$ 91,973	\$ 127,506	\$ 151,945
Weighted average interest rate	9.14%	8.21%	8.21%	8.05%	8.02%	7.58%	7.86%	

See Liquidity and Capital Resources — Debt for a discussion of the MOPPRS Option related to our senior notes.

ITEM 8. Financial Statements and Supplementary Data

See Index to Consolidated Financial Statements.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

We have had no disagreements with our independent registered public accounting firm on accounting and financial disclosure.

ITEM 9a. Controls and Procedures

Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Also, we have investments in certain unconsolidated entities. Our disclosure controls and procedures with respect to such entities are substantially more limited than those we maintain with respect to our consolidated subsidiaries.

As required by Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2004. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting. We devoted significant time and resources during 2004 to initiatives intended to improve our internal control over financial reporting. We undertook these actions in response to (i) management's and the Audit Committee's directives to strengthen internal controls as a result of our growth and increased complexity, and (ii) changes in laws and regulations affecting public companies, including requirements to comply with Section 404 of the Sarbanes Oxley Act of 2002 for the year ended December 31, 2004. As part of these initiatives, we established an internal audit function, implemented a new information system with significant changes in related processes and procedures, and enhanced our accounting and finance staff. Additionally, in connection with our Section 404 compliance effort, we addressed certain internal control deficiencies by, among other things, formalizing and communicating certain policies and procedures, redesigning and integrating systems and processes, strengthening information technology general and application controls, and improving authorization and monitoring controls. All significant initiatives are conducted under the Audit Committee's and senior management's oversight.

Management's Annual Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rule 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004, has been attested to by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Health Care Property Investors, Inc.

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that Health Care Property Investors, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Health Care Property Investors, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Health Care Property Investors, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Health Care Property Investors, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Health Care Property Investors, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004 and the related schedule, and our report dated March 9, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Irvine, California
March 9, 2005

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Our executive officers were as follows on February 20, 2005:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kenneth B. Roath	69	Chairman
James F. Flaherty III	47	President and Chief Executive Officer
Charles A. Elcan	41	Executive Vice President — Medical Office Properties
Paul F. Gallagher	44	Executive Vice President — Portfolio Strategy
Edward J. Henning	51	Senior Vice President — General Counsel and Corporate Secretary
Stephen R. Maulbetsch . .	47	Senior Vice President — Acquisitions and Dispositions
Talya Nevo-Hacohen	45	Senior Vice President — Strategic Development and Treasurer
Mark A. Wallace	47	Senior Vice President and Chief Financial Officer

We hereby incorporate by reference the information appearing under the captions “Board of Directors and Executive Officers,” “Code of Business Conduct,” “Board of Directors and Executive Officers — Committees of the Board” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Registrant’s definitive proxy statement relating to its Annual Meeting of Stockholders to be held on May 12, 2005.

The Company has filed, as exhibits to this Annual Report on Form 10-K for the year ended December 31, 2004, the certifications of its Chief Executive Officer and Chief Financial Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2004.

On June 3, 2004, the Company submitted to the New York Stock Exchange the Annual CEO Certification required pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

ITEM 11. Executive Compensation

We hereby incorporate by reference the information under the caption “Executive Compensation” in the Registrant’s definitive proxy statement relating to its Annual Meeting of Stockholders to be held on May 12, 2005.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We hereby incorporate by reference the information under the captions “Principal Stockholders” and “Board of Directors and Executive Officers” in the Registrant’s definitive proxy statement relating to its Annual Meeting of Stockholders to be held on May 12, 2005.

ITEM 13. Certain Relationships and Related Transactions

We hereby incorporate by reference the information under the captions “Certain Transactions” and “Compensation Committee Interlocks and Insider Participation” in the Registrant’s definitive proxy statement relating to its Annual Meeting of Stockholders to be held on May 12, 2005.

ITEM 14. Principal Accountant Fees and Services

We hereby incorporate by reference under the caption “Audit and Non-Audit Fees” in the Registrant’s definitive proxy statement relating to its Annual Meeting of Shareholders to be held on May 12, 2005.

ITEM 15. Exhibits, Financial Statements, Schedules and Reports on Form 8-K

a) Financial Statements:

- 1) Report of Independent Registered Public Accounting Firm
- 2) Financial Statements
 - Consolidated Balance Sheets — December 31, 2004 and 2003
 - Consolidated Statements of Income — for the years ended December 31, 2004, 2003 and 2002
 - Consolidated Statements of Stockholders' Equity — for the years ended December 31, 2004, 2003 and 2002
 - Consolidated Statements of Cash Flows — for the years ended December 31, 2004, 2003 and 2002
 - Notes to Consolidated Financial Statements
 - Schedule III: Real Estate and Accumulated Depreciation
 - Note: All other schedules have been omitted because the required information is presented in the financial statements and the related notes or because the schedules are not applicable.

b) Reports on Form 8-K:

Current Report on Form 8-K, filed with the Securities and Exchange Commission on January 28, 2005, pursuant to which the Company filed an amendment to its Amended and Restated 2000 Stock Incentive Plan and approved various stock agreements and amended an employment agreement for one of its senior officers.

c) Exhibits:

- 3.1 Articles of Restatement of HCP (incorporated by reference in exhibit 3.1 to HCP report on form 10-Q for the period of June 30, 2004).
- 3.2 Third Amended and Restated Bylaws of HCP. (Incorporated by reference in exhibit 3.2 to HCP is report on form 10-Q for the period of June 30, 2004.)
- 4.1 Indenture, dated as of September 1, 1993, between HCP and The Bank of New York, as Trustee, with respect to the Series C and D Medium Term Notes, the Senior Notes due 2006 and the Mandatory Par Put Remarketed Securities due 2015 (incorporated by reference to exhibit 4.1 to HCP's registration statement on Form S-3 dated September 9, 1993).
- 4.2 Indenture, dated as of April 1, 1989, between HCP and The Bank of New York for Debt Securities (incorporated by reference to exhibit 4.1 to HCP's registration statement on Form S-3 dated March 20, 1989).
- 4.3 Form of Fixed Rate Note (incorporated by reference to exhibit 4.2 to HCP's registration statement on Form S-3 dated March 20, 1989).
- 4.4 Form of Floating Rate Note (incorporated by reference to exhibit 4.3 to HCP's registration statement on Form S-3 dated March 20, 1989).
- 4.5 Registration Rights Agreement dated November 20, 1998 between HCP and James D. Bremner (incorporated by reference to exhibit 4.8 to HCP's annual report on Form 10-K for the year ended December 31, 1999). This exhibit is identical in all material respects to two other documents except the parties thereto. The parties to these other documents, other than HCP, were James P. Revel and Michael F. Wiley.

- 4.6 Registration Rights Agreement dated January 20, 1999 between HCP and Boyer Castle Dale Medical Clinic, L.L.C. (incorporated by reference to exhibit 4.9 to HCP's annual report on Form 10-K for the year ended December 31, 1999). This exhibit is identical in all material respects to 13 other documents except the parties thereto. The parties to these other documents, other than HCP, were Boyer Centerville Clinic Company, L.C., Boyer Elko, L.C., Boyer Desert Springs, L.C., Boyer Grantsville Medical, L.C., Boyer-Ogden Medical Associates, LTD., Boyer Ogden Medical Associates No. 2, LTD., Boyer Salt Lake Industrial Clinic Associates, LTD., Boyer-St. Mark's Medical Associates, LTD., Boyer McKay-Dee Associates, LTD., Boyer St. Mark's Medical Associates #2, LTD., Boyer Iomega, L.C., Boyer Springville, L.C., and—Boyer Primary Care Clinic Associates, LTD. #2.
- 4.7 Form of Deposit Agreement (including form of Depositary Receipt with respect to the Depositary Shares, each representing one-one hundredth of a share of our 8.60% Cumulative Redeemable Preferred Stock, Series C) (incorporated by reference to exhibit 4.8 to HCP's quarterly report on Form 10-Q for the period ended March 31, 2001) dated as of March 1, 2001 by and among HCP, Wells Fargo Bank Minnesota, N.A. and the holders from time to time of the Depositary Shares described therein.
- 4.8 Indenture, dated as of January 15, 1997, between American Health Properties, Inc. and The Bank of New York, as trustee (incorporated herein by reference to exhibit 4.1 to American Health Properties, Inc.'s current report on Form 8-K (file no. 001-09381), dated January 21, 1997).
- 4.9 First Supplemental Indenture, dated as of November 4, 1999, between HCP and The Bank of New York, as trustee (incorporated by reference to HCP's quarterly report on Form 10-Q for the period ended September 30, 1999).
- 4.10 Dividend Reinvestment and Stock Purchase Plan, dated November 9, 2000 (incorporated by reference to exhibit 99.1 to HCP's registration statement on Form S-3 dated November 13, 2000, registration number 333-49796).
- 4.11 Registration Rights Agreement dated August 17, 2001 between HCP, Boyer Old Mill II, L.C., Boyer-Research Park Associates, LTD., Boyer Research Park Associates VII, L.C., Chimney Ridge, L.C., Boyer-Foothill Associates, LTD., Boyer Research Park Associates VI, L.C., Boyer Stansbury II, L.C., Boyer Rancho Vistoso, L.C., Boyer-Alta View Associates, LTD., Boyer Kaysville Associates, L.C., Boyer Tatum Highlands Dental Clinic, L.C., Amarillo Bell Associates, Boyer Evanston, L.C., Boyer Denver Medical, L.C., Boyer Northwest Medical Center Two, L.C., and Boyer Caldwell Medical, L.C. (incorporated by reference to exhibit 4.12 to HCP's annual report on Form 10-K for the year ended December 31, 2001).
- 4.12 Acknowledgment and Consent dated as of March 1, 2005 by and among Merrill Lynch Bank USA, Gardner Property Holdings, L.C., HCPI/Utah, LLC, the unit holders of HCPI/Utah, LLC and HCPI.
- 4.13 Acknowledgment and Consent dated as of March 1, 2005 by and among Merrill Lynch Bank USA, The Boyer Company, L.C., HCPI/Utah, LLC, the unit holders of HCPI/Utah, LLC and HCPI.
- 4.14 Officers' Certificate pursuant to Section 301 of the Indenture dated as of September 1, 1993 between HCP and the Bank of New York, as Trustee, establishing a series of securities entitled "6.00% Senior Notes due March 1, 2015" (incorporated by reference to exhibit 3.1 to HCP's current report on form 8-K (file no. 001-08895), dated February 25, 2003.)

- 4.15 Registration Rights Agreement dated October 1, 2003 between HCP, Charles Crews, Charles A. Elcan, Thomas W. Hulme, Thomas M. Klaritch, R. Wayne Price, Glenn T. Preston, Janet Reynolds, Angela M. Playle, James A. Croy, John Klaritch as Trustee of the 2002 Trust f/b/o Erica Ann Klaritch, John Klaritch as Trustee of the 2002 Trust f/b/o Adam Joseph Klaritch, John Klaritch as Trustee of the 2002 Trust f/b/o Thomas Michael Klaritch, Jr. and John Klaritch as Trustee of the 2002 Trust f/b/o Nicholas James Klaritch (incorporated by reference to exhibit 4.16 to HCP's quarterly report on Form 10-Q for the period ended September 30, 2003).
- 4.16 Amended and Restated Dividend Reinvestment and Stock Purchase Plan, dated October 23, 2003 (incorporated by reference to HCP's registration statement on Form S-3 dated December 5, 2003, registration number 333-110939).
- 4.17 Specimen of Stock Certificate representing the Series E Cumulative Redeemable Preferred Stock, par value \$1.00 per share (incorporated herein by reference to exhibit 4.1 of HCP's 8-A12B filed on September 12, 2003).
- 4.18 Specimen of Stock Certificate representing the Series F Cumulative Redeemable Preferred Stock, par value \$1.00 per share (incorporated herein by reference to exhibit 4.1 of HCP's 8-A12B filed on December 2, 2003).
- 4.19 Form of Floating Rate Note (incorporated by reference to exhibit 4.3 to HCP's Current Report on Form 8-K dated November 19, 2003).
- 4.20 Form of Fixed Rate Note (incorporated by reference to exhibit 4.4 to HCP's Current Report on Form 8-K dated November 19, 2003).
- 4.21 Acknowledgment and Consent dated as of March 1, 2005 by and among Merrill Lynch Bank USA, The Boyer Company, L.C., HCPI/Utah II, LLC, the unit holders of HCPI/Utah II, LLC and HCPI.
- 4.22 Acknowledgment and Consent dated as of March 1, 2005 by and among Merrill Lynch Bank USA, Gardner Property Holdings, L.C., HCPI/Utah II, LLC, the unit holders of HCPI/Utah II, LLC and HCPI.
- 10.1 Amendment No. 1, dated as of May 30, 1985, to Partnership Agreement of Health Care Property Partners, a California general partnership, the general partners of which consist of HCP and certain affiliates of Tenet (incorporated by reference to exhibit 10.1 to HCP's annual report on Form 10-K for the year ended December 31, 1985).
- 10.2 HCP Second Amended and Restated Directors Stock Incentive Plan (incorporated by reference to exhibit 10.43 to HCP's quarterly report on Form 10-Q for the period ended March 31, 1997).*
- 10.3 HCP Second Amended and Restated Stock Incentive Plan (incorporated by reference to exhibit 10.44 to HCP's quarterly report on Form 10-Q for the period ended March 31, 1997).*
- 10.4 First Amendment to Second Amended and Restated Directors Stock Incentive Plan, effective as of November 3, 1999 (incorporated by reference to exhibit 10.1 to HCP's quarterly report on Form 10-Q for the period ended September 30, 1999).*
- 10.5 Second Amendment to Second Amended and Restated Directors Stock Incentive Plan, effective as of January 4, 2000 (incorporated by reference to exhibit 10.15 to HCP's annual report on Form 10-K for the year ended December 31, 1999).*
- 10.6 First Amendment to Second Amended and Restated Stock Incentive Plan effective as of November 3, 1999 (incorporated by reference to exhibit 10.3 to HCP's quarterly report on Form 10-Q for the period ended September 30, 1999).*

- 10.7 HCP 2000 Stock Incentive Plan, effective as of May 7, 2003 (incorporated by reference to HCP's Proxy Statement regarding HCP's annual meeting of shareholders held May 7, 2003).*
- 10.8 HCP Second Amended and Restated Directors Deferred Compensation Plan (incorporated by reference to exhibit 10.45 to HCP's quarterly report on Form 10-Q for the period ended September 30, 1997).*
- 10.9 Second Amendment to Second Amended and Restated Directors Deferred Compensation Plan, effective as of November 3, 1999 (incorporated by reference to exhibit 10.2 to HCP's quarterly report on Form 10-Q for the period ended September 30, 1999).*
- 10.10 Fourth Amendment to Second Amended and Restated Director Deferred Compensation Plan, effective as of January 4, 2000 (incorporated by reference to exhibit 10.17 to HCP's annual report on Form 10-K for the year ended December 31, 1999).*
- 10.11 Employment Agreement dated October 13, 2000 between HCP and Kenneth B. Roath (incorporated by reference to exhibit 10.11 to HCP's annual report on Form 10-K for the year ended December 31, 2000).*
- 10.12 Various letter agreements, each dated as of October 16, 2000, among HCP and certain key employees of the Company (incorporated by reference to exhibit 10.12 to HCP's annual report on Form 10-K for the year ended December 31, 2000).*
- 10.13 HCP Amended and Restated Executive Retirement Plan (incorporated by reference to exhibit 10.13 to HCP's annual report on Form 10-K for the year ended December 31, 2001).*
- 10.14 Stock Transfer Agency Agreement between HCP and The Bank of New York dated as of July 1, 1996 (incorporated by reference to exhibit 10.40 to HCP's quarterly report on Form 10-Q for the period ended September 30, 1996).
- 10.15 Amended and Restated Limited Liability Company Agreement dated November 20, 1998 of HCPI/Indiana, LLC (incorporated by reference to exhibit 10.15 to HCP's annual report on Form 10-K for the year ended December 31, 1998).
- 10.16 Amended and Restated Limited Liability Company Agreement dated January 20, 1999 of HCPI/Utah, LLC (incorporated by reference to exhibit 10.16 to HCP's annual report on Form 10-K for the year ended December 31, 1998).
- 10.17 Cross-Collateralization, Cross-Contribution and Cross-Default Agreement, dated as of July 20, 2000, by HCP Medical Office Buildings II, LLC, and Texas HCP Medical Office Buildings, L.P., for the benefit of First Union National Bank (incorporated by reference to exhibit 10.20 to HCP's annual report on Form 10-K for the year ended December 31, 2000).
- 10.18 Cross-Collateralization, Cross-Contribution and Cross-Default Agreement, dated as of August 31, 2000, by HCP Medical Office Buildings I, LLC, and Meadowdome, LLC, for the benefit of First Union National Bank (incorporated by reference to exhibit 10.21 to HCP's annual report on Form 10-K for the year ended December 31, 2000).
- 10.19 Amended and Restated Limited Liability Company Agreement dated August 17, 2001 of HCPI/Utah II, LLC (incorporated by reference to exhibit 10.21 to HCP's annual report on Form 10-K for the year ended December 31, 2001).
- 10.20 First Amendment to Amended and Restated Limited Liability Company Agreement dated October 30, 2001 of HCPI/Utah II, LLC (incorporated by reference to exhibit 10.22 to HCP's annual report on Form 10-K for the year ended December 31, 2001).

- 10.21 Employment Agreement dated October 8, 2002 between HCP and James F. Flaherty III (incorporated by reference to exhibit 10.24 to HCP's quarterly report on Form 10-Q for the period ended September 30, 2002).*
- 10.22 Amendment to Employment Agreement dated October 8, 2002 between HCP and Kenneth B. Roath (incorporated by reference to exhibit 10.25 to HCP's quarterly report on Form 10-Q for the period ended September 30, 2002).*
- 10.23 Settlement Agreement and General Release between HCP and Devasis Ghose (incorporated by reference to exhibit 10.27 to HCP's annual report on Form 10-K for the year ended December 31, 2002).*
- 10.24 Amended and Restated Limited Liability Company Agreement dated as of October 2, 2003 of HCPI/Tennessee, LLC (incorporated by reference to exhibit 10.28 to HCP's quarterly report on Form 10-Q for the period ended September 30, 2003).
- 10.25 Employment Agreement dated October 1, 2003 between HCP and Charles A. Elcan (incorporated by reference to exhibit 10.29 to HCP's quarterly report on Form 10-Q for the period ended September 30, 2003).*
- 10.26 Form of Restricted Stock Agreement for employees and consultants effective as of May 7, 2003, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan (incorporated by reference to exhibit 10.30 to HCP's annual report on Form 10-K for the year ended December 31, 2003).*
- 10.27 Form of Restricted Stock Agreement for directors effective as of May 7, 2003, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan (incorporated by reference to exhibit 10.31 to HCP's annual report on Form 10-K for the year ended December 31, 2003).*
- 10.28 Form of Performance Award Letter for employees effective as of May 7, 2003, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan (incorporated by reference to exhibit 10.32 to HCP's annual report on Form 10-K for the year ended December 31, 2003).*
- 10.29 Form of Stock Option Agreement for eligible participants effective as of May 7, 2003, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan (incorporated by reference to exhibit 10.33 to HCP's annual report on Form 10-K for the year ended December 31, 2003).*
- 10.30 Amended and Restated Executive Retirement Plan effective as of May 7, 2003 (incorporated by reference to exhibit 10.34 to HCP's annual report on Form 10-K for the year ended December 31, 2003).*
- 10.31 Settlement Agreement and Mutual Release between HCP and James G. Reynolds (incorporated herein by reference to exhibit 1.1 to HCP's current report on Form 8-K (file no. 001-08895), dated August 24, 2004).*
- 10.32 Revolving Credit Agreement, dated as of October 26, 2004, among HCP, each of the banks identified on the signature pages hereof, Bank of America, N.A., as administrative agent, JPMorgan Chase Bank, as syndicating agent, Barclays Bank PLC, Wachovia Bank, National Association, and Wells Fargo Bank, N.A., as documentation agents, with Calyon New York Branch, Citicorp, USA, and Key National Association as managing agents, and Banc of America Securities LLC and J.P. Morgan Securities, Inc.,

as joint lead arrangers and joint book managers (incorporated herein by reference to exhibit 10.1 to HCP's current report on Form 8-K (file no. 001-08895), dated November 1, 2004).

- 10.33 Amendment No.1 to Amended and Restated Limited Liability Company Agreement dated September 29, 2004 of HCPI/Tennessee, LLC (incorporated by reference to exhibit 10.37 to HCP's quarterly report on Form 10-Q for the period ended September 30, 2004).
- 10.34 Form of CEO Performance Restricted Stock Unit Agreement with a five year installment vesting, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan.*
- 10.35 Form of CEO Performance Restricted Stock Unit Agreement with a three year cliff vesting, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan.*
- 10.36 Form of employee Performance Restricted Stock Unit Agreement with a five year installment vesting, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan.*
- 10.37 Form of employee Performance Restricted Stock Unit Agreement with a three year cliff vesting, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan.*
- 10.38 Form of CEO Performance Restricted Stock Unit Agreement with a five year installment vesting, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan (incorporated herein by reference to exhibit 10.4 to HCP's current report on Form 8-K, dated January 28, 2005).*
- 10.39 Form of CEO Performance Restricted Stock Unit Agreement with a three year cliff vesting, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan (incorporated herein by reference to exhibit 10.2 to HCP's current report on Form 8-K, dated January 28, 2005).*
- 10.40 Form of employee Performance Restricted Stock Unit Agreement with a five year installment vesting, as approved by the Compensation Committee of the Board of Directors of the Company, relating to the Company's Amended and Restated 2000 Stock Incentive Plan (incorporated herein by reference to exhibit 10.3 to HCP's current report on Form 8-K, dated January 28, 2005).*
- 10.41 Amendment to the Company's Amended and Restated 2000 Stock Incentive Plan (effective as of May 7, 2003) (incorporated herein by reference to exhibit 10.1 to HCP's current report on Form 8-K, dated January 28, 2005).*
- 10.41 Amendment to the 2000 Stock Incentive Plan (as amended and restated effective as of May 7, 2003) (incorporated herein by reference to exhibit 10.1 to HCP's current report on Form 8-K, dated January 28, 2005).*
- 10.42 Amendment No.1 to the Employment Agreement dated October 1, 2003 between HCP and Charles A. Elcan (as amended and restated effective as of May 7, 2003) (incorporated herein by reference to exhibit 10.5 to HCP's current report on Form 8-K, dated January 28, 2005).*

- 10.43 Amendment No.2 to Amended and Restated Limited Liability Company Agreement dated October 29, 2004 of HCPI/Tennessee, LLC.
- 21.1 List of Subsidiaries.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification by James F. Flaherty III, the Company's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).
- 31.2 Certification by Mark A. Wallace, the Company's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).
- 32.1 Certification by James F. Flaherty III, the Company's Principal Executive Officer, Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
- 32.2 Certification by Mark A. Wallace, the Company's Principal Financial Officer, Pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

* Management Contract or Compensatory Plan or Arrangement.

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statement on Form S-8 Nos. 33-28483 and 333-90353 filed May 11, 1989 and November 5, 1999, respectively, Form S-8 Nos. 333-54786 and 333-54784 each filed February 1, 2001, and Form S-8 No. 333-108838 filed September 16, 2003.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 14, 2005

HEALTH CARE PROPERTY INVESTORS, INC.
(Registrant)

/s/ JAMES F. FLAHERTY III

James F. Flaherty III,
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ KENNETH B. ROATH Kenneth B. Roath	Chairman of the Board of Directors	March 14, 2005
/s/ JAMES F. FLAHERTY III James F. Flaherty III	President and Chief Executive Officer (Principal Executive Officer)	March 14, 2005
/s/ MARK A. WALLACE Mark A. Wallace	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 14, 2005
/s/ GEORGE P. DOYLE George P. Doyle	Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 14, 2005
/s/ MARY A. CIRILLO Mary A. Cirillo	Director	March 14, 2005
/s/ ROBERT R. FANNING, JR. Robert R. Fanning, Jr.	Director	March 14, 2005
/s/ DAVID B. HENRY David B. Henry	Director	March 14, 2005
/s/ MICHAEL D. MCKEE Michael D. McKee	Director	March 14, 2005
/s/ HAROLD M. MESSMER, JR. Harold M. Messmer, Jr.	Director	March 14, 2005

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ PETER L. RHEIN</u> Peter L. Rhein	Director	March 14, 2005
<u>/s/ RICHARD M. ROSENBERG</u> Richard M. Rosenberg	Director	March 14, 2005
<u>/s/ JOSEPH P. SULLIVAN</u> Joseph P. Sullivan	Director	March 14, 2005

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Schedule II has been intentionally omitted as the required information is presented in the Notes to Consolidated Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Health Care Property Investors, Inc.

We have audited the accompanying consolidated balance sheets of Health Care Property Investors, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Care Property Investors, Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Health Care Property Investors, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of the Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Irvine, California
March 9, 2005

HEALTH CARE PROPERTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31,	
	2004	2003
ASSETS		
Real estate:		
Buildings and improvements	\$ 3,025,707	\$ 2,669,806
Developments in process	25,777	64,303
Land	299,461	283,352
Less accumulated depreciation	534,573	474,021
Net real estate	2,816,372	2,543,440
Loans receivable, net:		
Joint venture partners	6,473	83,253
Others	139,919	184,360
Investments in and advances to unconsolidated joint ventures	60,506	172,450
Accounts receivable, net of allowance of \$834 and \$1,580, respectively	14,834	16,471
Cash and cash equivalents	20,555	17,768
Other assets, net	43,975	18,215
Total assets	\$ 3,102,634	\$ 3,035,957
LIABILITIES AND STOCKHOLDERS' EQUITY		
Bank line of credit	\$ 300,100	\$ 198,000
Senior unsecured notes	1,046,690	1,050,476
Mortgage debt	139,416	158,808
Accounts payable and accrued liabilities	59,905	55,055
Deferred revenue	15,300	16,080
Total liabilities	1,561,411	1,478,419
Minority interests	121,781	116,921
Stockholders' equity:		
Preferred stock, \$1.00 par value: 50,000,000 shares authorized; 11,820,000 shares issued and outstanding, liquidation preference of \$25 per share ...	285,173	285,173
Common stock, \$1.00 par value: 400,000,000 shares authorized; 133,658,318 and 131,039,800 shares issues and outstanding, respectively	133,658	131,040
Additional paid-in capital	1,403,335	1,355,299
Cumulative net income	1,348,089	1,179,049
Cumulative dividends	(1,739,859)	(1,497,727)
Other equity	(10,954)	(12,217)
Total stockholders' equity	1,419,442	1,440,617
Total liabilities and stockholders' equity	\$ 3,102,634	\$ 3,035,957

See accompanying Notes to Consolidated Financial Statements.

HEALTH CARE PROPERTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Year Ended December 31,		
	2004	2003	2002
Revenues:			
Rental income	\$388,631	\$324,796	\$298,766
Equity income from unconsolidated joint ventures	2,157	2,889	920
Interest and other income	37,896	48,619	26,101
	428,684	376,304	325,787
Costs and expenses:			
Interest	89,136	88,297	74,951
Depreciation and amortization	87,026	73,345	68,190
Operating	43,255	32,513	25,349
General and administrative	36,031	24,366	18,589
Impairments	3,186	2,090	—
	258,634	220,611	187,079
Income before minority interests	170,050	155,693	138,708
Minority interests	(12,204)	(9,751)	(8,396)
Income from continuing operations	157,846	145,942	130,312
Discontinued operations:			
Operating income	3,990	12,409	17,397
Gain (loss) on sales of real estate, net of impairments	7,204	234	(10,329)
	11,194	12,643	7,068
Net income	169,040	158,585	137,380
Preferred stock dividends	(21,130)	(18,183)	(24,900)
Preferred stock redemption charges	—	(18,553)	—
Net income applicable to common shares	\$147,910	\$121,849	\$112,480
Basic earnings per common share:			
Continuing operations	\$ 1.04	\$ 0.87	\$ 0.92
Discontinued operations	0.08	0.11	0.06
Net income applicable to common shares	\$ 1.12	\$ 0.98	\$ 0.98
Diluted earnings per common share:			
Continuing operations	\$ 1.03	\$ 0.87	\$ 0.90
Discontinued operations	0.08	0.10	0.06
Net income applicable to common shares	\$ 1.11	\$ 0.97	\$ 0.96
Weighted average shares used to calculate earnings per share:			
Basic	131,854	124,942	115,172
Diluted	133,362	126,130	116,990

See accompanying Notes to Consolidated Financial Statements.

HEALTH CARE PROPERTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Cumulative		Other Equity	Total
	Shares	Amount	Shares	Amount		Net Income	Dividends		
December 31, 2001	11,722	\$ 274,487	112,774	\$112,774	\$1,044,356	\$ 883,084	\$(1,060,029)	\$ (7,948)	\$1,246,724
Issuances of common stock, net	—	—	4,894	4,894	90,492	—	—	(5,847)	89,539
Exercise of stock options	—	—	1,272	1,272	16,925	—	—	—	18,197
Net income	—	—	—	—	—	137,380	—	—	137,380
Preferred stock dividends	—	—	—	—	—	—	(24,900)	—	(24,900)
Common stock dividends	—	—	—	—	—	—	(188,449)	—	(188,449)
Amortization of deferred compensation	—	—	—	—	308	—	—	2,084	2,392
Change in notes receivable from officers	—	—	—	—	—	—	—	170	170
Other comprehensive loss	—	—	—	—	—	—	—	(164)	(164)
December 31, 2002	<u>11,722</u>	<u>\$ 274,487</u>	<u>118,940</u>	<u>\$118,940</u>	<u>\$1,152,081</u>	<u>\$1,020,464</u>	<u>\$(1,273,378)</u>	<u>\$(11,705)</u>	<u>\$1,280,889</u>
Issuances of common stock, net	—	—	9,524	9,524	182,498	—	—	(6,280)	185,742
Exercise of stock options	—	—	2,576	2,576	38,854	—	—	—	41,430
Issuance of preferred stock, net	11,820	285,173	—	—	—	—	—	—	285,173
Redemption of preferred stock	(11,722)	(274,487)	—	—	(18,553)	—	—	—	(293,040)
Net income	—	—	—	—	—	158,585	—	—	158,585
Preferred stock dividends	—	—	—	—	—	—	(18,183)	—	(18,183)
Common stock dividends	—	—	—	—	—	—	(206,166)	—	(206,166)
Amortization of deferred compensation	—	—	—	—	419	—	—	2,722	3,141
Changes in notes receivable from officers	—	—	—	—	—	—	—	2,023	2,023
Other comprehensive income	—	—	—	—	—	—	—	1,023	1,023
December 31, 2003	<u>11,820</u>	<u>\$ 285,173</u>	<u>131,040</u>	<u>\$131,040</u>	<u>\$1,355,299</u>	<u>\$1,179,049</u>	<u>\$(1,497,727)</u>	<u>\$(12,217)</u>	<u>\$1,440,617</u>
Issuances of common stock, net	—	—	1,172	1,172	26,857	—	—	(1,751)	26,278
Exercise of stock options	—	—	1,446	1,446	19,682	—	—	—	21,128
Net income	—	—	—	—	—	169,040	—	—	169,040
Preferred stock dividends	—	—	—	—	—	—	(21,130)	—	(21,130)
Common stock dividends	—	—	—	—	—	—	(221,002)	—	(221,002)
Amortization of deferred compensation	—	—	—	—	1,497	—	—	4,665	6,162
Changes in notes receivable from officers	—	—	—	—	—	—	—	236	236
Other comprehensive loss	—	—	—	—	—	—	—	(1,887)	(1,887)
December 31, 2004	<u>11,820</u>	<u>\$ 285,173</u>	<u>133,658</u>	<u>\$133,658</u>	<u>\$1,403,335</u>	<u>\$1,348,089</u>	<u>\$(1,739,859)</u>	<u>\$(10,954)</u>	<u>\$1,419,442</u>

See accompanying Notes to Consolidated Financial Statements.

HEALTH CARE PROPERTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net income	\$ 169,040	\$ 158,585	\$ 137,380
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization:			
Continuing operations	87,026	73,345	68,190
Discontinued operations	2,331	6,778	7,961
Impairments	17,067	13,992	11,007
Amortization of deferred compensation and debt costs	9,985	7,428	6,110
Provision for loan losses	1,648	748	777
Straight-line rents	(8,946)	1,315	(197)
Equity income from unconsolidated joint ventures	(2,157)	(2,889)	(920)
Distributions of earnings from unconsolidated joint ventures	2,157	1,195	920
Minority interests	12,204	9,751	8,396
Net gain on sales of real estate	(21,085)	(12,136)	(678)
Changes in:			
Accounts receivable	1,637	5,911	(1,442)
Other assets	243	(6,948)	7
Accounts payable, accrued liabilities and deferred revenue	1,392	6,500	(4,748)
Net cash provided by operating activities	<u>272,542</u>	<u>263,575</u>	<u>232,763</u>
Cash flows from investing activities:			
Acquisition and development of real estate	(340,864)	(222,745)	(272,853)
Net proceeds from sales of real estate	140,402	56,110	20,890
Distributions from (investments and advances to) unconsolidated joint ventures	88,554	(176,991)	(11,830)
Principal repayments on loans receivable and other, net	29,948	34,305	(127,237)
Net cash used in investing activities	<u>(81,960)</u>	<u>(309,321)</u>	<u>(391,030)</u>
Cash flows from financing activities:			
Borrowings (repayments) under bank line of credit	102,100	(69,800)	159,300
Repayment of senior unsecured notes	(92,000)	(36,000)	(124,579)
Issuance of senior unsecured notes	87,000	197,536	247,753
Net proceeds from the issuance of preferred stock	—	285,173	—
Net proceeds from the issuance of common stock and exercise of options	42,629	222,730	102,338
Repayment of mortgage debt	(69,381)	(19,114)	(7,100)
Repurchase of preferred stock	—	(293,040)	—
Dividends paid on common and preferred stock	(243,250)	(223,231)	(213,349)
Distributions to minority interests	(14,953)	(9,965)	(9,186)
Other, net	60	730	3,177
Net cash (used in) provided by financing activities	<u>(187,795)</u>	<u>55,019</u>	<u>158,354</u>
Net increase in cash and cash equivalents	2,787	9,273	87
Cash and cash equivalents, beginning of year	17,768	8,495	8,408
Cash and cash equivalents, end of year	<u>\$ 20,555</u>	<u>\$ 17,768</u>	<u>\$ 8,495</u>

See accompanying Notes to Consolidated Financial Statements.

HEALTH CARE PROPERTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Business

Health Care Property Investors, Inc. is a real estate investment trust (“REIT”) that, together with its consolidated entities (collectively, “HCP” or the “Company”), invests directly, or through joint ventures and mortgage loans, in health care related properties located throughout the United States.

(2) Summary of Significant Accounting Policies

Use of Estimates

Management is required to make estimates and assumptions in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”). These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ.

Principles of Consolidation

The consolidated financial statements include the accounts of HCP, its wholly owned subsidiaries and its controlled, through voting rights or other means, joint ventures. All material intercompany transactions and balances have been eliminated in consolidation.

The Company adopted Interpretation No. 46R, *Consolidation of Variable Interest Entities*, as revised (“FIN 46R”), effective January 1, 2004 for variable interest entities created before February 1, 2003 and effective January 1, 2003 for variable interest entities created after January 31, 2003. FIN 46R provides guidance on the identification of entities for which control is achieved through means other than voting rights (“variable interest entities” or “VIEs”) and the determination of which business enterprise is the primary beneficiary of the VIE. A variable interest entity is broadly defined as an entity where either (i) the equity investors as a group, if any, do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance that entity’s activities without additional financial support. The Company consolidates investments in VIEs when it is determined that the Company is the primary beneficiary of the VIE. The adoption of FIN 46R resulted in the consolidation of five joint ventures effective January 1, 2004, that were previously accounted for under the equity method. The consolidation of these joint ventures did not have a significant effect on the Company’s consolidated financial statements or results of operations.

Investments in entities which the Company does not consolidate but for which the Company has the ability to exercise significant influence over operating and financial policies are reported under the equity method. Generally, under the equity method of accounting the Company’s share of the investee’s earnings or loss is included in the Company’s operating results.

Revenue Recognition

Rental income from tenants is recognized in accordance with GAAP, including Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 104, *Revenue Recognition* (“SAB 104”). For leases with minimum scheduled rent increases, the Company recognizes income on a straight-line basis over the lease term when collectibility is reasonably assured. Recognizing rental income on a straight-line basis for leases results in recognized revenue exceeding amounts contractually due from tenants. Such cumulative excess amounts are included in other assets and were \$11.0 million, net of allowances, at December 31, 2004. In the event the Company determines that collectibility of straight-line rents is not reasonably assured, the Company limits future recognition to amounts contractually owed, and, where appropriate, the Company establishes an allowance for estimated losses.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Certain leases provide for additional rents, based upon a percentage of the facility's revenue in excess of specified base periods or other thresholds. Such revenue is deferred until the related thresholds are achieved.

The Company monitors the liquidity and creditworthiness of its tenants and borrowers on an ongoing basis. The evaluation considers industry and economic conditions, property performance, security deposits and guarantees, and other matters. The Company establishes provisions and maintains an allowance for estimated losses resulting from the possible inability of its tenants and borrowers to make payments sufficient to recover recognized assets. For straight-line rent amounts, the Company's assessment is based on income recoverable over the term of the lease. At December 31, 2004 and 2003, respectively, the Company had an allowance of \$15.8 million and \$11.2 million, included in other assets, as a result of the Company's determination that collectibility is not reasonably assured for certain straight-line rent amounts. The fourth quarter of 2004 includes income of \$5.7 million resulting from the Company's change in estimate relating to the collectibility of straight-line rents due from affiliates of American Retirement Corporation.

Loans Receivable

Loans receivable are classified as held-to-maturity because the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. The Company recognizes interest income on loans, including the amortization of discounts and premiums, using the effective interest method.

Real Estate

Real estate, consisting of land, buildings, and improvements, is recorded at cost. The Company allocates acquisition costs to the acquired tangible and identified intangible assets and liabilities, primarily lease intangibles, based on their estimated fair values in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*.

The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

The Company records acquired "above and below" market leases at their fair value using a discount rate which reflects the risks associated with the leases acquired, equal to the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term for any below-market fixed rate renewal options for below-market leases. Other intangible assets acquired include amounts for in-place lease values that are based on the Company's evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions, and costs to execute similar leases. In estimating carrying costs, the Company includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, the Company considers leasing commissions, legal and other related costs.

Real estate assets are periodically reviewed for potential impairment by comparing the carrying amount to the expected undiscounted future cash flows to be generated from the assets. If the sum of the expected

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

future net undiscounted cash flows is less than the carrying amount of the property, the Company will recognize an impairment loss by adjusting the asset's carrying amount to its estimated fair value. Fair value for properties to be held and used is based on the present value of the future cash flows expected to be generated from the asset. Properties held for sale are recorded at the lower of carrying amount or fair value less costs to dispose.

Developments in process are carried at cost which includes pre-construction costs essential to development of the property, construction costs, capitalized interest, and other costs directly related to the property. Capitalization of interest ceases when the property is ready for service which generally is near the date that a certificate of occupancy is obtained. Expenditures for tenant improvements and leasing commissions are capitalized and amortized over the terms of the respective leases. Repairs and maintenance are expensed as incurred.

The Company computes depreciation on properties using the straight-line method over the assets' estimated useful life. Depreciation is discontinued when a property is identified as held for sale. Building and improvements are depreciated over useful lives ranging up to 45 years. Above and below market rent intangibles are amortized to revenue over the remaining noncancellable lease terms. Other in-place lease intangibles are amortized to expense over the remaining lease term and expected bargain renewal periods. At December 31, 2004, lease intangibles were \$19.9 million and are included in other assets.

Income Taxes

The Company has elected and believes it operates so as to qualify as a "REIT" under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, the Company generally is not subject to federal income tax on its taxable income distributed to stockholders if certain distribution, income, asset, and shareholder tests are met. A REIT must distribute to stockholders at least 90% of its annual taxable income. At December 31, 2004 and 2003, the tax basis of the Company's net assets is less than the reported amounts by \$288 million and \$287 million, respectively.

Certain activities the Company undertakes must be conducted by entities which elect to be treated as taxable REIT subsidiaries ("TRSs"). TRSs are subject to both federal and state income taxes. For the year ended December 31, 2004, income tax expense related to the Company's TRSs approximated \$1.5 million and is included in general and administrative expenses. The Company's income tax expense in 2003 and 2002 was insignificant.

Discontinued Operations

Certain long lived assets are classified as discontinued operations in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Long-lived assets to be disposed of are reported at the lower of their carrying amount or their fair value less cost to sell. Further, depreciation of these assets ceases at the time the assets are classified as discontinued operations. Discontinued operations are defined in SFAS No. 144 as a component of an entity that has either been disposed of or is deemed as held for sale if both the operations and cash flows of the component have been or will be eliminated from ongoing operations as a result of the disposal transaction and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

The Company periodically sells assets based on market conditions and the exercise of purchase options by tenants. The operating results of properties meeting the criteria established in SFAS No. 144 are reported

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

as discontinued operations in the Company's consolidated statement of income. Discontinued operations in 2004 include 44 properties with revenues of \$8.8 million. The Company had 69 and 80 properties classified as discontinued operations for the years ended December 31, 2003 and 2002, with revenue of \$30.7 million and \$37.0 million, respectively. During 2004, 2003, and 2002, 32, 25 and 11 properties were sold, respectively, with net gains on real estate dispositions of \$21.1 million, \$12.1 million and \$0.7 million, respectively. While SFAS No. 144 provides that the assets and liabilities of discontinued operations be presented separately in the balance sheet, such amounts are immaterial for the Company. Accordingly, such reclassification has not been made. At December 31, 2004, the carrying amount of assets held for sale was \$13.0 million and is included in real estate.

Stock-Based Compensation

On January 1, 2002, the Company adopted the fair value method of accounting for stock-based compensation in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation — Transaction and Disclosure* ("SFAS 148"). The fair value provisions of SFAS 123 were adopted prospectively with the fair value of all new stock option grants recognized as compensation expense beginning January 1, 2002. Since only new grants are accounted for under the fair value method, stock-based compensation expense is less than that which would have been recognized if the fair value method had been applied to all awards. Compensation expense for awards with graded vesting is generally recognized ratably over the vesting period.

The following table reflects net income and earnings per share, adjusted as if the fair value based method had been applied to all outstanding stock awards in each period (in thousands, except per share amounts):

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income, as reported	\$169,040	\$158,585	\$137,380
Add: Stock-based compensation expense included in reported net income	6,162	3,141	2,392
Deduct: Stock-based employee compensation expense determined under the fair value based method	<u>(6,785)</u>	<u>(4,040)</u>	<u>(3,437)</u>
Pro forma net income	<u>\$168,417</u>	<u>\$157,686</u>	<u>\$136,335</u>
Earnings per share:			
Basic — as reported	\$ 1.12	\$ 0.98	\$ 0.98
Basic — pro forma	\$ 1.12	\$ 0.97	\$ 0.97
Diluted — as reported	\$ 1.11	\$ 0.97	\$ 0.96
Diluted — pro forma	\$ 1.10	\$ 0.96	\$ 0.95

Cash and Cash Equivalents

Cash and cash equivalents represent short term investments with original maturities of three months or less when purchased. Cash and cash equivalents at December 31, 2004 and 2003 include \$3.6 million and \$0.9 million that are restricted and not immediately accessible.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Segment Reporting

The Company principally operates in one segment — the ownership of health care related assets. The Company has determined that it operates in a single segment for financial reporting purposes based on, among other things, its present internal reporting and decision making.

Stock Split

As of March 2, 2004, each shareholder received one additional share of common stock for each share they own resulting from a 2-for-1 stock split declared by the Company on January 22, 2004. The stock split has been reflected in all periods presented.

Minority Interests and Mandatorily Redeemable Financial Instruments

As of December 31, 2004, there were 2.5 million non-managing member units outstanding in four limited liability companies of which the Company is the managing member: HCPI/Tennessee, LLC; HCPI/Utah, LLC; HCPI/Utah II, LLC; and HCPI Indiana, LLC. The Company consolidates these entities since it exercises control. Each non-managing member unit is redeemable for cash or, at the Company's option, two shares of common stock. During 2003, the Company issued 1.1 million non-managing member units of HCPI/Tennessee, LLC as part of the MedCap acquisition. See Note 4.

SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, requires, among other things, that mandatorily redeemable financial instruments be classified as a liability and recorded at settlement value. Consolidated joint ventures with a limited-life are considered mandatorily redeemable. Implementation of the provisions of SFAS 150 that require the valuation and establishment of a liability for limited-life entities was subsequently deferred. As of December 31, 2004, the Company has eleven limited life entities that have a settlement value of the minority interests of approximately \$4.7 million, which is approximately \$2.8 million more than the carrying amount.

Preferred Stock Redemptions

The Company recognizes the excess of the redemption value of cumulative redeemable preferred stock redeemed over their carrying amount as a charge to income in accordance with Financial Accounting Standards Board ("FASB") — Emerging Issues Task Force ("EITF") Topic D-42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock*. In July 2003, the Securities and Exchange Commission ("SEC") staff issued a clarification of the SEC's position on the application of FASB EITF Topic D-42. The SEC staff's position, as clarified, is that in applying Topic D-42, the carrying value of preferred shares that are redeemed should be reduced by the amount of original issuance costs, regardless of where in stockholders' equity those costs are reflected. See Note 10.

New Accounting Pronouncements

SFAS No. 123R, *Share-Based Payments*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* was issued in December 2004. Generally, the approach in SFAS 123R is similar to that in SFAS 123. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123R must be adopted no later than July 1, 2005. The Company believes the adoption of SFAS 123R will not have a significant impact on its consolidated financial statements since it previously adopted the fair value method under SFAS 123.

HEALTH CARE PROPERTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Reclassifications

Certain reclassifications have been made for comparative financial statement presentation.

(3) Future Minimum Rents

Future minimum lease payments to be received, excluding operating expense reimbursements, from tenants under non-cancelable operating leases as of December 31, 2004, are as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2005	\$ 361,577
2006	341,233
2007	316,885
2008	288,179
2009	222,419
Thereafter	1,006,798
	<u>\$2,537,091</u>

(4) Acquisitions and Development

In December 2004, the Company acquired three medical office buildings (MOBs), a 42% condominium interest in a fourth MOB and one retail/garage building for \$111 million from Swedish Medical Center in Seattle, Washington.

In July 2004, the Company acquired eleven assisted living facilities from Emeritus Corporation for \$84 million, including \$56 million of assumed debt, through a sale-leaseback transaction. The leases have initial terms of 15 years and two ten-year renewal options. The first year lease rate is approximately 9.25% with Consumer Price Index (“CPI”) based escalators not exceeding 3% annually. Emeritus used \$17 million of the proceeds to repay existing debt owed to the Company. The \$56 million of assumed debt was subsequently repaid by the Company in late 2004.

In July 2004, the Company acquired substantially all of American Retirement Corporation’s (“ARC”) interest in three continuing care retirement communities (“CCRCs”) and one assisted living facility for \$113 million. The transaction was structured as a sale-leaseback with an initial lease term of ten years and three ten-year renewal options. The first year lease rate is 9% with additional rents contingent on facility revenue exceeding certain thresholds. ARC used a portion of the proceeds to repay its existing \$83 million loan and interest thereon, to the Company. Additionally, the Company provided ARC with a new \$5.7 million mortgage loan accruing interest at 9% per annum.

In June 2004, the Company acquired an MOB located in Las Vegas, Nevada, for \$22 million.

In April and June 2004, the Company acquired nine skilled nursing facilities for \$63 million in related transactions. The nine facilities have an initial lease term of five years and three five-year renewal options. The first year lease rate is approximately 9.3% with annual rent escalators of 2%.

In January 2004, the Company acquired a health care laboratory and biotech research facility located in San Diego, California for a purchase price of approximately \$40 million.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of 2004 acquisitions is as follows (in thousands):

<u>Acquisition</u>	<u>Cash Consideration</u>	<u>Assumed Debt</u>	<u>Real Estate</u>	<u>Intangibles</u>	<u>Other</u>
ARC	\$113,298	\$24,847	\$138,145	\$ —	—
Emeritus	25,657	56,566	82,223	—	—
Swedish	111,512	—	92,053	17,592	1,867
Other	126,128	—	125,684	444	—
	<u>\$376,595</u>	<u>\$81,413</u>	<u>\$438,105</u>	<u>\$18,036</u>	<u>1,867</u>

In October 2003, the Company acquired from MedCap Properties, LLC (“MedCap”) five MOBs for cash of \$28 million. Four of these properties were under construction at the acquisition date. Additionally, eight MOBs were contributed to the HCPI/Tennessee, LLC by MedCap in exchange for 1.1 million non-managing member operating partnership units. The units were distributed to the owners of MedCap, including owners that were subsequently elected as senior officers of the Company. The units are exchangeable for cash or, at the Company’s option, convertible into common stock on a one unit for two share basis. The units were valued at \$45.26 per unit based on the quoted market value of the Company’s common stock at the time of the transaction. MedCap was not affiliated with the Company prior to October 2003. As a result, the senior officers acquired approximately 0.7 million non-managing member units of HCPI/Tennessee representing an ownership interest therein of approximately sixty percent. The Company is the sole holder of managing member units and exercises voting control of HCPI/Tennessee.

The Company agreed to complete development of the four MOBs and pay a contingent purchase price, or earn-out, to the former members of MedCap, including the senior officers. Development of these properties was completed and the MOBs were placed into service in mid-2004. The purchase price is based on stabilized net operating income of the properties, as defined, during a specified period. As of December 31, 2004, no contingent purchase price amounts had been paid or accrued.

The HCPI/Tennessee LLC agreement also provides for a “make whole” payment to the non-managing members upon the sale of properties acquired in the MedCap transactions and other events. Such payment is generally equal to taxes the non-managing members incur as a result of certain specified events. During 2004, HCPI/Tennessee sold one MOB and the Company paid \$0.2 million to senior officers under these agreements.

(5) Tenant Concentration

Tenet Healthcare Corporation (NYSE: THC) and American Retirement Corporation (NYSE: ARC) each accounted for 12% of the Company’s revenue in 2004. The carrying amount of the Company’s real estate assets leased to Tenet and ARC was \$352.8 million and \$383.5 million at December 31, 2004, respectively.

These companies are publicly traded and are subject to the informational filing requirements of the Securities and Exchange Act of 1934, as amended. Accordingly each is required to file periodic reports on Form 10-K and Form 10-Q with the SEC. Certain operators of our properties are experiencing financial, legal and regulatory difficulties. The loss of one of these operators or a combination of smaller operators could have a material impact on our results of operations or financial position.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(6) Investments in and Advances to Joint Ventures

HCP Medical Office Portfolio, LLC

HCP Medical Office Portfolio, LLC (“HCP MOP”) is a joint venture formed in June 2003 between the Company and an affiliate of General Electric Company (“GE”). HCP MOP is engaged in the acquisition, development and operation of MOB properties. The Company has a 33% ownership interest therein and is the managing member. Activities of the joint venture requiring equity capital are generally funded on a transactional basis by the members in proportion to their ownership interest. Cash distributions are made to the members in proportion to their ownership interest until GE’s cumulative return, as defined, exceeds specified thresholds. Thereafter, the Company’s economic interest increases.

The Company uses the equity method of accounting for its investment in HCP MOP because it exercises significant influence through voting rights and its position as managing member. However, the Company does not consolidate HCP MOP since it does not control, through voting rights or other means, the joint venture as GE has significant decision making rights and has the majority of the economic interest.

Summarized unaudited condensed financial information of HCP MOP follows:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
	(In thousands)	
Real estate, at cost	\$451,602	\$436,043
Less accumulated depreciation	(13,823)	(2,762)
Other assets	47,169	39,399
Total assets	<u>\$484,948</u>	<u>\$472,680</u>
Mortgage loans and notes payable	\$310,309	\$ 25,423
Other liabilities	24,197	9,220
GE’s capital	100,796	293,485
HCP’s capital	49,646	144,552
Total liabilities and members’ capital	<u>\$484,948</u>	<u>\$472,680</u>
		<u>10/31/03</u>
		to
	<u>2004</u>	<u>12/31/03</u>
	(In thousands)	
Rental and other income	<u>\$ 83,035</u>	<u>\$ 19,864</u>
Net income	<u>\$ 4,657</u>	<u>\$ 5,134</u>
HCP’s equity income	<u>\$ 1,537</u>	<u>\$ 1,694</u>
Fees earned by HCP	<u>\$ 3,112</u>	<u>\$ 2,491</u>
Distributions received	<u>\$ 98,291</u>	<u>\$ —</u>

HCP MOP acquired 100 properties from MedCap in October 2003 for cash of \$460 million and the assumption of \$26 million of mortgage debt that accrues interest at 7%. In connection therewith, the Company contributed \$143 million to HCP MOP. In January 2004, HCP MOP completed \$288 million of

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

non-recourse mortgage financings, including \$254 million at a weighted average fixed interest rate of 5.57% with the balance based on LIBOR plus 1.75%. The Company received \$92 million of distributions from HCP MOP in connection with this financing during early 2004.

The Company has not guaranteed any indebtedness or other obligations of HCP MOP. Generally, the Company may only be required to provide additional funding to HCP MOP under limited circumstances as specified in the related agreements. At December 31, 2004, investments and advances to unconsolidated joint ventures includes outstanding advances to HCP MOP of \$6.4 million.

Other Unconsolidated Joint Ventures

The following entities are owned by the Company with minority interests and are accounted for on the equity method at December 31, 2004 (dollars in thousands):

<u>Entity</u>	<u>Investment(1)</u>	<u>Ownership(2)</u>
Arborwood Living Center, LLC	\$ 321	45%
ARC Brandywine Real Estate Holdings, LLC	3,282	10%
ARC Lake Seminole Square Real Estate Holdings, LLC	530	6%
Edgewood Assisted Living Center, LLC	—	45%
Greenleaf Living Center, LLC	209	45%
Seminole Shores Living Center, LLC	—	50%
	<u>\$4,342</u>	

(1) Represents the Company's investment in the identified unconsolidated joint venture. See Note 2 regarding the Company's policy for accounting for joint venture interests.

(2) The Company's ownership interest and economic interests are substantially the same.

Summarized unaudited condensed combined financial information for the other unconsolidated joint ventures follows:

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
	<u>(In thousands)</u>	
Real estate, net	\$117,557	\$256,769
Other assets	1,376	4,662
Total assets	<u>\$118,933</u>	<u>\$261,431</u>
Notes payable	\$ 15,361	\$ 15,636
Mortgage notes payable	15,862	55,532
Accounts payable	767	2,189
Entrance fee liabilities and deferred life estate obligations	75,746	154,494
Other partners' capital	6,855	5,286
HCP's capital	<u>4,342</u>	<u>28,294</u>
Total liabilities and partners' capital	<u>\$118,933</u>	<u>\$261,431</u>

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands)		
Rental and other income	<u>\$13,244</u>	<u>\$12,894</u>	<u>\$12,397</u>
Net income	<u>\$ 3,432</u>	<u>\$ 1,992</u>	<u>\$ 895</u>
HCP's equity income	<u>\$ 620</u>	<u>\$ 1,195</u>	<u>\$ 920</u>
Distributions received	<u>\$ 694</u>	<u>\$ 1,445</u>	<u>\$ 1,789</u>

As of December 31, 2004, the Company has guaranteed approximately \$7.2 million of a total of \$15.4 million of notes payable for four of these joint ventures.

(7) Loans Receivable

	<u>December 31,</u>					
	<u>2004</u>			<u>2003</u>		
	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>
	(In thousands)					
Joint venture partners . . .	\$ 5,694	\$ 779	\$ 6,473	\$ 83,253	—	\$ 83,253
Other	135,006	8,113	143,119	160,647	26,645	187,292
Loan loss allowance	—	(3,200)	(3,200)	—	(2,932)	(2,932)
	<u>\$140,700</u>	<u>\$ 5,692</u>	<u>\$146,392</u>	<u>\$243,900</u>	<u>\$23,713</u>	<u>\$267,613</u>

Secured loans to joint venture partners represent amounts due from affiliates of ARC. During 2004, ARC repaid its secured loans and interest thereon, and the Company recognized \$4.6 million of additional interest income. The interest income recognized resulted from the reversal of a previously established allowance of \$4.6 million that was based on, among other things, the Company's analysis of the loan to asset value underlying the investment.

In the fourth quarter of 2004, the Company recorded a charge of \$1.6 million to increase its loan loss allowance as a result of one borrower who defaulted upon maturity of two notes and a recent credit assessment of another borrower.

At December 31, 2004, minimum future principal payments to be received on secured loans receivable are \$16.4 million in 2005, \$62.3 million in 2006, \$12.9 million in 2007, \$2.3 million in 2008, \$7.1 million in 2009, and \$39.7 million thereafter.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Following is a summary of secured loans receivable at December 31, 2004:

<u>Final Payment Due</u>	<u>Number of Loans</u>	<u>Payment Terms</u>	<u>Initial Principal Amount</u>	<u>Carrying Amount</u>
			(In thousands)	
2005	2	Monthly payments of \$42,375 to \$110,000, including interest from 9.00% to 13.25%, secured by skilled nursing and assisted living facilities in Michigan, Tennessee and Georgia, and a parcel of land in Colorado.	\$ 15,150	\$ 13,192
2006	4	Monthly payments from \$35,000 to \$351,000, including interest from 9.94% to 10.92%, secured by an acute care hospital located in Texas and a retirement center located in North Carolina.	65,293	61,115
2008	1	Monthly payments of \$8,000, including interest at 10.50%, secured by an acute care facility in Wisconsin.	800	743
2010	1	Monthly payments of \$344,000, including interest at 11.30%, secured by a CCRC facility and ten skilled nursing facilities.	34,760	31,150
2007-2031	5	Monthly payments from \$14,900 to \$179,000, including interest from 10.46% to 12.71%, secured by facilities in several states.	39,275	34,500
	<u>13</u>		<u>\$155,278</u>	<u>\$140,700</u>

HEALTH CARE PROPERTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(8) Debt

Senior Unsecured Notes

Following is a summary of senior unsecured notes outstanding at December 31, 2004 (dollars in thousands):

<u>Year Issued</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
1998	2005	\$ 200,000	6.875%
1995	2005	31,000	7.03-7.79
1996	2006	115,000	6.50
1998	2006	20,000	7.875
1997	2007	140,000	7.30-7.62
1995	2010	6,421	6.62
2002	2012	250,000	6.45
2004	2014	87,000	3.39-6.00
2003	2015	200,000	6.00
		<u>\$1,049,421</u>	
MOPPRS option		3,230	
Net discounts		<u>(5,961)</u>	
		<u>\$1,046,690</u>	

Senior notes include \$200 million principal amount of 6.875% Mandatory Par Put Remarketed Securities (“MOPPRS”) due June 8, 2015. The MOPPRS contain an option (the “MOPPRS Option”) exercisable by the Remarketing Dealer, an investment bank affiliate, which derives its value from the yield on ten-year U.S. Treasury securities relative to a fixed strike rate of 5.565%. Generally, the value of the option to the Remarketing Dealer increases as U.S. Treasury rates decline and the option’s value to the Remarketing Dealer decreases as U.S. Treasury rates rise. The ten-year U.S. Treasury rate was 4.24% at December 31, 2004. The value of this option to the Remarketing Dealer approximated \$20 million at December 31, 2004. Conversely, such amount represents a potential unrecognized loss to the Company.

On June 8, 2005, if the ten-year Treasury rate is less than 5.565%, the Company expects that the Remarketing Dealer will exercise the MOPPRS Option, redeem the securities from the holders at par plus accrued interest, and reissue the Senior notes as ten-year notes at a premium based on a fixed coupon interest rate set at our applicable credit spread plus 5.565%. However, if the ten-year Treasury rate is above 5.565%, the Company expects that the Remarketing Dealer will redeem the outstanding Senior notes and the Company will be required to repurchase the outstanding MOPPRS at par plus accrued interest.

In June 2004, the Company issued \$25 million in aggregate principal amount of 6.00% fixed rate senior notes due 2014 and \$25 million in aggregate principal amount of variable-rate senior notes due 2014. In July 2004, the Company issued \$37 million in aggregate principal amount of 6.00% senior notes due 2014. In February 2003, the Company issued \$200 million in aggregate principal amount of 6.00% senior notes due 2015.

The weighted average interest rate on the senior unsecured notes at December 31, 2004 and 2003, respectively, was 6.6% and 6.9%. Discounts, premiums and the MOPPRS Option are amortized to interest expense over the term of the related debt.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The MOPPRS and other senior unsecured notes contain certain covenants including limitations on debt and other terms customary in transactions of this type.

Mortgage Debt

At December 31, 2004, the Company had \$139.4 million in mortgage debt secured by 28 health care facilities with a carrying amount of \$268.4 million. Interest rates on the mortgage notes ranged from 1.07% to 9.32%. At December 31, 2004 and 2003, the weighted-average interest rate on mortgage notes payable was 7.86% and 7.95%, respectively.

The instruments encumbering the properties restrict title transfer of the respective properties subject to the terms of the mortgage, prohibit additional liens, restrict prepayment, require payment of real estate taxes, maintenance of the properties in good condition, maintenance of insurance on the properties and include a requirement to obtain lender consent to enter into material tenant leases.

Bank Line of Credit

In October 2004, the Company closed a new \$500 million three-year unsecured revolving credit facility. Interest accrues at LIBOR plus 65 basis points, based on the Company's current credit ratings, with a 15 basis point facility fee. The new credit agreement contains certain financial restrictions and requirements customary in transactions of this type. The more significant covenants, using terms defined in the agreements, limit (i) Consolidated Total Indebtedness to Total Asset Value to 60%, (ii) Secured Debt to Total Asset Value to 30%, and (iii) Unsecured Debt to Consolidated Unencumbered Asset Value to 60%. The agreement also requires that the Company maintain (i) a Fixed Charge Coverage Ratio, as defined, of 1.75 times and (ii) a formula-determined Minimum Tangible Net Worth. As of December 31, 2004, the Company was in compliance with each of these restrictions and requirements. The weighted average interest rates on outstanding line of credit borrowings at December 31, 2004 and 2003 were 3.14% and 2.06% respectively.

Debt Maturities

Debt maturities at December 31, 2004 are as follows (in thousands):

<u>Year</u>	<u>Senior Notes</u>	<u>Mortgage Notes</u>	<u>Bank Line of Credit</u>	<u>Total</u>
2005	\$ 231,000	\$ 16,198	\$ —	\$ 247,198
2006	135,000	7,391	—	142,391
2007	140,000	4,061	300,100	444,161
2008	—	7,178	—	7,178
2009	—	4,605	—	4,605
Thereafter	543,421	99,983	—	643,404
	<u>\$1,049,421</u>	<u>\$139,416</u>	<u>\$300,100</u>	<u>\$1,488,937</u>

(9) Commitments and Contingencies

The Company, from time to time, is party to legal proceedings, lawsuits and other claims in the ordinary course of our business. These claims, even if not meritorious, could force us to spend significant financial resources. Except as described below, the Company is not aware of any legal proceedings or claims that it believes will have, individually or taken together, a material adverse effect on its business, prospects, financial condition or results of operations.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On March 12, 2004, James G. Reynolds, the Company's former Executive Vice President and Chief Financial Officer, filed a lawsuit against the Company and Kenneth B. Roath, the Company's Chairman, and James F. Flaherty III, the Company's Chief Executive Officer and a director. The Company settled this lawsuit on August 24, 2004. The settlement included a payment of \$2.9 million to Mr. Reynolds of which the Company's insurance carrier reimbursed the Company approximately \$1.3 million.

One of the Company's properties located in Tarzana, California is affected by State of California Senate Bill 1953 (SB 1953), which requires certain seismic safety building standards for acute care hospital facilities. This hospital is operated by Tenet under a lease expiring in February 2009. The Company and Tenet are currently reviewing the SB 1953 compliance of this hospital, multiple plans of action to cause such compliance, the estimated time for completing the same, and the cost of performing necessary remediation of the property. We cannot currently estimate the remediation costs that will need to be incurred prior to 2013 in order to make the facility SB 1953-compliant through 2030, and the final allocation of any remediation costs between the Company and Tenet. Rent on the hospital in 2004 and 2003 was \$10.6 million and \$10.8 million, respectively, and the carrying amount was \$78.4 million at December 31, 2004.

Certain residents of two of the Company's CCRCs have entered into a master trust agreement with the operator of the facilities whereby amounts paid upfront by such residents were deposited into a trust account. These funds were then made available to the CCRC operator in the form of a non-interest bearing loan to provide permanent financing for the related communities. The operator of the CCRC is the borrower under these arrangements; however, two of the Company's properties are collateral under the master trust agreements. As of December 31, 2004, the remaining obligation under the master trust agreements for these two properties is \$12.2 million. The Company's property is released as collateral as the master trust liabilities are extinguished.

Leases with certain tenants contain purchase options whereby the tenant may elect to acquire the underlying real estate. Future minimum lease payments to be received from leases subject to purchase options are summarized as follows (dollars in thousands):

<u>Year</u>	<u>Base Rent</u>	<u>Number of Properties</u>
2005	\$115,432	14
2006	109,493	9
2007	106,022	3
2008	98,492	13
2009	59,242	15
Thereafter	199,567	65
	<u>\$688,248</u>	<u>119</u>

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Rental expense attributable to continuing operations for the years ended December 31, 2004, 2003 and 2002 was approximately \$1.3 million, \$0.6 million and \$0.5 million, respectively. These rental expense amounts include ground rent and other leases. Future minimum lease obligations under noncancelable ground leases as of December 31, 2004 were as follows (in thousands):

<u>Year</u>	<u>Amount</u>
2005	\$ 1,037
2006	1,058
2007	1,080
2008	1,102
2009	1,125
Thereafter	<u>95,725</u>
Total	<u>\$101,127</u>

(10) Stockholders' Equity

Common Stock

Dividends on the Company's common stock are characterized for federal income tax purposes as ordinary income, capital gains, non-taxable return of capital or a combination thereof. Following are our annual common stock dividends per share:

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Ordinary income	\$1.0730	\$1.0913	\$1.1450
Return of capital	<u>0.5970</u>	<u>0.5687</u>	<u>0.4850</u>
	<u>\$1.6700</u>	<u>\$1.6600</u>	<u>\$1.6300</u>

During 2004 and 2003, the Company issued 0.9 million and 6.2 million shares of common stock under its Dividend Reinvestment and Stock Purchase Plan (DRIP), respectively. The Company issued 1.4 million and 2.6 million shares upon exercise of stock options during 2004 and 2003, respectively. During 2003, the Company also issued 2.8 million shares of common stock at a net offering price of \$20.75 per share, generating net proceeds of \$58.1 million.

In January 2005, the Company announced that its Board declared a quarterly cash dividend of \$0.42 per share. The common stock cash dividend was paid on February 18, 2005 to stockholders of record as of the close of business on February 7, 2005.

Preferred Stock

The Series E and Series F preferred stock have no stated maturity, are not subject to any sinking fund or mandatory redemption and are not convertible into any other securities of the Company. Dividends are payable quarterly in arrears. The following summarizes cumulative redeemable preferred stock outstanding at December 31, 2004:

<u>Series</u>	<u>Shares Outstanding</u>	<u>Issue Price</u>	<u>Dividend Rate</u>	<u>Callable at Par on or After</u>
Series E	4,000,000	\$25/share	7.25%	September 15, 2008
Series F	7,820,000	\$25/share	7.10%	December 3, 2008

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Dividends on preferred stock are characterized as ordinary income for federal income tax purposes and are summarized in the following annual distribution table:

	Dividend Rate	Annual Dividends Per Share		
		2004	2003	2002
Series A	7.875%	\$ —	\$1.3672	\$1.9688
Series B	8.70%	—	1.6251	2.1750
Series C	8.60%	—	0.7243	2.1500
Series E	7.25%	1.8125	0.5337	—
Series F	7.10%	1.9180	—	—

On September 15, 2003, the Company issued 4,000,000 shares of 7.25% Series E Cumulative Redeemable Preferred Stock at \$25 per share, generating gross proceeds of \$100 million.

On December 3, 2003, the Company issued 7,820,000 shares of 7.10% Series F Cumulative Redeemable Preferred Stock at \$25 per share, raising gross proceeds of \$195.5 million.

On May 2, 2003, the Company redeemed all of the outstanding 8.6% Series C preferred stock. The amount paid to redeem the preferred stock was approximately \$99.4 million plus accrued dividends. The redemption amount in excess of the carrying amount of the Series C preferred stock resulted in a preferred stock redemption charge of \$11.8 million.

On September 10, 2003, the Company redeemed all of the outstanding 7.875% Series A preferred stock. The amount paid to redeem the Series A preferred stock was approximately \$60 million plus accrued dividends. The redemption amount in excess of the carrying amount of the Series A preferred stock resulted in a preferred stock redemption charge of \$2.2 million.

On October 1, 2003, the Company redeemed all of the 8.7% Series B preferred stock. The amount paid to redeem the Series B preferred stock was approximately \$133.6 million plus accrued dividends. The redemption amount in excess of the carrying amount of the Series B preferred stock resulted in a preferred stock redemption charge of \$4.6 million.

Comprehensive Income and Other Equity

	December 31,	
	2004	2003
	<u>(In thousands)</u>	
Unamortized balance of deferred compensation	\$ 8,786	\$11,700
Notes receivable from officers and directors for purchase of common stock	—	236
Accumulated other comprehensive loss	<u>2,168</u>	<u>281</u>
Total other equity	<u>\$10,954</u>	<u>\$12,217</u>

Other comprehensive loss is a reduction of net income in calculating comprehensive income. Comprehensive income for the years ended December 31, 2004 and 2003 was \$167.2 million and \$159.6 million, respectively.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(11) Impairments

During 2004, 16 properties were determined to be impaired in connection with an assessment of the underlying undiscounted cash flows or as a result of being classified as held for sale and being recorded at the lower of the carrying amount or fair market value less costs to sell. As a result, impairment charges of \$17.1 million reduced the carrying amount of the properties to their estimated fair values. During 2003 and 2002, 15 and 12 properties respectively, were deemed impaired resulting in impairment charges of \$14.0 million and \$11.0 million, respectively. Impairment charges principally arose as a result of reduced anticipated holding periods and planned near-term dispositions.

Impairment charges are summarized as follows:

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands)		
Continuing operations	\$ 3,186	\$ 2,090	\$ —
Discontinued operations	13,881	11,902	11,007
	<u>\$17,067</u>	<u>\$13,992</u>	<u>\$11,007</u>

(12) Supplemental Cash Flow and Rental Income Information

Supplemental Cash Flow Information

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands)		
Interest paid, net of capitalized interest and other	\$87,168	\$87,653	\$82,377
Taxes paid	1,716	124	69
Capitalized interest	1,650	1,210	1,323
Mortgages assumed on acquired properties	81,386	—	—
Mortgages included with real estate dispositions	31,397	—	—
Loans receivable settled in connection with real estate acquisitions	94,768	36,953	—
Non-managing member units issued in connections with acquisitions	1,086	48,181	6,407
Accrued dividends	1,118	(1,118)	—
Restricted stock issued, net of cancellations	1,751	6,280	6,003
Conversion of non-managing member units into common stock	4,777	4,442	5,230

Rental Income Information

	<u>Year Ended December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands)		
Triple net properties	\$280,080	\$240,156	\$226,228
MOB and other	108,551	84,640	72,538
	<u>\$388,631</u>	<u>\$324,796</u>	<u>\$298,766</u>

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(13) Earnings Per Common Share

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per common share is computed by dividing net income applicable to common shares by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share is calculated including the effect of dilutive securities. Approximately 1 million options to purchase shares of common stock that had an exercise price in excess of the average market price of the common stock during 2004, 2003 and 2002 were not included because they are not dilutive. Additionally, 5.1 million shares issuable upon conversion of 2.5 million non-managing member units in 2004, 5.4 million shares issuable upon conversion of 2.7 million non-managing member units in 2003 and 3.1 million shares issuable upon the conversion of 1.6 million non-managing member units in 2002 were not included since they are anti-dilutive.

	2004			2003			2002		
	Income	Shares	Per Share	Income	Shares	Per Share	Income	Shares	Per Share
	(In thousands, except per share amounts)								
Basic earnings per common share:									
Net income applicable to common shares	\$147,910	131,854	\$ 1.12	\$121,849	124,942	\$ 0.98	\$112,480	115,172	\$ 0.98
Dilutive options and unvested restricted stock	—	1,508	(0.01)	—	1,188	(0.01)	—	1,818	(0.02)
Diluted earnings per common share	<u>\$147,910</u>	<u>133,362</u>	<u>\$ 1.11</u>	<u>\$121,849</u>	<u>126,130</u>	<u>\$ 0.97</u>	<u>\$112,480</u>	<u>116,990</u>	<u>\$ 0.96</u>

(14) Disclosures About Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, receivables, payables, and accrued liabilities are reasonable estimates of fair value because of the short maturities of these instruments. Fair values for secured loans receivable, senior unsecured notes and mortgage debt are estimates based on rates currently prevailing for similar instruments of similar maturities. The fair value of the MOPPRS Option was determined through estimates provided by investment banks affiliates:

	December 31,			
	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Secured loans receivable	\$ 140,700	\$ 161,960	\$ 243,900	\$ 268,044
Senior unsecured notes and mortgage debt	(1,182,876)	(1,269,234)	(1,205,755)	(1,324,673)
MOPPRS option	(3,230)	(20,000)	(3,529)	(18,700)

(15) Compensation Plans

Stock Based Compensation

The Company's 2000 Stock Incentive Plan (the "Incentive Plan") provides for the granting of stock based compensation, including stock options, restricted stock, and performance restricted stock units. The maximum number of shares issuable over the term of the Incentive Plan is 11.4 million shares with approximately 6.7 million shares available for future awards at December 31, 2004.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock Options

Stock options are generally granted with an exercise price equal to the fair market value of the underlying stock on the date of grant. Stock options generally vest ratably over a five-year period. Vesting of certain options may accelerate upon retirement, a change in control of the Company, as defined, and other events. A summary of the option activity is presented in the following table (in thousands, except per share amounts):

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
Balance at January 1, 2002	8,806	\$16	<u>1,606</u>	<u>\$16</u>
Granted/sold	24	21		
Exercised	(1,272)	15		
Forfeited	<u>(20)</u>	16		
Balance at December 31, 2002	7,538	15	<u>2,074</u>	<u>\$17</u>
Granted/sold	1,068	19		
Exercised	(2,576)	16		
Forfeited	<u>(669)</u>	15		
Balance at December 31, 2003	5,361	16	<u>921</u>	<u>\$15</u>
Granted/sold	1,011	27		
Exercised	(1,446)	15		
Forfeited	<u>(645)</u>	15		
Balance at December 31, 2004	<u>4,281</u>	19	<u>1,277</u>	<u>\$17</u>

A summary of stock options outstanding at December 31, 2004, is presented in the following table (in thousands, except per share and life data).

<u>Options Outstanding</u>				<u>Options Exercisable</u>	
<u>Number</u>	<u>Exercise Price</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
792	\$12-16	\$13	5 years	308	\$14
1,529	17-18	17	6 years	695	17
799	19-22	19	8 years	244	19
<u>1,161</u>	23-28	27	9 years	<u>30</u>	24
<u>4,281</u>	12-28	19	7 years	<u>1,277</u>	17

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The weighted average fair value per share at the dates of grant for options awarded during 2004, 2003 and 2002 was \$1.79, \$0.91 and \$1.61, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions underlying the determination of such fair values for options granted are summarized as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Dividend yield	7.5%	8.7%	7.8%
Expected life — years	5	10	10
Risk-free interest rate	2.78%	3.99%	5.09%
Expected stock price volatility	20%	20%	20%

Restricted Stock and Performance Restricted Stock Units

Under the Incentive Plan, restricted stock and performance restricted stock units generally vest over a 3-5 year period. The vesting of certain restricted shares and units may accelerate upon retirement, a change in control of the Company, as defined, and other events. When vested, each performance restricted stock unit is convertible into one share of common stock. The restricted stock and performance restricted stock units are valued on the grant date based on the market price of a common share on that date. Generally, the Company recognizes the fair value of the awards over the applicable vesting period as compensation expense. At December 31, 2004, there were 568,000 unvested shares of restricted stock and 204,000 performance restricted stock units outstanding, with no units then convertible into common stock. The following table summarizes awards for restricted stock and performance restricted stock units (in thousands):

	<u>Year Ended December 31,</u>					
	<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>Shares</u>	<u>Fair Value</u>	<u>Shares</u>	<u>Fair Value</u>	<u>Shares</u>	<u>Fair Value</u>
Performance restricted stock units	122	\$3,346	113	\$ 837	—	\$ —
Restricted stock	124	3,279	334	7,145	315	6,043

Employee Benefit Plan

The Company maintains a 401(k) and profit sharing plan that allows for eligible participants to defer compensation, subject to certain limitations imposed by the Code. The Company provides a matching contribution of up to 4% of each participant's eligible compensation. During 2004, 2003 and 2002, the Company's matching contributions have been approximately \$0.2 million in each year.

(16) Transactions with Related Parties

Mr. Fanning, a director of the Company, on January 1, 2004, had remaining balances on loans from the Company of \$107,938 with an interest rate of 5.55% due on April 8, 2004 and \$127,690 with an interest rate of 3.85% due on April 9, 2005. Mr. Fanning paid both loans in full on April 5, 2004. The loans were made for the purpose of purchasing shares upon option exercise and such loans were secured by the common stock of the Company. The authority of the Company to maintain such loans was "grandfathered" under the Exchange Act, as amended by Section 402 of the Sarbanes-Oxley Act of 2002.

Mr. Flaherty, Chief Executive Officer, President and director of the Company, is a director of Quest Diagnostics Incorporated ("Quest"). During 2004, Quest made payments of approximately \$0.6 million to

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the Company or its affiliates for the lease of medical office space at 16 locations. The leases for 15 of those locations were entered into by the predecessor landlord prior to the Company's ownership of the particular medical office building with 11 of those leases entered into before Mr. Flaherty became an employee and director of the Company and a director of Quest. The lease for the remaining location was entered into by the Company before Mr. Flaherty became an employee and director of the Company and a director of Quest.

Mr. McKee, a director of the Company, is Vice Chairman and Chief Operating Officer of The Irvine Company. During each of 2004, 2003 and 2002, the Company made payments of approximately \$0.5 million to The Irvine Company for the lease of office space.

Mr. Messmer, a director of the Company, is Chairman and Chief Executive Officer of Robert Half International Inc. During 2004, 2003 and 2002, the Company made payments of approximately \$1.1 million, \$50,000 and \$15,000, respectively, to Robert Half International Inc. and certain of its subsidiaries for services including placement of temporary and permanent employees and Sarbanes-Oxley compliance consultation.

Mr. Rhein, a director of the Company, is a director of Cohen & Steers, Inc. Cohen & Steers Capital Management, Inc., a wholly owned subsidiary of Cohen & Steers, Inc., is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 and as of December 31, 2004, owned 7.3% of our common stock.

Mr. Sullivan, a director of the Company, is a director of each of SCCI Healthcare Services Corporation and Covenant Care, Inc. During 2004, 2003 and 2002, SCCI Healthcare Services Corporation made payments of approximately \$1.0 million, \$1.3 million and \$1.2 million, respectively, to the Company for a lease and a loan, which loan was paid in full in July 2004, related to two of its hospital properties, and Covenant Care, Inc. made payments of approximately \$7.9 million, \$7.6 million and \$7.5 million, respectively, to the Company for the lease of certain of its nursing home properties. The agreements that required payment to the Company from SCCI Healthcare Services Corporation and Covenant Care, Inc. were entered into prior to Mr. Sullivan being elected a director of the Company.

Notwithstanding these matters, the Board of Directors of the Company has determined, in accordance with the categorical standards adopted by the Board, that each of Messrs. Fanning, McKee, Messmer, Rhein and Sullivan is independent within the meaning of the rules of the New York Stock Exchange.

HEALTH CARE PROPERTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(17) Selected Quarterly Financial Data (Unaudited)

	<u>Three Months Ended During 2004</u>			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
	(In thousands, except share data)			
Revenue	\$96,563	\$106,001	\$110,671	\$115,449
Gain (loss) from real estate dispositions, net of impairments	9,008	(960)	(5,371)	4,527
Net income applicable to common shares	41,552	36,302	29,208	40,848
Dividends paid per common share	0.4175	0.4175	0.4175	0.4175
Basic earnings per common share	0.32	0.28	0.22	0.31
Diluted earnings per common share	0.31	0.27	0.22	0.30

	<u>Three Months Ended During 2003</u>			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
	(In thousands, except share data)			
Revenue	\$84,335	\$ 91,508	\$ 96,327	\$104,134
Gain (loss) from real estate dispositions, net of impairments	(6,263)	(2,372)	5,086	3,783
Net income applicable to common shares	21,439	20,295	38,680	41,435
Dividends paid per common share	0.415	0.415	0.415	0.415
Basic earnings per common share	0.18	0.17	0.31	0.32
Diluted earnings per common share	0.18	0.17	0.31	0.32

Results of operations for properties sold or to be sold have been classified as discontinued operations for all periods presented.

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Hospitals								
Slidell	LA	\$—	\$ 2,520	\$ 19,412	\$ 21,932	\$ (9,451)	1985	40
Los Gatos	CA	—	3,736	17,139	20,875	(10,765)	1985	30
San Antonio	TX	—	1,990	13,067	15,057	(6,018)	1987	45
Overland Park	KS	—	2,316	10,732	13,048	(3,956)	1988	45
Peoria	AZ	—	1,565	7,070	8,635	(2,627)	1988	45
Little Rock	AR	—	709	9,616	10,325	(3,261)	1989	45
Colorado Springs	CO	—	690	8,346	9,036	(2,752)	1989	45
Plaquemine	LA	—	737	9,722	10,459	(3,370)	1992	35
Ft. Lauderdale	FL	—	2,000	11,269	13,269	(7,354)	1997	40
Webster	TX	—	890	5,161	6,051	(1,085)	1997	35
Tucson	AZ	—	630	2,989	3,619	(505)	1997	45
Bennetsville	SC	—	800	13,700	14,500	(2,833)	1999	25
Cheraw	SC	—	500	8,000	8,500	(1,660)	1999	25
Cleveland	TX	—	400	14,400	14,800	(1,669)	1999	35
Fayetteville	AR	—	700	9,951	10,651	(1,471)	1999	35
Wichita	KS	—	1,500	12,501	14,001	(1,846)	1999	35
West Valley City	UT	—	2,900	48,186	51,086	(6,835)	1999	35
Victorville	CA	—	2,800	25,200	28,000	(3,720)	1999	35
Morgantown	WV	—	—	14,400	14,400	(2,129)	1999	35
Amarillo	TX	—	350	3,810	4,160	(2,075)	1999	10
Irvine	CA	—	18,000	70,800	88,800	(10,455)	1999	35
Tarzana	CA	—	12,300	77,464	89,764	(11,423)	1999	35
Palm Beach Garden	FL	—	4,200	58,250	62,450	(8,598)	1999	35
Roswell	GA	—	6,900	54,859	61,759	(8,165)	1999	35
Poplar Bluff	MO	—	1,200	34,800	36,000	(5,137)	1999	35
Hickory	NC	—	2,600	68,942	71,542	(10,316)	1999	35
Idaho Falls	ID	—	2,068	25,170	27,238	(1,204)	2001	45
Total hospitals		\$—	\$75,001	\$654,956	\$729,957	\$(130,680)		
Skilled nursing								
Fort Collins	CO	\$—	\$ 159	\$ 1,976	\$ 2,135	\$ (1,513)	1985	25
Claremont	CA	—	513	1,820	2,333	(1,298)	1985	25
Salem	OR	—	87	2,660	2,747	(1,639)	1985	25
Walla Walla	WA	—	115	1,490	1,605	(1,073)	1985	27
Las Vegas	NM	—	178	1,638	1,816	(1,285)	1985	25
Omro	WI	—	36	3,651	3,687	(2,684)	1985	25
Livermore	CA	—	330	1,709	2,039	(1,276)	1985	25
Fairhaven	MA	—	350	2,264	2,614	(2,215)	1985	20
Westborough	MA	—	138	2,975	3,113	(1,949)	1985	30

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Morrison	CO	—	430	5,689	6,119	(4,055)	1985	25
Walnut Cove	NC	—	30	3,470	3,500	(2,310)	1985	25
Chelmsford	MA	—	429	3,996	4,425	(2,538)	1985	30
Highland	IL	—	44	1,329	1,373	(372)	1985	35
Hilliard	OH	—	87	3,776	3,863	(2,494)	1986	30
Canton	OH	—	77	3,784	3,861	(2,526)	1986	30
Orlando	FL	—	755	2,984	3,739	(1,633)	1986	30
Mobile	AL	—	335	3,614	3,949	(2,347)	1986	30
Vincennes	IN	—	1,000	5,373	6,373	(3,338)	1986	30
Newark	OH	—	400	8,588	8,988	(4,297)	1986	35
Bellflower	CA	—	330	1,148	1,478	(701)	1986	35
El Monte	CA	—	360	3,542	3,902	(2,182)	1986	35
Lomita	CA	—	510	1,222	1,732	(763)	1986	35
Downey	CA	—	330	1,401	1,731	(866)	1986	35
Glendora	CA	—	430	2,292	2,722	(1,347)	1986	35
Hayward	CA	—	900	890	1,790	(793)	1986	30
Maryville	TN	—	160	1,471	1,631	(603)	1986	45
Maryville	TN	—	307	4,376	4,683	(1,715)	1986	45
Bolivar	TN	—	61	3,424	3,485	(1,503)	1986	40
Blountville	TN	—	38	4,320	4,358	(1,925)	1986	40
Camden	TN	—	68	3,730	3,798	(1,957)	1986	35
Huntingdon	TN	—	84	4,220	4,304	(1,893)	1986	40
Jefferson City	TN	—	63	4,060	4,123	(2,072)	1986	35
Loudon	TN	—	26	3,879	3,905	(1,989)	1986	35
Memphis	TN	—	236	4,923	5,159	(2,208)	1986	40
Ripley	TN	—	29	3,718	3,747	(1,520)	1986	45
West Point	MS	—	110	2,635	2,745	(1,187)	1986	40
Upland	IN	—	150	1,715	1,865	(897)	1986	35
Whitehouse	OH	—	250	2,501	2,751	(1,111)	1986	40
Marion	OH	—	218	2,971	3,189	(1,732)	1986	30
Denver	CO	—	952	4,791	5,743	(2,640)	1986	30
Marysville	CA	—	190	1,654	1,844	(1,125)	1986	30
Yuba City	CA	—	252	937	1,189	(556)	1986	30
Mayfield	KY	—	218	2,797	3,015	(1,278)	1986	40
Mc Bain	MI	—	12	2,424	2,436	(981)	1986	45
Deckerville	MI	—	39	2,966	3,005	(1,187)	1986	45
Edmond	OK	—	516	3,768	4,284	(1,704)	1986	45
Hutchinson	KS	—	318	3,756	4,074	(1,833)	1986	40
Moore	OK	—	134	3,454	3,588	(1,547)	1986	45
Wichita	KS	—	220	4,377	4,597	(2,097)	1986	40

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Delaware	OH	(803)	93	3,440	3,533	(1,885)	1986	35
Lake City	FL	—	100	2,649	2,749	(1,731)	1987	30
Lexington Park	MD	—	210	4,658	4,868	(2,211)	1987	40
Cambridge	MD	—	371	9,166	9,537	(4,502)	1987	35
Elkton	MD	—	706	7,012	7,718	(3,408)	1987	35
Green Bay	WI	—	100	3,604	3,704	(2,086)	1988	30
Sturgeon Bay	WI	—	250	2,653	2,903	(1,437)	1988	30
Milwaukee	WI	—	450	2,239	2,689	(1,212)	1988	30
Orlando	FL	—	600	5,059	5,659	(1,822)	1988	45
Orange Park	FL	—	450	3,322	3,772	(1,196)	1988	45
Port St. Lucie	FL	—	1,050	2,528	3,578	(1,099)	1988	45
Cedar Rapids	IA	—	300	3,430	3,730	(1,856)	1988	30
Salina	KS	—	250	2,415	2,665	(1,329)	1988	30
Piggott	AR	—	30	1,909	1,939	(1,014)	1988	30
Dumas	AR	—	50	1,453	1,503	(954)	1988	25
Frankston	TX	—	50	947	997	(512)	1988	30
Pittsburg	TX	—	50	1,339	1,389	(714)	1988	30
Live Oak	FL	—	130	2,317	2,447	(881)	1989	45
Winter Haven	FL	—	875	4,337	5,212	(1,713)	1989	45
Lake Worth	FL	—	720	5,264	5,984	(1,940)	1989	45
Jeffersonville	IN	—	296	6,955	7,251	(3,555)	1990	30
Ferdinand	IN	—	26	3,389	3,415	(1,205)	1991	40
Lowell	IN	—	34	3,035	3,069	(1,316)	1991	35
Milford	IN	—	26	1,935	1,961	(779)	1991	35
Petersburg	IN	—	25	2,434	2,459	(943)	1991	40
Lenoir	NC	—	—	3,459	3,459	(173)	1989	40
Woodfin	NC	—	301	3,321	3,622	(1,173)	1992	45
King	NC	—	207	3,423	3,630	(1,190)	1992	45
Knightdale	NC	—	300	3,169	3,469	(1,077)	1995	35
Yorktown	IN	—	65	3,603	3,668	(1,124)	1995	35
Chesterton	IN	—	53	3,407	3,460	(1,071)	1995	35
Arden	NC	—	460	3,753	4,213	(1,053)	1995	45
Vista	CA	—	653	6,456	7,109	(1,901)	1997	25
Ponca City	OK	—	316	2,630	2,946	(342)	1998	35
Seminole	OK	—	263	464	727	(157)	1998	35
Shawnee	OK	—	297	4,245	4,542	(507)	1998	35
Statesboro	GA	—	168	1,695	1,863	(533)	1998	25
Fort Worth	TX	—	243	2,575	2,818	(792)	1998	25
Ogden	UT	—	250	4,685	4,935	(1,047)	1998	35
Rexburg	ID	—	200	5,310	5,510	(1,184)	1998	35

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Franklin	LA	—	608	6,150	6,758	(1,876)	1998	25
Tucson	AZ	—	289	3,499	3,788	(819)	1998	35
Stillwater	OK	—	50	1,323	1,373	(410)	1998	35
Perris	CA	—	336	3,394	3,730	(1,015)	1998	25
Amarillo	TX	—	200	2,048	2,248	(446)	1998	35
Bad Axe	MI	—	400	4,506	4,906	(797)	1998	40
Texas City	TX	—	325	2,727	3,052	(566)	1998	35
Hillsdale	PA	—	35	3,298	3,333	(565)	1998	35
Indianapolis	IN	—	250	2,184	2,434	(494)	1998	35
Indianapolis	IN	—	500	7,344	7,844	(1,432)	1998	35
Indianapolis	IN	—	40	1,994	2,034	(387)	1998	35
Indianapolis	IN	—	100	2,334	2,434	(498)	1998	35
Indianapolis	IN	—	450	5,583	6,033	(1,082)	1998	35
Greenfield	IN	—	130	3,303	3,433	(676)	1998	35
Anderson	IN	—	50	8,035	8,085	(1,509)	1998	35
Fort Wayne	IN	—	125	3,391	3,516	(701)	1998	35
Kokomo	IN	—	250	5,932	6,182	(528)	1999	45
Lebanon	IN	—	—	5,248	5,248	(828)	1999	45
Angola	IN	—	130	2,970	3,100	(498)	1999	35
Fort Wayne	IN	—	200	4,300	4,500	(763)	1999	35
Fort Wayne	IN	—	140	3,860	4,000	(655)	1999	35
Huntington	IN	—	30	3,070	3,100	(538)	1999	35
Las Vegas	NV	—	1,300	4,300	5,600	(933)	1999	35
Las Vegas	NV	—	1,300	6,200	7,500	(1,256)	1999	35
Fairborn	OH	—	250	4,950	5,200	(816)	1999	35
Georgetown	OH	—	130	5,070	5,200	(834)	1999	35
Port Clinton	OH	—	370	3,730	4,100	(636)	1999	35
Springfield	OH	—	250	4,050	4,300	(683)	1999	35
Toledo	OH	—	120	5,280	5,400	(907)	1999	35
Versailles	OH	—	120	5,080	5,200	(835)	1999	35
Douglas	AZ	—	220	2,180	2,400	(381)	1999	35
Safford	AZ	—	300	4,200	4,500	(671)	1999	35
Denver	CO	—	200	3,700	3,900	(597)	1999	35
Lakewood	CO	—	150	4,548	4,698	(717)	1999	35
Issaquah	WA	—	1,700	5,742	7,442	(1,559)	1999	20
New Albany	IN	—	230	7,090	7,320	(1,078)	2001	35
Spencer	IN	—	70	7,440	7,510	(1,183)	2001	35
Jasper	IN	—	165	6,452	6,617	(1,013)	2001	35
Kingsport	TN	—	450	8,092	8,542	(1,320)	2001	35
Huntsville	TN	—	75	5,467	5,542	(836)	2001	35

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Lawrence County	TN	—	210	7,832	8,042	(1,247)	2001	35
Richmond	IN	—	250	5,016	5,266	(667)	2001	35
Tell City	IN	—	95	7,812	7,907	(640)	2001	45
Albany	KY	—	95	1,918	2,013	(225)	2002	30
Augusta	KY	—	75	881	956	(148)	2002	20
Bedford	KY	—	50	2,667	2,717	(297)	2002	30
Georgetown	KY	—	620	2,298	2,918	(259)	2002	30
Taylorsville	KY	—	145	5,390	5,535	(599)	2002	30
Texas City	TX	—	170	7,052	7,222	(697)	2002	35
Galveston	TX	—	245	6,977	7,222	(691)	2002	35
Port Arthur	TX	—	155	7,067	7,222	(698)	2002	35
Logansport	IN	—	80	3,032	3,112	(423)	2002	25
Pilot Point	TX	—	220	2,315	2,535	(307)	2002	30
Ligonier	IN	—	84	2,839	2,923	(258)	2002	34
Seymour	IN	—	—	7,584	7,584	(176)	2004	45
Fishersville	VA	—	751	7,734	8,485	(173)	2004	40
Floyd	VA	—	309	2,260	2,569	(83)	2004	25
Newport News	VA	—	535	6,192	6,727	(140)	2004	40
Roanoke	VA	—	586	7,159	7,745	(155)	2004	40
Staunton	VA	—	422	8,681	9,103	(185)	2004	40
Williamsburg	VA	—	699	4,886	5,585	(116)	2004	40
Woodstock	VA	—	607	5,400	6,007	(123)	2004	40
Cynthiana	KY	—	192	3,893	4,085	—	2004	*
Independence	VA	—	206	8,366	8,572	(179)	2004	40
Windsor	VA	—	319	7,543	7,862	(164)	2004	40
Carthage	TN	—	129	2,406	2,535	(42)	2004	35
Michigan City	IN	—	555	5,494	6,049	—	2004	40
Total skilled nursing		\$(803)	\$43,864	\$612,590	\$656,454	\$(181,408)		
Assisted living & CCRCs								
Wichita	KS	\$ —	\$ 220	\$ 4,422	\$ 4,642	\$ (1,985)	1986	40
Winter Haven	FL	—	390	607	997	(430)	1989	45
Voorhees	NJ	—	380	6,360	6,740	(1,750)	1995	35
Everett	WA	—	314	3,376	3,690	(1,068)	1995	35
Phoenix	AZ	—	473	4,478	4,951	(1,277)	1995	35
Renton	WA	—	231	2,878	3,109	(899)	1995	35
Dover	DE	—	380	4,147	4,527	(1,202)	1995	35
Allentown	PA	—	115	4,883	4,998	(1,443)	1995	35
Latrobe	PA	—	50	9,008	9,058	(2,540)	1995	35

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Painted Post	NY	—	150	3,939	4,089	(1,201)	1995	35
Carthage	TX	—	83	1,486	1,569	(401)	1995	35
Gun Barrel	TX	—	34	1,553	1,587	(418)	1995	35
Sherman	TX	—	145	1,516	1,661	(409)	1995	35
Spartanburg	SC	—	535	17,769	18,304	(4,716)	1996	35
Easley	SC	—	510	13,244	13,754	(3,751)	1996	35
Hendersonville	NC	—	100	1,836	1,936	(572)	1996	35
Hendersonville	NC	—	320	7,902	8,222	(2,289)	1996	35
Columbus	OH	—	800	7,415	8,215	(2,004)	1996	35
Pinellas Park	FL	—	480	4,251	4,731	(1,318)	1996	35
Victoria	TX	—	175	4,290	4,465	(1,110)	1995	43
Mesquite	TX	—	100	2,466	2,566	(620)	1996	35
Lubbock	TX	—	197	2,467	2,664	(620)	1996	35
Conroe	TX	—	167	1,885	2,052	(474)	1996	35
Beaumont	TX	—	145	10,404	10,549	(2,208)	1995	45
El Paso	TX	—	470	8,053	8,523	(2,205)	1997	35
San Marcos	TX	—	190	3,571	3,761	(1,045)	1997	35
San Antonio	TX	—	180	9,429	9,609	(2,518)	1997	35
Vineland	NJ	—	177	2,897	3,074	(680)	1997	35
Glassboro	NJ	—	162	2,875	3,037	(660)	1997	35
Albuquerque	NM	—	767	9,324	10,091	(2,040)	1996	45
Temple	TX	—	96	2,138	2,234	(502)	1997	35
Houston	TX	—	835	7,195	8,030	(1,049)	1997	45
Birmingham	AL	—	1,200	8,023	9,223	(1,454)	1997	45
San Antonio	TX	—	632	7,337	7,969	(1,452)	1996	45
Lake Charles	LA	—	454	5,583	6,037	(1,098)	1997	45
Lafayette	LA	—	433	5,259	5,692	(1,032)	1997	45
Alexandria	LA	—	393	5,262	5,655	(1,048)	1997	45
Tampa	FL	—	600	6,225	6,825	(1,311)	1997	45
Woodbridge	VA	—	950	7,158	8,108	(1,194)	1997	45
Murietta	CA	—	435	5,934	6,369	(1,168)	1997	35
Lodi	CA	—	732	5,907	6,639	(1,433)	1997	35
Ontario	CA	—	174	4,621	4,795	(1,056)	1997	35
Fairfield	CA	—	149	2,835	2,984	(578)	1997	35
Overland Park	KS	—	750	8,241	8,991	(1,348)	1998	45
Voorhees Township	NJ	—	900	7,969	8,869	(1,327)	1998	45
Ocala	FL	—	522	5,420	5,942	(889)	1998	45
Westminster	MD	—	768	5,619	6,387	(1,430)	1998	45
Zephyr Hills	FL	—	460	3,353	3,813	(681)	1998	35
Casselberry	FL	—	540	1,550	2,090	(351)	1998	35

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Lancaster	SC	—	84	3,120	3,204	(414)	1998	45
Georgetown	SC	—	239	3,136	3,375	(510)	1998	45
Rock Hill	SC	—	203	2,908	3,111	(557)	1998	45
Sumter	SC	—	196	2,709	2,905	(576)	1998	45
Anderson	IN	—	500	4,642	5,142	(860)	1999	35
Evansville	IN	—	500	8,171	8,671	(1,131)	1999	45
Jackson	TN	—	200	2,310	2,510	(923)	1999	35
Boise	ID	—	150	3,197	3,347	(422)	1999	35
El Paso	TX	—	300	4,052	4,352	(594)	1999	35
Odessa	TX	—	200	4,052	4,252	(615)	1996	35
Walla Walla	WA	—	300	5,282	5,582	(781)	1999	35
Houston	TX	—	350	3,089	3,439	(772)	1999	35
Houston	TX	—	400	2,845	3,245	(669)	1999	45
Sugar Land	TX	—	350	2,976	3,326	(742)	1999	35
The Woodlands	TX	—	400	1,864	2,264	(528)	1999	35
Palm Desert	CA	—	760	3,062	3,822	(292)	2001	35
Sterling Heights	MI	—	920	7,326	8,246	(698)	2001	35
Cincinnati	OH	—	600	4,428	5,028	(422)	2001	35
Port Richey	FL	—	1,450	5,187	6,637	(494)	2001	35
Auburn	CA	—	540	8,309	8,849	(1,002)	2001	40
Biloxi	MS	—	480	5,856	6,336	(745)	2001	40
Jacksonville	FL	—	3,250	26,786	30,036	(2,505)	2002	35
Houston	TX	—	2,470	22,560	25,030	(2,173)	2002	35
Delray Beach	FL	—	850	6,215	7,065	(478)	2002	45
Cleveland	OH	—	1,310	5,798	7,108	(586)	2002	40
San Antonio	TX	—	730	4,276	5,006	(415)	2002	45
Mission	KS	—	340	9,517	9,857	(763)	2002	35
Friendswood	TX	—	400	7,675	8,075	(569)	2002	45
Austin	TX	—	2,960	41,645	44,605	(1,735)	2002	30
Denver	CO	—	2,810	36,021	38,831	(1,501)	2002	30
Fort Worth	TX	—	2,830	50,833	53,663	(2,118)	2002	30
Tucson	AZ	—	2,350	24,037	26,387	(1,002)	2002	30
Altamonte Springs	FL	—	1,530	7,956	9,486	(590)	2002	40
Clearwater	FL	—	2,250	3,207	5,457	(362)	2002	40
Mesa	AZ	—	880	3,679	4,559	(393)	2003	30
Boynton Beach	FL	—	1,270	5,232	6,502	(387)	2003	40
Saco	ME	—	80	2,684	2,764	(171)	2003	40
Cape Elizabeth	ME	—	630	3,946	4,576	(286)	2003	40
Jeffersonville	IN	—	160	1,341	1,501	(94)	2003	40
Sun City Center	FL	—	510	6,120	6,630	(109)	2004	35

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Holland	MI	(16,683)	787	52,281	53,068	(954)	2004	30
Lexington	KY	(8,010)	2,093	16,917	19,010	(329)	2004	30
Sun City Center	FL	—	3,466	69,115	72,581	(1,078)	2004	35
Altamonte Springs	FL	—	394	3,124	3,518	(54)	2004	35
Auburn	MA	—	1,281	10,123	11,404	(136)	2004	40
Bozeman	MT	—	982	7,776	8,758	(103)	2004	40
Cedar Rapids	IA	—	440	3,496	3,936	(52)	2004	35
Englewood	FL	—	1,240	9,841	11,081	(155)	2004	35
Escondido	CA	—	627	4,951	5,578	(115)	2004	20
Las Vegas	NV	—	320	2,701	3,021	(35)	2004	40
Lewiston	ID	—	767	6,079	6,846	(81)	2004	40
New Port Richey	FL	—	1,575	12,463	14,038	(173)	2004	40
Puyallup	WA	—	1,088	8,630	9,718	(115)	2004	40
Stockton	CA	—	505	3,977	4,482	(121)	2004	15
Total assisted living & CCRCs		<u>\$(24,693)</u>	<u>\$71,760</u>	<u>\$833,883</u>	<u>\$905,643</u>	<u>\$(97,739)</u>		
Medical office buildings								
Pampa	TX	\$ —	\$ 84	\$ 3,242	\$ 3,326	\$ (776)	1992	45
Lufkin	TX	—	338	2,383	2,721	(539)	1992	45
Longview	TX	—	102	7,998	8,100	(1,928)	1992	45
Houston	TX	—	300	3,770	4,070	(1,429)	1993	30
Victoria	TX	—	125	8,977	9,102	(2,025)	1992	45
Bountiful	UT	—	276	5,237	5,513	(1,102)	1994	45
San Diego	CA	—	2,848	5,897	8,745	(2,240)	1997	35
San Diego	CA	(7,929)	2,863	8,933	11,796	(3,046)	1997	35
San Diego	CA	—	4,619	20,033	24,652	(6,669)	1997	35
Poway	CA	—	2,700	10,846	13,546	(2,585)	1997	35
Minneapolis	MN	(8,425)	117	13,267	13,384	(2,723)	1997	35
Minneapolis	MN	(3,900)	160	10,132	10,292	(1,866)	1998	35
Indianapolis	IN	—	520	2,034	2,554	(354)	1998	35
Brownsburg	IN	—	430	768	1,198	(132)	1998	35
Indianapolis	IN	—	1,300	9,792	11,092	(1,700)	1998	35
Indianapolis	IN	—	700	3,507	4,207	(612)	1998	35
Indianapolis	IN	—	1,200	6,536	7,736	(1,143)	1998	35
Zionsville	IN	—	400	2,017	2,417	(389)	1998	35
Indianapolis	IN	—	944	2,898	3,842	(622)	1998	35
Indianapolis	IN	—	1,733	5,457	7,190	(1,150)	1998	35
Indianapolis	IN	—	642	2,414	3,056	(533)	1998	35
Indianapolis	IN	—	1,047	3,821	4,868	(709)	1998	35

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Indianapolis	IN	(3,147)	1,151	6,146	7,297	(1,140)	1998	35
Indianapolis	IN	—	3,104	11,246	14,350	(2,024)	1998	35
Castle Dale	UT	—	50	1,818	1,868	(307)	1999	35
Centerville	UT	(584)	300	1,288	1,588	(217)	1999	35
Elko	NV	—	55	2,637	2,692	(445)	1999	35
West Valley City	UT	—	1,070	17,501	18,571	(2,925)	1999	35
Grantsville	UT	—	50	429	479	(72)	1999	35
Washington Terrace	UT	—	—	4,573	4,573	(828)	1999	35
Washington Terrace	UT	—	—	2,692	2,692	(466)	1999	35
Salt Lake City	UT	(369)	190	793	983	(129)	1999	35
Salt Lake City	UT	—	220	10,732	10,952	(1,886)	1999	35
Salt Lake City	UT	(5,584)	180	14,792	14,972	(2,537)	1999	35
Phoenix	AZ	—	780	3,199	3,979	(560)	1999	35
Orem	UT	—	337	8,744	9,081	(1,622)	1999	35
Springville	UT	—	85	1,493	1,578	(251)	1999	35
Ogden	UT	(697)	180	1,695	1,875	(286)	1999	35
Glen Burnie	MD	(3,607)	670	5,085	5,755	(823)	1999	35
San Diego	CA	(3,866)	1,650	4,130	5,780	(795)	1999	35
Providence	UT	—	240	4,004	4,244	(655)	1999	35
Layton	UT	(1,300)	—	2,827	2,827	(417)	1999	35
Harrison	OH	(2,676)	—	4,561	4,561	(673)	1999	35
Roseburg	OR	—	—	5,707	5,707	(752)	1999	35
Mesa	AZ	—	200	1,338	1,538	(292)	1999	35
Murfreesboro	TN	(6,443)	900	12,706	13,606	(1,802)	1999	35
San Diego	CA	—	2,910	17,362	20,272	(2,563)	1999	35
St Louis/Shrewsbury	MO	(3,469)	1,650	3,767	5,417	(556)	1999	35
Houston	TX	(14,038)	1,927	33,004	34,931	(4,994)	1999	35
Indianapolis	IN	—	420	3,581	4,001	(526)	1999	35
Atlantis	FL	(1,839)	—	5,894	5,894	(872)	1999	35
Atlantis	FL	(1,531)	—	2,036	2,036	(293)	1999	35
Atlantis	FL	—	—	2,019	2,019	(293)	1999	35
Murietta	CA	—	400	9,435	9,835	(1,553)	1999	35
Valencia	CA	—	2,300	6,621	8,921	(1,166)	1999	35
West Hills	CA	—	2,100	10,985	13,085	(1,965)	1999	35
Houston	TX	(10,507)	2,200	19,570	21,770	(5,224)	1999	35
Plano	TX	(4,460)	1,700	7,814	9,514	(1,594)	1999	25
Renton	WA	—	—	18,724	18,724	(2,796)	1999	35
Tucson	AZ	—	215	6,318	6,533	(696)	2001	35
Layton	UT	—	371	7,073	7,444	(882)	2001	35
Salt Lake City	UT	—	3,000	7,552	10,552	(634)	2001	40

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Oro Valley	AZ	—	1,050	6,768	7,818	(614)	2001	45
Kaysville	UT	—	530	4,487	5,017	(332)	2001	45
Phoenix	AZ	—	280	871	1,151	(64)	2001	45
Stansbury	UT	(2,255)	450	3,201	3,651	(225)	2001	45
Wichita	KS	(2,209)	530	3,341	3,871	(235)	2001	45
Las Vegas	NV	—	5,900	39,136	45,036	(2,931)	2002	40
West Valley City	UT	—	410	17,179	17,589	(590)	2002	35
Thornton	CO	—	236	10,206	10,442	(735)	2002	45
Chandler	AZ	—	3,669	13,503	17,172	(113)	2002	40
Tucson	AZ	—	215	3,960	4,175	(169)	2003	45
Hermitage	TN	—	822	5,324	6,146	(309)	2003	37
Hermitage	TN	—	583	10,208	10,791	(634)	2003	37
Hermitage	TN	—	309	6,867	7,176	(377)	2003	40
Orlando	FL	—	2,161	5,488	7,649	(394)	2003	37
San Jose	CA	—	1,897	1,943	3,840	(161)	2003	37
San Jose	CA	—	1,342	6,207	7,549	(229)	2003	37
Salt Lake City	UT	—	498	4,377	4,875	(260)	2003	37
McKinney	TX	—	560	6,216	6,776	(198)	2003	40
McKinney	TX	—	—	6,530	6,530	(160)	2003	39
Lone Tree	CO	—	—	14,502	14,502	(235)	2003	40
Las Vegas	NV	—	—	13,082	13,082	(305)	2003	40
Reston	VA	—	—	13,983	13,983	(339)	2003	40
Las Vegas	NV	—	3,223	18,279	21,502	(357)	2004	30
Seattle	WA	—	—	58,264	58,264	(145)	2004	39
Seattle	WA	—	—	28,311	28,311	(77)	2004	36
Seattle	WA	—	—	8,880	8,880	(33)	2004	33
Seattle	WA	—	—	6,304	6,304	(20)	2004	10
Seattle	WA	—	—	2,920	2,920	(19)	2004	25
Total medical office building		\$(88,835)	\$78,718	\$752,187	\$830,905	\$(93,043)		
Other								
Knoxville	TN	\$ —	\$ 700	\$ 4,559	\$ 5,259	\$ (1,367)	1994	35
Sunnyvale	CA	—	5,210	15,344	20,554	(3,301)	1997	35
Clarksville	TN	—	1,195	6,537	7,732	(1,243)	1998	35
Sacramento	CA	(13,185)	2,860	22,477	25,337	(5,096)	1998	35
Greendale	WI	—	880	3,393	4,273	(549)	1999	35
Elm Grove	WI	—	620	3,382	4,002	(548)	1999	35
Milwaukee	WI	—	475	3,928	4,403	(636)	1999	35
Milwaukee	WI	—	550	3,252	3,802	(527)	1999	35
Milwaukee	WI	—	620	3,095	3,715	(501)	1999	35

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

City	State	Encumbrances at 12/31/04	Gross Amount at Which Carried at Close of Period 12/31/04			Accumulated Depreciation	Date Acquired/ Constructed	Life on Which Depreciation in Latest Income Statement is Computed
			Land	Building Improvements, CIP and Intangibles	Total			
Salt Lake City	UT	—	500	8,542	9,042	(854)	2001	35
Salt Lake City	UT	(11,900)	890	15,618	16,508	(1,375)	2001	40
Salt Lake City	UT	—	190	9,870	10,060	(747)	2001	45
Salt Lake City	UT	—	630	6,915	7,545	(629)	2001	40
Salt Lake City	UT	—	125	6,362	6,487	(482)	2001	45
Salt Lake City	UT	—	—	14,608	14,608	(647)	2001	45
Salt Lake City	UT	—	280	4,340	4,620	(241)	2002	45
Bristol	CT	—	560	2,839	3,399	(197)	2002	30
East Providence	RI	—	240	1,562	1,802	(109)	2002	30
Newington	CT	—	310	2,008	2,318	(139)	2002	30
Warwick	RI	—	455	2,017	2,472	(140)	2002	30
West Springfield	MA	—	680	3,988	4,668	(189)	2002	30
Salt Lake City	UT	—	—	6,667	6,667	(38)	2002	35
Enfield	CT	—	480	2,960	3,440	(224)	2003	15
San Diego	CA	—	7,872	33,385	41,257	(766)	2004	40
Total other		\$ (25,085)	\$ 26,322	\$ 187,648	\$ 213,970	\$ (20,545)		
Total continuing operations properties		\$ (139,416)	\$295,665	\$3,041,264	\$3,336,929	\$(523,415)		
Discontinued operations properties								
Modesto	CA	\$ —	\$ 583	\$ 1,865	\$ 2,448	\$ (1,459)	1985	
Mountain Home	AR	—	49	1,180	1,229	(343)	1985	
Texarkana	TX	—	111	3,102	3,213	(1,971)	1986	
Star City	AR	—	30	1,049	1,079	(598)	1988	
Seaside	OR	—	285	3,115	3,400	(840)	1994	
Milledgeville	GA	—	150	1,687	1,837	(483)	1997	
Oklahoma City	OK	—	193	1,790	1,983	(367)	1998	
Okemah	OK	—	137	853	990	(214)	1998	
Houston	TX	—	500	1,064	1,564	(666)	1998	
Houston	TX	—	400	1,239	1,639	(399)	1993	
Port Richey	FL	—	250	967	1,217	(421)	1998	
San Angelo	TX	—	150	250	400	(250)	1999	
Total discontinued operations properties		\$ —	\$ 2,838	\$ 18,161	\$ 20,999	\$ (8,011)		
Corporate and other assets		\$ —	\$ 958	\$ 6,384	\$ 7,342	\$ (3,147)		
Total		\$(139,416)	\$299,461	\$3,065,809	\$3,365,270	\$(534,573)		

* Property is in development and not yet placed into service.

HEALTH CARE PROPERTY INVESTORS, INC.

Schedule III: Real Estate and Accumulated Depreciation — (Continued)

December 31, 2004

- (a) Reconciliation of real estate per Schedule III to the Consolidated Balance Sheet as of December 31, 2004 (in thousands):

Schedule III total	\$3,365,270
Less: Lease-up intangibles included in other assets	<u>(14,325)</u>
Amount included under real estate on Consolidated Balance Sheet	<u>\$3,350,945</u>

- (b) A summary of activity for real estate and accumulated depreciation for the year ended December 31, 2004, 2003 and 2002 is as follows (in thousands):

	Year ended December 31,		
	2004	2003	2002
<i>Real estate:</i>			
Balances at beginning of year	\$3,017,461	\$2,783,799	\$2,534,527
Acquisition of real state, development and improvements	511,448	310,151	283,345
Disposition of real estate	(183,012)	(62,497)	(23,066)
Impairments	(17,067)	(13,992)	(11,007)
Balances associated with changes in reporting presentation	<u>22,115</u>	<u>—</u>	<u>—</u>
Balances at end of year	<u>\$3,350,945</u>	<u>\$3,017,461</u>	<u>\$2,783,799</u>
<i>Accumulated depreciation:</i>			
Balances at beginning of year	\$ 474,021	\$ 412,388	\$ 339,971
Depreciation expense	89,357	80,123	75,636
Disposition of real estate	(34,163)	(18,490)	(3,219)
Balances associated with changes in reporting presentation	<u>5,358</u>	<u>—</u>	<u>—</u>
Balances at end of year	<u>\$ 534,573</u>	<u>\$ 474,021</u>	<u>\$ 412,388</u>

ACKNOWLEDGMENT AND CONSENT

THIS ACKNOWLEDGMENT AND CONSENT (this “Agreement”) dated as of March 1, 2005 is by and among Merrill Lynch Bank USA (“Lender”), Gardner Property Holdings, L.C., a Utah limited liability company (“Borrower”), HCPI/Utah, LLC, a Delaware limited liability company (the “Down REIT Sub”), each of the entities that is affiliated with Borrower and that is a signatory hereto under the designation “Pledgor” (individually and collectively, as the context requires, “Pledgor”), and Health Care Property Investors, Inc., a Maryland corporation (“HCPI”).

RECITALS:

1. Each Pledgor is a Non-Managing Member of the Down REIT Sub pursuant to that certain Amended and Restated Limited Liability Company Agreement of HCPI/Utah, LLC, dated as of January 20, 1999, as amended by Amendment Nos. 1, 2, 3, 4, 5, 6, 7, 8 and 9 dated as of June 30, 1999, November 12, 1999, January 12, 2000, March 1, 2000, December 1, 2000, March 16, 2001, March 30, 2001, October 1, 2001 and October 30, 2001, respectively (the “LLC Agreement”). Further, each Pledgor is the record owner of the number of Non-Managing Member Units, as set forth opposite such Pledgor’s name on Exhibit A attached hereto (collectively, the “Pledged Units”). As of the date of this Agreement, the Pledged Units are evidenced by the LLC Unit Certificates referred to on Exhibit A (collectively, the “Certificates”). All references herein to the Pledged Units shall include all additional or substituted Non-Managing Member Units, from time to time pledged to Lender pursuant to the Loan Agreement, as defined below, and all references herein to the Certificates shall include the Certificates related to such additional or substituted Non-Managing Member Units.

2. Lender is a party to that certain Loan Management Account Agreement, dated as of the date hereof, by and among Borrower, Pledgor, Lender and Merrill Lynch, Pierce, Fenner & Smith Incorporated (as such agreement has been or may hereafter be amended, supplemented or otherwise modified from time to time, the “Loan Agreement”), whereby Lender has agreed to lend to Borrower from time to time, on a revolving basis, an amount not to exceed \$11,250,000 as presently established.

3. Pursuant to the Loan Agreement, the loan contemplated therein is secured by, inter alia, (i) all of Pledgor’s right, title and interest in the Pledged Units, and (ii) all of Pledgor’s right, title and interest in those certain Registration Rights Agreements between each Pledgor and HCPI, as amended with respect to certain of the Pledged Units (individually and collectively, referred to herein as the “Registration Rights Agreement”). The loan contemplated in the Loan Agreement is also secured, pursuant to the Loan Agreement, by similar collateral security pertaining to HCPI/Utah II, LLC, a Delaware limited liability company (“HCPI/Utah II, LLC”) as confirmed in the Acknowledgment and Consent, dated as of the date hereof (the “Utah II Acknowledgment and Consent”), among Lender, Borrower, HCPI, HCPI/Utah II, LLC and certain other pledgors specified therein.

4. The parties hereto desire to enter into this Agreement for the purpose of setting forth certain agreements among Lender, Borrower, Pledgor, HCPI and the Down REIT Sub with respect to the Collateral.

5. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the LLC Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the meanings hereinafter set forth unless the context shall otherwise require.
 - a. "Collateral" shall mean, collectively, the Pledged Units, the Pledged Shares and any and all securities issued or issuable on the conversion or redemption of the Pledged Units or Pledged Shares, or cash or other distributions of every kind in respect of any of the foregoing.
 - b. "Commission" shall mean the Securities and Exchange Commission.
 - c. "Default" shall mean a Remedy Event as defined in the Loan Agreement or a demand under Section 8.3 of the Loan Agreement.
 - d. "Material Adverse Effect" shall mean (i) an adverse condition or event material to, (ii) a material adverse effect on, or (iii) a material adverse change in, as the case may be, any one or more of the following: (A) the business, assets, results of operations, financial condition or prospects of HCPI or the Down REIT Sub, as the case may be, or (B) the ability of HCPI or the Down REIT Sub, as the case may be, to perform its obligations under any material contract to which it is a party.
 - e. "Pledged Shares" shall mean REIT Shares which are exchanged by HCPI for any Pledged Units which are tendered to HCPI, as the Managing Member of the Down REIT Sub, pursuant to the exchange provisions set forth in Section 8.6 of the LLC Agreement, as the same are amended as provided in Section 7.b.i below.
 - f. "Registration Rights" shall mean a Pledgor's rights under the Registration Rights Agreement, as supplemented and modified in Section 7.b below.
 - g. "S-3 Expiration Date" means the date on which Form S-3 (or a similar successor form of registration statement) is not available to HCPI for the registration of REIT Shares pursuant to the Securities Act.
 - h. "Securities Act" shall mean the Securities Act of 1933, as amended.

2. Acknowledgment of Pledge, etc.
- a. HCPI and the Down REIT Sub hereby agree, acknowledge and approve, as being subject to, but complying with Section 11.3 of the LLC Agreement, (i) the grant by Pledgor to Lender of a security interest in the Collateral pursuant to the Loan Agreement, and (ii) subject to Section 7.a below, the Transfer, to Lender or other purchaser at foreclosure, of the Pledged Units upon foreclosure (or transfer in lieu of foreclosure, with each reference herein to foreclosure to include such a transfer) thereon by Lender under or pursuant to the Loan Agreement; provided, however, that such acknowledgement and approval of the Down REIT Sub is not, and shall not be construed to be, the consent to or approval of any other Transfer in the event Lender or other purchaser at foreclosure becomes the owner of any of the Pledged Units. HCPI agrees to note in its and the Down REIT Sub's books and records that the undersigned Pledgors have granted to Lender security interests in the Collateral and agrees that upon delivery to HCPI by Lender of the Certificates evidencing ownership of the Pledged Units, together with original unit powers duly executed by Pledgor in blank in the form attached hereto as Exhibit B, if requested by Lender, HCPI will register in its books and records, or the books and records of the Down REIT Sub, ownership of such Pledged Units in the name of Lender or its nominee. HCPI agrees that it will not register the Pledged Units (or any entitlement to any dividend, distribution or other proceeds thereof) into the name of any person other than the Pledgor listed as the owner thereof on Exhibit A attached hereto, or recognize any person other than such Pledgor as the owner of such Pledged Units, without the prior written consent of Lender.
 - b. HCPI and the Down REIT Sub agree that notwithstanding Section 11.3.D of the LLC Agreement, they will not require an opinion of counsel in order for the Down REIT Sub and HCPI to recognize the Pledgor's pledge of the Pledged Units and the grant of a security interest to Lender in the Collateral.
 - c. HCPI and the Down REIT Sub hereby acknowledge receipt of copies of the Instructions to Register Security Interest attached hereto as Exhibit C (the "Instructions") and the notice of Lender's security interest contained therein and agree to comply with the terms of the Instructions.
 - d. HCPI and the Down REIT Sub hereby agree that by virtue of Lender holding a security interest in the Pledged Units (i) Lender does not and shall not become a Substituted Member under Section 11.4 of the LLC Agreement unless and until Lender forecloses on the Pledged Units and (ii) Lender does not and shall not undertake any obligations or liabilities of Pledgor of any nature whatsoever pertaining to the Pledged Units or under the LLC Agreement, both before or after any foreclosure by Lender on the Pledged Units.
 - e. HCPI and the Down REIT Sub acknowledge and agree that upon the execution and delivery to Lender by the Pledgors of this Agreement, the Loan Agreement and all schedules hereto and thereto to which the Pledgors are parties, and the Certificates, the Pledgors will not be required to sign any other documents or take any other action with respect to the Transfer of the Pledged Units to Lender in connection with the exercise of Lender's rights under this Agreement.

- f. The parties acknowledge and agree that Lender and Borrower may from time to time further modify the Loan Agreement, including by way of adding additional entities as Pledgors thereunder and/or by adding additional Non-Managing Member Units as Pledged Units. Any such additional entities added as Pledgors and/or any existing Pledgors who pledge additional Pledged Units shall concurrently acknowledge their status as parties to this Agreement on such terms and with the same force and effect as if each such entity had originally executed and delivered same. Lender shall give written notice thereof to the Down REIT Sub, HCPI and each Pledgor contemporaneously with any such modification of the Loan Agreement; no written consent or other acknowledgement shall be required from any entity to which such notice is sent as a condition to the effectiveness of the foregoing. Such notice shall include such further amendment and restatement of Exhibit A and Exhibit C to this Agreement as necessary in order to reflect the additional Pledged Units of each such entity added as an additional Pledgor and/or the additional Pledged Units of each such existing Pledgor. Following such notification from Lender, each reference to “Pledgor” in this Agreement shall be understood to include for all purposes any such entity so added to the Loan Agreement.
3. Notices. Unless and until HCPI has received written notice from Lender to the effect that Lender no longer claims any interest in the Collateral, (a) HCPI shall send to Lender a copy of each notice sent to holders of LLC Units by HCPI under the LLC Agreement as and when it delivers such notice to Pledgor, including any notice of Reduction pursuant to Section 8.6.D of the LLC Agreement, and (b) at the written request of Lender, HCPI shall send to Lender a copy of each other communication, report or other information from time to time sent to Pledgor as holder of the Pledged Units or Pledged Shares.
4. Amendments to Registration Rights Agreement and the LLC Agreement. Unless and until HCPI has received written notice from Lender to the effect that Lender no longer claims any interest in the Collateral, (a) no amendment of, termination of, or supplement to, the Registration Rights Agreement shall be effective without the prior written consent of Lender, and (b) no amendment of, termination of or supplement to the LLC Agreement for which the consent of any Pledgor is required shall be effective without the prior written consent of Lender, which consent shall not be unreasonably withheld; provided that if written disapproval is not received from Lender within 10 Business Days following receipt by Lender of a written request to approve such amendment (which request shall specifically reference the time limitation imposed by this Section 4), then Lender’s approval of such amendment shall be deemed to have been given.
5. Distributions, etc.
- a. Following receipt by the Down REIT Sub of written notice (which notice shall specifically reference this Section 5 of this Agreement) from Lender that a

Default has occurred and is continuing (a “Default Notice”): (i) upon the written instruction of Lender and until instructions to the contrary are received from Lender, the Down REIT Sub shall remit to Lender all cash distributions otherwise payable to Pledgor in respect of the Pledged Units, and HCPI shall remit to Lender all cash dividends otherwise payable to Pledgor in respect of the Pledged Shares, of any nature, and (ii) upon the written instruction of Lender and until instructions to the contrary are received from Lender, all rights of Pledgor to exercise the voting or other consensual rights that Pledgor would otherwise be entitled to exercise in respect of the Collateral shall cease, and all such rights (and any other rights Pledgor may have in respect of the Collateral) shall thereupon become vested in Lender, which shall have the sole right to exercise such rights, until further notice from Lender. With respect to cash distributions payable during such time as no event of Default is occurring, each Pledgor hereby directs the Down REIT Sub and/or HCPI, as the case may be, and the Down REIT Sub and/or HCPI, as the case may be, agrees to deposit any and all such dividends and distributions in the following account as set forth in Section 3.1. of the Loan Agreement: 43JO7293. Any amounts paid to the Lender or its designee as contemplated by the terms of the foregoing shall be treated as amounts paid or distributed to Pledgor for all purposes of the LLC Agreement, or other agreement pursuant to which the payment or distribution is made or is required to be made and shall be deemed to satisfy the obligations of the Down REIT Sub or HCPI to make such payment thereunder. Each Pledgor hereby agrees that neither the Down REIT Sub nor HCPI shall be deemed to be in breach of its obligations under, or in violation of the provisions of, any such agreement by virtue of having made such payments in the foregoing manner.

- b. From and after the date of this Agreement, and whether or not a Default has occurred and is continuing, if Pledgor shall become entitled to receive, in connection with any of the Collateral, any:
- i. LLC Units or stock certificates (including, without limitation, stock certificates relating to the Pledged Shares), including, without limitation, any certificates (1) issued in respect of additional properties contributed by such Pledgor to the Down REIT Sub, or (2) representing a dividend or distribution or issued in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares or partnership units, stock or partnership units split, spin-off, or split-off;
 - ii. Options, warrants, rights or other securities or instruments, whether as an addition to, or in substitution or in exchange for, any of the Collateral, or otherwise;
 - iii. Dividends or distributions payable in property other than cash, including securities issued by other than the issuer of any of the Collateral; or
 - iv. Any sums paid in redemption of any of the Collateral,

then HCPI shall deliver the same to Lender, to be held by Lender as part of the Collateral. Any amounts paid to the Lender or its designee as contemplated by the terms of the foregoing shall be treated as amounts paid or distributed to Pledgor for all purposes of the LLC Agreement, or other agreement pursuant to which the payment or distribution is made or is required to be made and shall be deemed to satisfy the obligations of the Down REIT Sub or HCPI to make such payment thereunder. Each Pledgor hereby agrees that neither the Down REIT Sub nor HCPI shall be deemed to be in breach of its obligations under, or in violation of the provisions of, any such agreement by virtue of having made such payments in the foregoing manner.

6. Registration Rights and Registration Statements.

- a. Shelf Registration Statement. HCPI hereby represents and warrants to Lender that it has filed pursuant to the Securities Act, and has kept continuously effective, a registration statement on Form S-3, dated January 27, 2000 and a registration statement on Form S-3, dated August 30, 2002 (such registration statements, including all amendments (including post-effective amendments) and all exhibits thereto and materials incorporated by reference therein, collectively, the “Shelf Registration Statement”) that relate to the offer and sale of certain REIT Shares issued or to be issued by the Down REIT Sub upon exchange of those Pledged Units described on Exhibit D attached hereto (the “Registered Pledged Units”). HCPI hereby agrees, if not so amended prior to the date of this Agreement, to amend and supplement the Shelf Registration Statement within 10 Business Days after the date of this Agreement and to file one or more such amendments and supplements with the Commission as required by Rule 424 or similar rule that may be adopted under the Securities Act to include Lender as a “Selling Shareholder” thereunder.
- b. Registration Rights. In addition to the specific registration rights set forth in this Agreement, in the name of and on behalf of Pledgor, Lender shall have the right to exercise Pledgor’s Registration Rights with respect to any Pledged Units then owned by Pledgor and held by Lender, including without limitation (i) subject to the terms and conditions of the Registration Rights Agreement, the right to enforce the applicable provisions of the Registration Rights Agreement pertaining to HCPI’s obligation to file with the commission a registration statement on Form S-3 (the “Issuance Registration Statement”) covering, among other things, the issuance to Lender of REIT Shares issued or to be issued by the Down REIT Sub upon exchange of those Pledged Units described on Exhibit E attached hereto and naming Lender as a “Selling Shareholder” thereunder and (ii) the right to request, at the times and in the manner set forth in the Registration Rights Agreement, HCPI to register for sale under the Securities Act any Pledged Shares issuable or issued upon exchange of Pledged Units; provided, however, that, in the case of a Demand Registration pursuant to Section 3.1(a) of the Registration Rights Agreement, the Down REIT Sub agrees that Lender shall not be subject to the once-every-twelve-months limitation set forth in clause (i) thereof (provided that if at any time Lender has exercised a Demand Registration right in the previous

twelve month period, for which the Down REIT Sub or HCPI has paid the expenses thereof, as provided in Section 3.4 of the Registration Rights Agreement, Lender shall pay the expenses described in Section 3.4 of the Registration Rights Agreement in connection with the filing of such Demand Registration), nor shall Lender be subject to the \$1,000,000 minimum requirement referred to in clause (ii) thereof if Lender is exercising Demand Registration Rights with respect to all of the Pledged Shares it owns or has the right to acquire upon an Exchange. Pledgor hereby irrevocably appoints Lender as his attorney-in-fact to exercise any such Registration Rights, and irrevocably instructs HCPI to honor any such exercise by Lender of Pledgor's Registration Rights.

7. Rights upon Remedy Events.

- a. Restrictions on Transfer Upon foreclosure of any Pledged Units, the Lender shall be entitled to Transfer such Pledged Units, in whole or in part, subject to applicable restrictions set forth in Section 11.3 through 11.6 of the LLC Agreement; provided, however, that HCPI and the Down REIT Sub acknowledge and agree that (i) the provisions of Section 11.6.C shall not apply to any foreclosure by Lender on any Pledged Units, (ii) to the extent any such restrictions require the consent of HCPI or the Down REIT Sub, HCPI and the Down REIT Sub hereby provide their consent to such foreclosure, (iii) if Lender or a purchaser of Pledged Units at foreclosure is prohibited from becoming a Substituted Member of HCPI, Lender or such purchaser may become an Assignee in accordance with such restrictions, (iv) the Down REIT Sub shall conduct its business in the ordinary course in accordance with past practices, and (v) neither Lender nor any purchaser of Pledged Units or Pledged Shares at foreclosure shall be obligated to assume, or otherwise be responsible for, any obligation a Pledgor may have under the LLC Agreement or any other obligation of Pledgor accrued prior to foreclosure under the LLC Agreement; provided that nothing in this subclause 7.a.(v) shall release or reduce any prior obligations of a Pledgor to HCPI or the Down REIT Sub, it being acknowledged and agreed by the Down REIT Sub or HCPI that the Down REIT Sub and HCPI have recourse against any such Pledgor only and not against Lender. HCPI further acknowledges and agrees that the aforesaid restrictions do not apply to Pledged Shares. Lender acknowledges and agrees that the Pledged Shares are subject to certain restrictions on ownership and transfer as set forth in the Charter of the HCPI, as amended from time to time.

b. Exchange of Pledged Shares; Foreclosure. In addition to (i) Lender's rights under Section 5 of this Agreement, (ii) Lender's rights as a pledgee, transferee or Assignee at foreclosure of LLC Units or a Membership Interest as provided in the LLC Agreement, and (iii) any and all other rights Lender may have in respect of a Default under any other agreement, document or instrument, or under applicable law, upon the occurrence of any one or more Defaults (including, without limitation, the right of Lender to exercise its rights under the Loan Agreement to foreclose on or acquire the entire interest of Pledgor in all or any portion of any Collateral), Lender shall thereupon and thereafter during the continuance thereof have the right, in its sole and absolute discretion, to do or cause to be done any one or more of the following:

i. Exchange of Registered Pledged Units.

Lender shall have the right, upon written notice to the Down REIT Sub and in the name of and on behalf of Pledgor, to exercise Pledgor's exchange rights and require HCPI to exchange all or any portion (as selected and in such order as Lender may elect in its sole discretion) of the Registered Pledged Units in accordance with Section 8.6.A of the LLC Agreement (the "Exchange Rights"). Any request for such exchange shall be made on the form of Notice of Exchange attached hereto as Exhibit F. Pledgor hereby irrevocably appoints Lender as its attorney-in-fact to exercise such Exchange Rights, and irrevocably instructs the Down REIT Sub and HCPI to honor any such exercise by Lender of the Exchange Rights. HCPI hereby agrees that upon any such exercise of the Exchange Rights, HCPI shall deliver the entire Cash Amount or REIT Shares to Lender, in each case without deduction in respect of any claim which HCPI or the Down REIT Sub may from time to time have of any nature or kind against Pledgor (other than with respect to any withholding tax obligation imposed by law on the Down REIT Sub with respect to any amount distributable or allocable to a Pledgor in respect of Registered Pledged Units, as contemplated in Section 5.3 of the LLC Agreement).

In addition to the foregoing, the second sentence of Section 8.6.A of the LLC Agreement is hereby amended with respect to Lender to provide that notwithstanding the first sentence of Section 8.6.A of the LLC Agreement, after, or concurrently with, receipt by HCPI of any Default Notice, the Lender shall have the right to (i) tender Registered Pledged Units for Exchange (subject to the following terms and conditions of Section 8.6.A of the LLC Agreement) and require the Down REIT Sub to acquire up to the number of Registered Pledged Units specified in the Notice of Exchange as referred to in the definition of "Specified Exchange Date" set forth in subparagraph (c) immediately following; provided, however that Lender may tender Registered Pledged Units for Exchange hereunder once, irrespective of the aggregate market value of such Registered Pledged Units, and an unlimited number of times, provided the aggregate market value of such Registered Pledged Units is at least \$1,000,000 on the date of any such Notice of Exchange.

In connection with the foregoing, the definition of the term "Specified Exchange Date" in the LLC Agreement shall, with respect to Lender and only with respect to Lender, be amended to read as follows:

"Specified Exchange Date" means in the case of an Exchange pursuant to Section 8.6.A hereof, that date

specified by Lender in a Notice of Exchange to the Company; *provided*, however, that such date shall in no event be less than fourteen (14) days (or if such day is not a Business Day, the next following Business Day) after HCPI's receipt of such Notice of Exchange and provided further that the Specified Exchange Date, as well as the closing of an Exchange on the Specified Exchange Date, may be deferred in the Managing Member's sole and absolute discretion, for such time as may be reasonably required to effect, as applicable, (i) necessary funding arrangements, (ii) compliance with the Securities Act or other applicable laws (including, but not limited to, (a) state "blue sky" or other securities laws and (b) the expiration or termination of the applicable waiting period, if any, under the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, and (iii) satisfaction or waiver of other commercially reasonable and customary closing conditions and requirements for a transaction of such nature (provided that in no event shall such Exchange be delayed more than 30 days in the aggregate with respect to (i) and (iii) above, or more than 150 days in the aggregate with respect to (ii) above.

ii. Put for Unregistered Pledged Units.

Until such time as HCPI has filed, pursuant to Section 6 of this Agreement, (i) an amendment to the Shelf Registration Statement, and (ii) the Issuance Registration Statement, as the case may be, Lender shall have the right upon written notice to HCPI in the form of Deficiency Notice attached hereto as Exhibit G (a "Deficiency Notice"), to exchange all or any portion of the Unregistered Pledged Units for one or more cash payments from HCPI on any foreclosure of the Unregistered Pledged Units, where the cash or fair market value of Pledged Shares (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice, as reported on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed) issued on exchange of Registered Pledged Units will be insufficient to satisfy Borrower's Obligations (as defined in the Loan Agreement) under the Loan Agreement, in an amount (the "Unregistered Units Cash Payment") equal to (i) the fair market value of such Unregistered Pledged Units (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed), multiplied by (ii) the number of such Unregistered Pledged Units exchanged, less (iii) 1% of the product of (i) and (ii). Each Unregistered Units Cash Payment shall be payable by HCPI within 14 days following its receipt of the Deficiency Notice with respect thereto; provided, however, that at such time as

Lender receives written notice from HCPI of the filing and effectiveness of the Issuance Registration Statement, Lender's rights pursuant to this Section 7.b.ii shall terminate with respect to any such Unregistered Pledged Units covered by such registration, so long as such registration remains effective. In the event and to the extent that any registration statement with respect to any Pledged Units ceases to be effective, the provisions of this Section 7.b.ii shall again apply with respect to all affected Pledged Units and/or Pledged Shares.

Notwithstanding the provisions of Section 7.b.ii above, but subject to Section 7.b.iii below and Section 7.b.iii of the Utah II Acknowledgement and Consent, Lender agrees that to the extent Lender has the right to exchange Registered Pledged Units under either this Agreement or under the Utah II Acknowledgment and Consent on or before the specified date in the applicable Notice of Exchange, Lender shall exercise any and all such exchange rights hereunder and thereunder, prior to delivering a Deficiency Notice under Section 7.b.ii above.

- iii. Put for Exchange Delays in Pledged Units. Notwithstanding anything to the contrary in this Agreement, in the event that the Specified Exchange Date under Section 7.b.i is deferred to a date that is later than the date specified in the applicable Notice of Exchange and where the cash or fair market value of the Pledged Units (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed), if any, which may be exchanged on or before the specified date in the applicable Notice of Exchange will be insufficient to satisfy Borrower's Obligations (as defined in the Loan Agreement) under the Loan Agreement, Lender shall have the right, upon providing a Deficiency Notice to HCPI, to exchange all or any portion of the affected Pledged Units for one or more cash payments from HCPI in an amount (the "Exchange Delay Cash Payment") equal to (i) the fair market value (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed) of such affected Pledged Units, multiplied by (ii) the number of such affected Pledged Units to be exchanged, less (iii) 1% of the product of (i) and (ii). Each Exchange Delay Cash Payment shall be payable by HCPI within 14 days following its receipt of the Deficiency Notice with respect thereto.

In addition, the parties hereto agree and acknowledge that the obligation of HCPI, HCPI/Utah II, LLC and/or the Down REIT Sub, as the case may be, to make Unregistered Units Cash Payments and/or Exchange Delay Cash Payments under this Section 7 and under Section 7 of the Utah II Acknowledgment and Consent shall not exceed, in the aggregate, \$10,000,000.

- iv. Concurrent Exercise. The rights exercisable by Lender under this Section 7.b may be invoked before or after foreclosure under the Loan Agreement in Lender's sole discretion, and all without further notice to or any requirement of consent by Pledgor, which hereby irrevocably and unconditionally waives any right to give any contrary instructions to HCPI. All parties acknowledge that Lender desires to consummate any necessary foreclosure under the Loan Agreement on a basis that such foreclosure occurs concurrent with the closing of an Exchange; all parties agree to cooperate reasonably with Lender to that end. HCPI agrees that it will not act on any separate instructions or communications from Pledgor pertaining to the Pledged Units or Pledged Shares or Registration Rights Agreement without the express written consent of Lender. Nothing in this subparagraph (v) shall in any way obligate Lender to consummate any necessary foreclosure under the Loan Agreement in the manner referred to above; Lender may, in its sole discretion, determine that another method of realization upon the Collateral is preferable or required, and such determination by Lender shall in no manner limit or restrict the obligations of Borrower, Pledgor or any other person or entity with respect to the loans contemplated herein.
 - v. Foreclosure. Subject to the terms and conditions of the Loan Agreement, Lender shall have the right to foreclose on or acquire the entire interest of Pledgor in all or any portion of any Pledged Shares (including all of Pledgor's right, title and interest in the Registration Rights Agreement to the extent applicable to such Pledged Shares) owned by Pledgor, by foreclosure or in any other manner. In the event that Lender elects to exercise its rights under this Section 7.b.v, Lender shall deliver to HCPI a notice of its intent to do so no later than 10 Business Days prior to the date of any sale, public or private, or of any transfer in lieu of foreclosure, and HCPI (without limitation on its own right, under applicable law, to participate in any sale or other disposition of any of the Collateral) shall reasonably cooperate, at no expense to itself, with Lender in completing its foreclosure on the affected Pledged Shares in compliance with applicable laws, including, if applicable, all actions reasonably necessary to comply with the filing requirements described in Rule 144(c)(1) of the Securities Act, so as to enable the Lender to sell such Pledged Shares without registration under the Securities Act.
8. Representations and Warranties by the Down REIT Sub and HCPI. The Down REIT Sub and HCPI hereby represent and warrant to Lender as follows as of the date hereof:
- a. LLC Agreement. A true and correct copy of the LLC Agreement as in effect as of the date hereof is attached as Exhibit H hereto.
 - b. Organization And Authority of the Down REIT Sub. The Down REIT Sub has been duly formed, is validly existing as a limited liability company in good standing under the laws of the State of Delaware, and is duly qualified to transact

business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification except where the absence of such qualification would not have a Material Adverse Effect. The Down REIT Sub has all requisite power and authority to own or hold under lease the property it purports to own or hold under lease, to carry on its business as now conducted and as proposed to be conducted except as would not have a Material Adverse Effect, and to execute and deliver this Agreement and to perform its obligations hereunder.

- c. Authorization by the Down REIT Sub; Binding Effect. The Down REIT Sub has by all necessary action duly authorized (i) the execution and delivery of this Agreement and (ii) the performance of its obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of the Down REIT Sub, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
- d. Pledged Units; Managing Member of the Down REIT Sub. All of the Pledged Units are validly issued and non-assessable. The identity of the registered owners, the total number of Pledged Units and the corresponding Certificates evidencing ownership thereof are accurately set forth on Exhibit A attached hereto. No security interest in the Pledged Units has been registered on the records of the Down REIT Sub (or its transfer agent). HCPI is the sole Managing Member of the Down REIT Sub and owns the only Managing Member Units thereof.
- e. Organization and Authority of HCPI. HCPI is a corporation duly organized, validly existing and in good standing under the laws of Maryland, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification except where the absence of such qualification would not have a Material Adverse Effect. HCPI has all requisite power and authority to own or hold under lease the property it purports to own or hold under lease, to carry on its business as now conducted and as proposed to be conducted except as would not have a Material Adverse Effect, and to execute and deliver this Agreement and to perform its obligations hereunder.
- f. No Claims. To their knowledge, neither HCPI nor the Down REIT Sub has any existing claim, defense, setoff or right of recoupment under the LLC Agreement, any other agreement, or any law, rule or regulation, against or with respect to (i) any of the Pledged Units, (ii) any of REIT Shares that may be issuable or any amount that may be payable in connection with the exchange of any Pledged Units or (iii) any obligation of Pledgor under the LLC Agreement or any other agreement with respect to any of the Pledged Units, any of the REIT Shares that may be issued or any amount that may be payable in connection with the redemption of any Pledged Units.

- g. Authorization by HCPI; Binding Effect. HCPI has by all necessary action duly authorized the execution and delivery of this Agreement and the performance of its obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of HCPI, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
 - h. HCPI Status. HCPI is organized in conformity with the requirements for qualification as a real estate investment trust under the Code and its ownership and method of operation enables it to meet the requirements for taxation as a real estate investment trust under the Code.
 - i. No Conflict. The execution, delivery and performance by HCPI of this Agreement, and the consummation of the transactions contemplated hereby, do not and will not violate any provision of the charter or bylaws of HCPI, or the LLC Agreement, or any contractual or other undertaking by which HCPI or any of its assets are bound. As of the date of this Agreement, the Pledged Units are not evidenced by writing or certificate except by the Certificates expressly referred to on Exhibit A hereto.
 - j. Registration Rights Agreement. A true and complete copy of the Registration Rights Agreement, including any amendments and supplements thereto, is attached to this Agreement as Exhibit I. The Registration Rights Agreement remains in full force and effect as of the date of this Agreement, and is the legal, valid and binding obligation of HCPI enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
 - k. Governmental or Other Approvals. No governmental or other approval is or will be required in connection with the execution, delivery and performance by the Down REIT Sub or HCPI of this Agreement or the transactions contemplated hereby or to ensure the legality, validity or enforceability hereof.
9. Representations and Warranties by Pledgor. To its knowledge, Pledgor does not have any existing claims, defenses, setoff rights or rights of recoupment under the LLC Agreement, under any other agreement, or any law, rule or regulation, against or with respect to any obligation of either HCPI or the Down REIT Sub under the LLC Agreement or any other agreement.
10. Compliance with Securities Laws. Lender, Borrower and Pledgor hereby acknowledge that a portion of the Collateral has not been registered for sale under the Securities Act, that Lender may be unable to effect a public sale (under applicable provisions of the Uniform Commercial Code) of all or any part of the Collateral, and subject to the restrictions on transfer described above, may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among

other things, to acquire the Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Lender and Pledgors hereby further acknowledge that any such private sales may be at prices and on terms less favorable than those of public sales.

11. Liability to Pledgor. Pledgor and Borrower assume all risks of the acts or omissions of Lender with respect to its exercise of its rights hereunder. Neither the Down REIT Sub, HCPI, nor any of their officers, directors, partners, employees or agents shall be liable or responsible for any acts or omissions of the Lender, including without limitation the validity of any determination by Lender that a Default has occurred or is continuing, nor shall any of such persons have any responsibility for investigation into the facts and circumstances giving rise to any such determination by Lender, nor shall any such person be liable or responsible for following the instructions of Lender in accordance with this Agreement regardless of any notice, information or instructions to the contrary received by HCPI from Pledgor or any other person, including without limitation following instruction of Lender (a) to remit distributions by the Down REIT Sub made in respect of the Pledged Units, and distributions of HCPI made in respect of Pledged Shares, to Lender, pursuant to Section 5 above, (b) to terminate the voting and/or other consensual rights of Pledgor (and consider such right to have vested in Lender) pursuant to Section 5 above, (c) to exercise Pledgor's Exchange Rights in the name of and on behalf of Pledgor pursuant to Section 7 above, or (d) to exercise Pledgor's Registration Rights in the name of and on behalf of Pledgor, pursuant to Section 6 above.
12. Separate Actions; Waiver of Statute of Limitations. The obligations of HCPI and Pledgor hereunder shall be in addition to any obligations of Pledgor under the Loan Agreement. Without limiting the provisions of the Loan Agreement, a separate action or actions may be brought and prosecuted against any one or more of the parties hereto whether or not action is brought against any other person or whether any other person is joined in any such action or actions. HCPI and Pledgor acknowledge that there are no conditions precedent to the effectiveness of this Agreement and that this Agreement is in full force and effect and is binding on such person as of the date hereof. To the extent permitted under applicable law, Pledgor waives the benefit of any statute of limitations affecting such person's liability hereunder or the enforcement thereof. Lender hereby agrees that neither the Down REIT Sub nor HCPI shall have any obligation or liability under the Loan Agreement or any other agreement related to the loan contemplated by the Loan Agreement except as expressly set forth herein and in the Instructions. Pledgor agrees that nothing set forth herein shall alter, diminish or otherwise affect its obligations under the LLC Agreement or any other agreement between Pledgor and HCPI or the Down REIT Sub relating to the Pledged Units or Pledged Shares.
13. Continuing Obligations. Borrower and Pledgor shall indemnify and hold harmless Lender from and against any and all obligations, claims, losses, liabilities, damages, expenses or costs (including reasonable attorneys' fees and expenses and fees and expenses of expert witnesses) arising from or in any way connected with the obligations or liabilities of either such person with respect to agreements, documents or other instruments, whether now existing or hereafter incurred, or the conditions and obligations to be observed and performed by Borrower or Pledgor under any agreement, document or

other instrument relating to the Collateral, except for those arising from Lender's gross negligence or willful misconduct. In addition, Borrower shall indemnify and hold harmless Lender from and against any and all obligations, claims, losses, liabilities, damages, expenses or costs (including reasonable attorneys' fees and expenses and fees and expenses of expert witnesses) arising from or in any way connected with the exercise by Lender of any rights or remedies under the Loan Agreement or this Agreement with respect to the Collateral, including, without limitation, all costs and expenses associated with the exercise of any foreclosure rights and/or exchange rights pursuant to Section 6.b above or otherwise.

14. Appointment as Attorney-in-Fact. Pledgor hereby appoints Lender as its true and lawful attorney-in-fact, with full power of substitution, for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instruments either in the name of Pledgor or in the name of Lender, which such attorney-in-fact may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest; provided, that nothing in this section shall require the Lender to take any action or execute any instruments.
15. Notices. Any notice, demand, request or report required or permitted to be given or made to a party to this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication (including by telecopy, facsimile, or commercial courier service) (a) in the case of a Pledgor, to that Pledgor at the address set forth below and (ii) in the case of each other party, at its address for notices set forth below or at such other address as such party may give notice of in accordance with the provisions of this Section:

Borrower and each Pledgor: c/o The Boyer Company, L.C.
127 South 500 East, Suite 100
Salt Lake City, Utah 84102
Attention: Brian Gochnour
Telephone No.: 801-521-4781
Telecopier: 801-521-4793

Lender: Merrill Lynch Bank USA
15 W. South Temple, Suite 300
Salt Lake City, Utah 84101
Attention: Director
Telephone No.:
Telecopier:

HCPI and/or Down REIT Sub: Health Care Property Investors, Inc.
3760 Kilroy Airport Way, Suite 300
Long Beach, California 90806
Attention: Legal Department
Telephone No.: (562) 733-5100
Telecopier: (562) 733-5200

16. Assignments. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Nothing contained herein, express or implied, is intended to confer on any person other than the parties hereto or their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.
17. Governing Law. This Agreement and the legal relations between the parties hereto shall be governed by and construed in accordance with the internal laws of the State of New York applicable to contracts made and to be performed in that State, without regard to conflict of laws principles.
18. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original but all of which together shall constitute but one agreement. This Agreement may be executed and delivered by facsimile.
19. Entire Agreement; Amendments. This Agreement (including the instruments between the parties referred to herein) constitutes the entire agreement among the parties and supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof. All references to sections, subsections, clauses, exhibits and schedules shall be deemed references to such part of this Agreement, unless the context shall otherwise require. No provisions of this Agreement may be effectively waived, changed or amended, or the termination or discharge thereof agreed to or acknowledged, orally, but only by an agreement in writing signed by the party against whom the enforcement of any waiver, change, amendment, termination or discharge is sought.
20. Headings. The headings contained in this Agreement are inserted for convenience only and do not constitute a part of this Agreement.
21. Invalidity. If any provision of this Agreement is held invalid or unenforceable, the remainder of this Agreement shall nevertheless remain in full force and effect.
22. Attorneys' Fees. In the event of any controversy, claim or dispute between the parties hereto arising out of or relating to this Agreement or any of the documents provided for herein, or the breach thereof, the prevailing party shall be entitled to recover from the losing party reasonable attorneys' fees, expenses and costs.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

LENDER:

MERRILL LYNCH BANK USA

By: _____

Date: _____

Title: _____

BORROWER:

GARDNER PROPERTY HOLDINGS, L.C.,
a Utah limited liability company

By: _____

Date: _____

Title: _____

THE DOWN REIT SUB:

HCPI/UTAH, LLC,
a Delaware limited liability company

By: HEALTH CARE PROPERTY
INVESTORS, INC., its Managing Member

By: _____

Date: _____

Title: _____

HCPI:

HEALTH CARE PROPERTY INVESTORS, INC.,
a Maryland corporation

By: _____

Date: _____

Title: _____

PLEDGORS:

AMARILLO BELL ASSOCIATES,
a Utah general partnership

By: THE BOYER COMPANY, L.C.,
its Partner

By: _____

Date: _____

Title: _____

BOYER CENTERVILLE CLINIC COMPANY,
L.C., a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____

Name: _____

Title: _____

BOYER GRANTSVILLE MEDICAL, L.C.,
a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____

Name: _____

Title: _____

BOYER IOMEGA, L.C.,
a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____

Name: _____

Title: _____

PLEDGORS:

BOYER-OGDEN MEDICAL ASSOCIATES NO.
2, LTD., a Utah limited partnership

By: THE BOYER COMPANY, L.C.,
its General Partner

By: _____

Name: _____

Title: _____

BOYER SPRINGVILLE, L.C.,
a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____

Name: _____

Title: _____

BOYER-ST. MARKS MEDICAL ASSOCIATES,
LTD., a Utah limited partnership

By: THE BOYER COMPANY, L.C.,
its General Partner

By: _____

Name: _____

Title: _____

BOYER ST. MARK'S MEDICAL ASSOCIATES
#2, LTD., a Utah limited partnership

By: THE BOYER COMPANY, L.C.,
its General Partner

By: _____

Name: _____

Title: _____

EXHIBIT A
PLEDGED UNITS

<u>Member Name</u>	<u>Certificate Nos.</u>	<u>Number of Non-Managing Member Units Pledged</u>
Amarillo Bell Associates Boyer Centerville Clinic Company, L.C.	105, 106, 128, 129	29,189
Boyer Grantsville Medical, L.C.	48, 49	11,740
Boyer Iomega, L.C.	55, 56	3,737
Boyer-Ogden Medical Associates No. 2, Ltd.	67, 68	55,723
Boyer Springville, L.C.	32	29,277
Boyer-St. Marks Medical Associates, Ltd.	76	33,344
Boyer St. Mark's Medical Associates #2, Ltd.	123, 126	86,680
	20, 21	36,836
	TOTAL:	286,526

EXHIBIT B
IRREVOCABLE UNIT POWER

EXHIBIT C
THE INSTRUCTIONS

EXHIBIT D
REGISTERED PLEDGED UNITS

<u>Member Name</u>	<u>Certificate Nos.</u>	<u>Number of Non-Managing Member Units Pledged</u>
Amarillo Bell Associates	105, 106	11,181
Boyer Centerville Clinic Company, L.C.	48, 49	11,740
Boyer Grantsville Medical, L.C.	55, 56	3,737
Boyer Iomega, L.C.	67, 68	55,723
Boyer-Ogden Medical Associates No. 2, Ltd.	32	29,277
Boyer Springville, L.C.	76	33,344
Boyer-St. Marks Medical Associates, Ltd.	123, 126	86,680
Boyer St. Mark's Medical Associates #2, Ltd.	20, 21	36,836
	TOTAL:	268,518

EXHIBIT E
UNREGISTERED PLEDGED UNITS

<u>Member Name</u>	<u>Certificate Nos.</u>	<u>Number of Non-Managing Member Units Pledged</u>
Amarillo Bell Associates	128, 129	18,008
	TOTAL:	18,008

EXHIBIT F
NOTICE OF EXCHANGE

EXHIBIT G
DEFICIENCY NOTICE

EXHIBIT H
LLC AGREEMENT

EXHIBIT I
REGISTRATION RIGHTS AGREEMENT

ACKNOWLEDGMENT AND CONSENT

THIS ACKNOWLEDGMENT AND CONSENT (this "Agreement") dated as of March 1, 2005 is by and among Merrill Lynch Bank USA ("Lender"), The Boyer Company, L.C., a Utah limited liability company ("Borrower"), HCPI/Utah, LLC, a Delaware limited liability company (the "Down REIT Sub"), each of the entities that is affiliated with Borrower and that is a signatory hereto under the designation "Pledgor" (individually and collectively, as the context requires, "Pledgor"), and Health Care Property Investors, Inc., a Maryland corporation ("HCPI").

RECITALS:

1. Each Pledgor is a Non-Managing Member of the Down REIT Sub pursuant to that certain Amended and Restated Limited Liability Company Agreement of HCPI/Utah, LLC, dated as of January 20, 1999, as amended by Amendment Nos. 1, 2, 3, 4, 5, 6, 7, 8 and 9 dated as of June 30, 1999, November 12, 1999, January 12, 2000, March 1, 2000, December 1, 2000, March 16, 2001, March 30, 2001, October 1, 2001 and October 30, 2001, respectively (the "LLC Agreement"). Further, each Pledgor is the record owner of the number of Non-Managing Member Units, as set forth opposite such Pledgor's name on Exhibit A attached hereto (collectively, the "Pledged Units"). As of the date of this Agreement, the Pledged Units are evidenced by the LLC Unit Certificates referred to on Exhibit A (collectively, the "Certificates"). All references herein to the Pledged Units shall include all additional or substituted Non-Managing Member Units, from time to time pledged to Lender pursuant to the Loan Agreement, as defined below, and all references herein to the Certificates shall include the Certificates related to such additional or substituted Non-Managing Member Units.

2. Lender is a party to that certain Loan Management Account Agreement, dated as of the date hereof, by and among Borrower, Pledgor, Lender and Merrill Lynch, Pierce, Fenner & Smith Incorporated (as such agreement has been or may hereafter be amended, supplemented or otherwise modified from time to time, the "Loan Agreement"), whereby Lender has agreed to lend to Borrower from time to time, on a revolving basis, an amount not to exceed \$11,250,000 as presently established.

3. Pursuant to the Loan Agreement, the loan contemplated therein is secured by, inter alia, (i) all of Pledgor's right title and interest in the Pledged Units, and (ii) all of Pledgor's right, title and interest in those certain Registration Rights Agreements between each Pledgor and HCPI, as amended with respect to certain of the Pledged Units (individually and collectively, referred to herein as the "Registration Rights Agreement"). The loan contemplated in the Loan Agreement is also secured, pursuant to the Loan Agreement, by similar collateral security pertaining to HCPI/Utah II, LLC, a Delaware limited liability company ("HCPI/Utah II, LLC") as confirmed in the Acknowledgment and Consent, dated as of the date hereof (the "Utah II Acknowledgment and Consent"), among Lender, Borrower, HCPI, HCPI/Utah II, LLC and certain other pledgors specified therein.

4. The parties hereto desire to enter into this Agreement for the purpose of setting forth certain agreements among Lender, Borrower, Pledgor, HCPI and the Down REIT Sub with respect to the Collateral.

5. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the LLC Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the meanings hereinafter set forth unless the context shall otherwise require.
 - a. "Collateral" shall mean, collectively, the Pledged Units, the Pledged Shares and any and all securities issued or issuable on the conversion or redemption of the Pledged Units or Pledged Shares, or cash or other distributions of every kind in respect of any of the foregoing.
 - b. "Commission" shall mean the Securities and Exchange Commission.
 - c. "Default" shall mean a Remedy Event as defined in the Loan Agreement or a demand under Section 8.3 of the Loan Agreement.
 - d. "Material Adverse Effect" shall mean (i) an adverse condition or event material to, (ii) a material adverse effect on, or (iii) a material adverse change in, as the case may be, any one or more of the following: (A) the business, assets, results of operations, financial condition or prospects of HCPI or the Down REIT Sub, as the case may be, or (B) the ability of HCPI or the Down REIT Sub, as the case may be, to perform its obligations under any material contract to which it is a party.
 - e. "Pledged Shares" shall mean REIT Shares which are exchanged by HCPI for any Pledged Units which are tendered to HCPI, as the Managing Member of the Down REIT Sub, pursuant to the exchange provisions set forth in Section 8.6 of the LLC Agreement, as the same are amended as provided in Section 7.b.i below.
 - f. "Registration Rights" shall mean a Pledgor's rights under the Registration Rights Agreement, as supplemented and modified in Section 7.b below.
 - g. "S-3 Expiration Date" means the date on which Form S-3 (or a similar successor form of registration statement) is not available to HCPI for the registration of REIT Shares pursuant to the Securities Act.
 - h. "Securities Act" shall mean the Securities Act of 1933, as amended.

2. Acknowledgment of Pledge, etc.

- a. HCPI and the Down REIT Sub hereby agree, acknowledge and approve, as being subject to, but complying with Section 11.3 of the LLC Agreement, (i) the grant by Pledgor to Lender of a security interest in the Collateral pursuant to the Loan Agreement, and (ii) subject to Section 7.a below, the Transfer, to Lender or other purchaser at foreclosure, of the Pledged Units upon foreclosure (or transfer in lieu of foreclosure, with each reference herein to foreclosure to include such a transfer) thereon by Lender under or pursuant to the Loan Agreement; provided, however, that such acknowledgement and approval of the Down REIT Sub is not, and shall not be construed to be, the consent to or approval of any other Transfer in the event Lender or other purchaser at foreclosure becomes the owner of any of the Pledged Units. HCPI agrees to note in its and the Down REIT Sub's books and records that the undersigned Pledgors have granted to Lender security interests in the Collateral and agrees that upon delivery to HCPI by Lender of the Certificates evidencing ownership of the Pledged Units, together with original unit powers duly executed by Pledgor in blank in the form attached hereto as Exhibit B, if requested by Lender, HCPI will register in its books and records, or the books and records of the Down REIT Sub, ownership of such Pledged Units in the name of Lender or its nominee. HCPI agrees that it will not register the Pledged Units (or any entitlement to any dividend, distribution or other proceeds thereof) into the name of any person other than the Pledgor listed as the owner thereof on Exhibit A attached hereto, or recognize any person other than such Pledgor as the owner of such Pledged Units, without the prior written consent of Lender.
- b. HCPI and the Down REIT Sub agree that notwithstanding Section 11.3.D of the LLC Agreement, they will not require an opinion of counsel in order for the Down REIT Sub and HCPI to recognize the Pledgor's pledge of the Pledged Units and the grant of a security interest to Lender in the Collateral.
- c. HCPI and the Down REIT Sub hereby acknowledge receipt of copies of the Instructions to Register Security Interest attached hereto as Exhibit C (the "Instructions") and the notice of Lender's security interest contained therein and agree to comply with the terms of the Instructions.
- d. HCPI and the Down REIT Sub hereby agree that by virtue of Lender holding a security interest in the Pledged Units (i) Lender does not and shall not become a Substituted Member under Section 11.4 of the LLC Agreement unless and until Lender forecloses on the Pledged Units and (ii) Lender does not and shall not undertake any obligations or liabilities of Pledgor of any nature whatsoever pertaining to the Pledged Units or under the LLC Agreement, both before or after any foreclosure by Lender on the Pledged Units.
- e. HCPI and the Down REIT Sub acknowledge and agree that upon the execution and delivery to Lender by the Pledgors of this Agreement, the Loan Agreement and all schedules hereto and thereto to which the Pledgors are parties, and the Certificates, the Pledgors will not be required to sign any other documents or take any other action with respect to the Transfer of the Pledged Units to Lender in connection with the exercise of Lender's rights under this Agreement.

- f. The parties acknowledge and agree that Lender and Borrower may from time to time further modify the Loan Agreement, including by way of adding additional entities as Pledgors thereunder and/or by adding additional Non-Managing Member Units as Pledged Units. Any such additional entities added as Pledgors and/or any existing Pledgors who pledge additional Pledged Units shall concurrently acknowledge their status as parties to this Agreement on such terms and with the same force and effect as if each such entity had originally executed and delivered same. Lender shall give written notice thereof to the Down REIT Sub, HCPI and each Pledgor contemporaneously with any such modification of the Loan Agreement; no written consent or other acknowledgement shall be required from any entity to which such notice is sent as a condition to the effectiveness of the foregoing. Such notice shall include such further amendment and restatement of Exhibit A and Exhibit C to this Agreement as necessary in order to reflect the additional Pledged Units of each such entity added as an additional Pledgor and/or the additional Pledged Units of each such existing Pledgor. Following such notification from Lender, each reference to “Pledgor” in this Agreement shall be understood to include for all purposes any such entity so added to the Loan Agreement.
3. Notices. Unless and until HCPI has received written notice from Lender to the effect that Lender no longer claims any interest in the Collateral, (a) HCPI shall send to Lender a copy of each notice sent to holders of LLC Units by HCPI under the LLC Agreement as and when it delivers such notice to Pledgor, including any notice of Reduction pursuant to Section 8.6.D of the LLC Agreement, and (b) at the written request of Lender, HCPI shall send to Lender a copy of each other communication, report or other information from time to time sent to Pledgor as holder of the Pledged Units or Pledged Shares.
4. Amendments to Registration Rights Agreement and the LLC Agreement. Unless and until HCPI has received written notice from Lender to the effect that Lender no longer claims any interest in the Collateral, (a) no amendment of, termination of, or supplement to, the Registration Rights Agreement shall be effective without the prior written consent of Lender, and (b) no amendment of, termination of or supplement to the LLC Agreement for which the consent of any Pledgor is required shall be effective without the prior written consent of Lender, which consent shall not be unreasonably withheld; provided that if written disapproval is not received from Lender within 10 Business Days following receipt by Lender of a written request to approve such amendment (which request shall specifically reference the time limitation imposed by this Section 4), then Lender’s approval of such amendment shall be deemed to have been given.
5. Distributions, etc.
- a. Following receipt by the Down REIT Sub of written notice (which notice shall specifically reference this Section 5 of this Agreement) from Lender that a

Default has occurred and is continuing (a “Default Notice”): (i) upon the written instruction of Lender and until instructions to the contrary are received from Lender, the Down REIT Sub shall remit to Lender all cash distributions otherwise payable to Pledgor in respect of the Pledged Units, and HCPI shall remit to Lender all cash dividends otherwise payable to Pledgor in respect of the Pledged Shares, of any nature, and (ii) upon the written instruction of Lender and until instructions to the contrary are received from Lender, all rights of Pledgor to exercise the voting or other consensual rights that Pledgor would otherwise be entitled to exercise in respect of the Collateral shall cease, and all such rights (and any other rights Pledgor may have in respect of the Collateral) shall thereupon become vested in Lender, which shall have the sole right to exercise such rights, until further notice from Lender. With respect to cash distributions payable during such time as no event of Default is occurring, each Pledgor hereby directs the Down REIT Sub and/or HCPI, as the case may be, and the Down REIT Sub and/or HCPI, as the case may be, agrees to deposit any and all such dividends and distributions in the following account as set forth in Section 3.1. of the Loan Agreement: 43JO7293. Any amounts paid to the Lender or its designee as contemplated by the terms of the foregoing shall be treated as amounts paid or distributed to Pledgor for all purposes of the LLC Agreement, or other agreement pursuant to which the payment or distribution is made or is required to be made and shall be deemed to satisfy the obligations of the Down REIT Sub or HCPI to make such payment thereunder. Each Pledgor hereby agrees that neither the Down REIT Sub nor HCPI shall be deemed to be in breach of its obligations under, or in violation of the provisions of, any such agreement by virtue of having made such payments in the foregoing manner.

- b. From and after the date of this Agreement, and whether or not a Default has occurred and is continuing, if Pledgor shall become entitled to receive, in connection with any of the Collateral, any:
 - i. LLC Units or stock certificates (including, without limitation, stock certificates relating to the Pledged Shares), including, without limitation, any certificates (1) issued in respect of additional properties contributed by such Pledgor to the Down REIT Sub, or (2) representing a dividend or distribution or issued in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares or partnership units, stock or partnership units split, spin-off, or split-off;
 - ii. Options, warrants, rights or other securities or instruments, whether as an addition to, or in substitution or in exchange for, any of the Collateral, or otherwise;
 - iii. Dividends or distributions payable in property other than cash, including securities issued by other than the issuer of any of the Collateral; or
 - iv. Any sums paid in redemption of any of the Collateral,

then HCPI shall deliver the same to Lender, to be held by Lender as part of the Collateral. Any amounts paid to the Lender or its designee as contemplated by the terms of the foregoing shall be treated as amounts paid or distributed to Pledgor for all purposes of the LLC Agreement, or other agreement pursuant to which the payment or distribution is made or is required to be made and shall be deemed to satisfy the obligations of the Down REIT Sub or HCPI to make such payment thereunder. Each Pledgor hereby agrees that neither the Down REIT Sub nor HCPI shall be deemed to be in breach of its obligations under, or in violation of the provisions of, any such agreement by virtue of having made such payments in the foregoing manner.

6. Registration Rights and Registration Statements.

- a. Shelf Registration Statement. HCPI hereby represents and warrants to Lender that it has filed pursuant to the Securities Act, and has kept continuously effective, a registration statement on Form S-3, dated January 27, 2000 and a registration statement on Form S-3 dated August 30, 2002 (such registration statements, including all amendments (including post-effective amendments) and all exhibits thereto and materials incorporated by reference therein, collectively, the “Shelf Registration Statement”) that relate to the offer and sale of certain REIT Shares issued or to be issued by the Down REIT Sub upon exchange of those Pledged Units described on Exhibit D attached hereto (the “Registered Pledged Units”). HCPI hereby agrees, if not so amended prior to the date of this Agreement, to amend and supplement the Shelf Registration Statement within 10 Business Days after the date of this Agreement and to file one or more such amendments and supplements with the Commission as required by Rule 424 or similar rule that may be adopted under the Securities Act to include Lender as a “Selling Shareholder” thereunder.
- b. Registration Rights. In addition to the specific registration rights set forth in this Agreement, in the name of and on behalf of Pledgor, Lender shall have the right to exercise Pledgor’s Registration Rights with respect to any Pledged Units then owned by Pledgor and held by Lender, including without limitation (i) subject to the terms and conditions of the Registration Rights Agreement, the right to enforce the applicable provisions of the Registration Rights Agreement pertaining to HCPI’s obligation to file with the commission a registration statement on Form S-3 (the “Issuance Registration Statement”) covering, among other things, the issuance to Lender of REIT Shares issued or to be issued by the Down REIT Sub upon exchange of those Pledged Units described on Exhibit E attached hereto and naming Lender as a “Selling Shareholder” thereunder and (ii) the right to request, at the times and in the manner set forth in the Registration Rights Agreement, HCPI to register for sale under the Securities Act any Pledged Shares issuable or issued upon exchange of Pledged Units; provided, however, that, in the case of a Demand Registration pursuant to Section 3.1(a) of the Registration Rights Agreement, the Down REIT Sub agrees that Lender shall not be subject to the once-every-twelve-months limitation set forth in clause (i) thereof (provided that if at any time Lender has exercised a Demand Registration right in the previous

twelve month period, for which the Down REIT Sub or HCPI has paid the expenses thereof, as provided in Section 3.4 of the Registration Rights Agreement, Lender shall pay the expenses described in Section 3.4 of the Registration Rights Agreement in connection with the filing of such Demand Registration), nor shall Lender be subject to the \$1,000,000 minimum requirement referred to in clause (ii) thereof if Lender is exercising Demand Registration Rights with respect to all of the Pledged Shares it owns or has the right to acquire upon an Exchange. Pledgor hereby irrevocably appoints Lender as his attorney-in-fact to exercise any such Registration Rights, and irrevocably instructs HCPI to honor any such exercise by Lender of Pledgor's Registration Rights.

7. Rights upon Remedy Events.

- a. Restrictions on Transfer Upon foreclosure of any Pledged Units, the Lender shall be entitled to Transfer such Pledged Units, in whole or in part, subject to applicable restrictions set forth in Section 11.3 through 11.6 of the LLC Agreement; provided, however, that HCPI and the Down REIT Sub acknowledge and agree that (i) the provisions of Section 11.6.C shall not apply to any foreclosure by Lender on any Pledged Units, (ii) to the extent any such restrictions require the consent of HCPI or the Down REIT Sub, HCPI and the Down REIT Sub hereby provide their consent to such foreclosure, (iii) if Lender or a purchaser of Pledged Units at foreclosure is prohibited from becoming a Substituted Member of HCPI, Lender or such purchaser may become an Assignee in accordance with such restrictions, (iv) the Down REIT Sub shall conduct its business in the ordinary course in accordance with past practices, and (v) neither Lender nor any purchaser of Pledged Units or Pledged Shares at foreclosure shall be obligated to assume, or otherwise be responsible for, any obligation a Pledgor may have under the LLC Agreement or any other obligation of Pledgor accrued prior to foreclosure under the LLC Agreement; provided that nothing in this subclause 7.a.(v) shall release or reduce any prior obligations of a Pledgor to HCPI or the Down REIT Sub, it being acknowledged and agreed by the Down REIT Sub or HCPI that the Down REIT Sub and HCPI have recourse against any such Pledgor only and not against Lender. HCPI further acknowledges and agrees that the aforesaid restrictions do not apply to Pledged Shares. Lender acknowledges and agrees that the Pledged Shares are subject to certain restrictions on ownership and transfer as set forth in the Charter of the HCPI, as amended from time to time.

b. Exchange of Pledged Shares; Foreclosure. In addition to (i) Lender's rights under Section 5 of this Agreement, (ii) Lender's rights as a pledgee, transferee or Assignee at foreclosure of LLC Units or a Membership Interest as provided in the LLC Agreement, and (iii) any and all other rights Lender may have in respect of a Default under any other agreement, document or instrument, or under applicable law, upon the occurrence of any one or more Defaults (including, without limitation, the right of Lender to exercise its rights under the Loan Agreement to foreclose on or acquire the entire interest of Pledgor in all or any portion of any Collateral), Lender shall thereupon and thereafter during the continuance thereof have the right, in its sole and absolute discretion, to do or cause to be done any one or more of the following:

i. Exchange of Registered Pledged Units.

Lender shall have the right, upon written notice to the Down REIT Sub and in the name of and on behalf of Pledgor, to exercise Pledgor's exchange rights and require HCPI to exchange all or any portion (as selected and in such order as Lender may elect in its sole discretion) of the Registered Pledged Units in accordance with Section 8.6.A of the LLC Agreement (the "Exchange Rights"). Any request for such exchange shall be made on the form of Notice of Exchange attached hereto as Exhibit F. Pledgor hereby irrevocably appoints Lender as its attorney-in-fact to exercise such Exchange Rights, and irrevocably instructs the Down REIT Sub and HCPI to honor any such exercise by Lender of the Exchange Rights. HCPI hereby agrees that upon any such exercise of the Exchange Rights, HCPI shall deliver the entire Cash Amount or REIT Shares to Lender, in each case without deduction in respect of any claim which HCPI or the Down REIT Sub may from time to time have of any nature or kind against Pledgor (other than with respect to any withholding tax obligation imposed by law on the Down REIT Sub with respect to any amount distributable or allocable to a Pledgor in respect of Registered Pledged Units, as contemplated in Section 5.3 of the LLC Agreement).

In addition to the foregoing, the second sentence of Section 8.6.A of the LLC Agreement is hereby amended with respect to Lender to provide that notwithstanding the first sentence of Section 8.6.A of the LLC Agreement, after, or concurrently with, receipt by HCPI of any Default Notice, the Lender shall have the right to (i) tender Registered Pledged Units for Exchange (subject to the following terms and conditions of Section 8.6.A of the LLC Agreement) and require the Down REIT Sub to acquire up to the number of Registered Pledged Units specified in the Notice of Exchange as referred to in the definition of "Specified Exchange Date" set forth in subparagraph (c) immediately following; provided, however that Lender may tender Registered Pledged Units for Exchange hereunder once, irrespective of the aggregate market value of such Registered Pledged Units, and an unlimited number of times, provided the aggregate market value of such Registered Pledged Units is at least \$1,000,000 on the date of any such Notice of Exchange.

In connection with the foregoing, the definition of the term "Specified Exchange Date" in the LLC Agreement shall, with respect to Lender and only with respect to Lender, be amended to read as follows:

"Specified Exchange Date" means in the case of an Exchange pursuant to Section 8.6.A hereof, that date

specified by Lender in a Notice of Exchange to the Company; *provided*, however, that such date shall in no event be less than fourteen (14) days (or if such day is not a Business Day, the next following Business Day) after HCPI's receipt of such Notice of Exchange and provided further that the Specified Exchange Date, as well as the closing of an Exchange on the Specified Exchange Date, may be deferred in the Managing Member's sole and absolute discretion, for such time as may be reasonably required to effect, as applicable, (i) necessary funding arrangements, (ii) compliance with the Securities Act or other applicable laws (including, but not limited to, (a) state "blue sky" or other securities laws and (b) the expiration or termination of the applicable waiting period, if any, under the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, and (iii) satisfaction or waiver of other commercially reasonable and customary closing conditions and requirements for a transaction of such nature (provided that in no event shall such Exchange be delayed more than 30 days in the aggregate with respect to (i) and (iii) above, or more than 150 days in the aggregate with respect to (ii) above.

ii. Put for Unregistered Pledged Units.

Until such time as HCPI has filed, pursuant to Section 6 of this Agreement, (i) an amendment to the Shelf Registration Statement, and (ii) the Issuance Registration Statement, as the case may be, Lender shall have the right upon written notice to HCPI in the form of Deficiency Notice attached hereto as Exhibit G (a "Deficiency Notice"), to exchange all or any portion of the Unregistered Pledged Units for one or more cash payments from HCPI on any foreclosure of the Unregistered Pledged Units, where the cash or fair market value of Pledged Shares (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice, as reported on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed) issued on exchange of Registered Pledged Units will be insufficient to satisfy Borrower's Obligations (as defined in the Loan Agreement) under the Loan Agreement, in an amount (the "Unregistered Units Cash Payment") equal to (i) the fair market value of such Unregistered Pledged Units (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed), multiplied by (ii) the number of such Unregistered Pledged Units exchanged, less (iii) 1% of the product of (i) and (ii). Each Unregistered Units Cash Payment shall be payable by HCPI within 14 days following its receipt of the Deficiency Notice with respect thereto; provided, however, that at such time as

Lender receives written notice from HCPI of the filing and effectiveness of the Issuance Registration Statement, Lender's rights pursuant to this Section 7.b.ii shall terminate with respect to any such Unregistered Pledged Units covered by such registration, so long as such registration remains effective. In the event and to the extent that any registration statement with respect to any Pledged Units ceases to be effective, the provisions of this Section 7.b.ii shall again apply with respect to all affected Pledged Units and/or Pledged Shares.

Notwithstanding the provisions of Section 7.b.ii above, but subject to Section 7.b.iii below and Section 7.b.iii of the Utah II Acknowledgement and Consent, Lender agrees that to the extent Lender has the right to exchange Registered Pledged Units under either this Agreement or under the Utah II Acknowledgment and Consent on or before the specified date in the applicable Notice of Exchange, Lender shall exercise any and all such exchange rights hereunder and thereunder, prior to delivering a Deficiency Notice under Section 7.b.ii above.

- iii. Put for Exchange Delays in Pledged Units. Notwithstanding anything to the contrary in this Agreement, in the event that the Specified Exchange Date under Section 7.b.i is deferred to a date that is later than the date specified in the applicable Notice of Exchange and where the cash or fair market value of the Pledged Units (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed), if any, which may be exchanged on or before the specified date in the applicable Notice of Exchange will be insufficient to satisfy Borrower's Obligations (as defined in the Loan Agreement) under the Loan Agreement, Lender shall have the right, upon providing a Deficiency Notice to HCPI, to exchange all or any portion of the affected Pledged Units for one or more cash payments from HCPI in an amount (the "Exchange Delay Cash Payment") equal to (i) the fair market value (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed) of such affected Pledged Units, multiplied by (ii) the number of such affected Pledged Units to be exchanged, less (iii) 1% of the product of (i) and (ii). Each Exchange Delay Cash Payment shall be payable by HCPI within 14 days following its receipt of the Deficiency Notice with respect thereto.

In addition, the parties hereto agree and acknowledge that the obligation of HCPI, HCPI/Utah II, LLC and/or the Down REIT Sub, as the case may be, to make Unregistered Units Cash Payments and/or Exchange Delay Cash Payments under this Section 7 and under Section 7 of the Utah II Acknowledgment and Consent shall not exceed, in the aggregate, \$10,000,000.

- iv. Concurrent Exercise. The rights exercisable by Lender under this Section 7.b may be invoked before or after foreclosure under the Loan Agreement in Lender's sole discretion, and all without further notice to or any requirement of consent by Pledgor, which hereby irrevocably and unconditionally waives any right to give any contrary instructions to HCPI. All parties acknowledge that Lender desires to consummate any necessary foreclosure under the Loan Agreement on a basis that such foreclosure occurs concurrent with the closing of an Exchange; all parties agree to cooperate reasonably with Lender to that end. HCPI agrees that it will not act on any separate instructions or communications from Pledgor pertaining to the Pledged Units or Pledged Shares or Registration Rights Agreement without the express written consent of Lender. Nothing in this subparagraph (v) shall in any way obligate Lender to consummate any necessary foreclosure under the Loan Agreement in the manner referred to above; Lender may, in its sole discretion, determine that another method of realization upon the Collateral is preferable or required, and such determination by Lender shall in no manner limit or restrict the obligations of Borrower, Pledgor or any other person or entity with respect to the loans contemplated herein.
 - v. Foreclosure. Subject to the terms and conditions of the Loan Agreement, Lender shall have the right to foreclose on or acquire the entire interest of Pledgor in all or any portion of any Pledged Shares (including all of Pledgor's right, title and interest in the Registration Rights Agreement to the extent applicable to such Pledged Shares) owned by Pledgor, by foreclosure or in any other manner. In the event that Lender elects to exercise its rights under this Section 7.b.v, Lender shall deliver to HCPI a notice of its intent to do so no later than 10 Business Days prior to the date of any sale, public or private, or of any transfer in lieu of foreclosure, and HCPI (without limitation on its own right, under applicable law, to participate in any sale or other disposition of any of the Collateral) shall reasonably cooperate, at no expense to itself, with Lender in completing its foreclosure on the affected Pledged Shares in compliance with applicable laws, including, if applicable, all actions reasonably necessary to comply with the filing requirements described in Rule 144(c)(1) of the Securities Act, so as to enable the Lender to sell such Pledged Shares without registration under the Securities Act.
8. Representations and Warranties by the Down REIT Sub and HCPI. The Down REIT Sub and HCPI hereby represent and warrant to Lender as follows as of the date hereof:
- a. LLC Agreement. A true and correct copy of the LLC Agreement as in effect as of the date hereof is attached as Exhibit H hereto.
 - b. Organization And Authority of the Down REIT Sub. The Down REIT Sub has been duly formed, is validly existing as a limited liability company in good standing under the laws of the State of Delaware, and is duly qualified to transact

business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification except where the absence of such qualification would not have a Material Adverse Effect. The Down REIT Sub has all requisite power and authority to own or hold under lease the property it purports to own or hold under lease, to carry on its business as now conducted and as proposed to be conducted except as would not have a Material Adverse Effect, and to execute and deliver this Agreement and to perform its obligations hereunder.

- c. Authorization by the Down REIT Sub; Binding Effect. The Down REIT Sub has by all necessary action duly authorized (i) the execution and delivery of this Agreement and (ii) the performance of its obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of the Down REIT Sub, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
- d. Pledged Units; Managing Member of the Down REIT Sub. All of the Pledged Units are validly issued and non-assessable. The identity of the registered owners, the total number of Pledged Units and the corresponding Certificates evidencing ownership thereof are accurately set forth on Exhibit A attached hereto. No security interest in the Pledged Units has been registered on the records of the Down REIT Sub (or its transfer agent). HCPI is the sole Managing Member of the Down REIT Sub and owns the only Managing Member Units thereof.
- e. Organization and Authority of HCPI. HCPI is a corporation duly organized, validly existing and in good standing under the laws of Maryland, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification except where the absence of such qualification would not have a Material Adverse Effect. HCPI has all requisite power and authority to own or hold under lease the property it purports to own or hold under lease, to carry on its business as now conducted and as proposed to be conducted except as would not have a Material Adverse Effect, and to execute and deliver this Agreement and to perform its obligations hereunder.
- f. No Claims. To their knowledge, neither HCPI nor the Down REIT Sub has any existing claim, defense, setoff or right of recoupment under the LLC Agreement, any other agreement, or any law, rule or regulation, against or with respect to (i) any of the Pledged Units, (ii) any of REIT Shares that may be issuable or any amount that may be payable in connection with the exchange of any Pledged Units or (iii) any obligation of Pledgor under the LLC Agreement or any other agreement with respect to any of the Pledged Units, any of the REIT Shares that may be issued or any amount that may be payable in connection with the redemption of any Pledged Units.

- g. Authorization by HCPI; Binding Effect. HCPI has by all necessary action duly authorized the execution and delivery of this Agreement and the performance of its obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of HCPI, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
 - h. HCPI Status. HCPI is organized in conformity with the requirements for qualification as a real estate investment trust under the Code and its ownership and method of operation enables it to meet the requirements for taxation as a real estate investment trust under the Code.
 - i. No Conflict. The execution, delivery and performance by HCPI of this Agreement, and the consummation of the transactions contemplated hereby, do not and will not violate any provision of the charter or bylaws of HCPI, or the LLC Agreement, or any contractual or other undertaking by which HCPI or any of its assets are bound. As of the date of this Agreement, the Pledged Units are not evidenced by writing or certificate except by the Certificates expressly referred to on Exhibit A hereto.
 - j. Registration Rights Agreement. A true and complete copy of the Registration Rights Agreement, including any amendments and supplements thereto, is attached to this Agreement as Exhibit I. The Registration Rights Agreement remains in full force and effect as of the date of this Agreement, and is the legal, valid and binding obligation of HCPI enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
 - k. Governmental or Other Approvals. No governmental or other approval is or will be required in connection with the execution, delivery and performance by the Down REIT Sub or HCPI of this Agreement or the transactions contemplated hereby or to ensure the legality, validity or enforceability hereof.
9. Representations and Warranties by Pledgor. To its knowledge, Pledgor does not have any existing claims, defenses, setoff rights or rights of recoupment under the LLC Agreement, under any other agreement, or any law, rule or regulation, against or with respect to any obligation of either HCPI or the Down REIT Sub under the LLC Agreement or any other agreement.
10. Compliance with Securities Laws. Lender, Borrower and Pledgor hereby acknowledge that to the extent any portion of the Collateral is not or has not been registered for sale under the Securities Act, that Lender may be unable to effect a public sale (under applicable provisions of the Uniform Commercial Code) of all or any part of the Collateral, and subject to the restrictions on transfer described above, may be compelled to resort to one or more private sales to a restricted group of purchasers who will be

obligated to agree, among other things, to acquire the Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Lender and Pledgors hereby further acknowledge that any such private sales may be at prices and on terms less favorable than those of public sales.

11. Liability to Pledgor. Pledgor and Borrower assume all risks of the acts or omissions of Lender with respect to its exercise of its rights hereunder. Neither the Down REIT Sub, HCPI, nor any of their officers, directors, partners, employees or agents shall be liable or responsible for any acts or omissions of the Lender, including without limitation the validity of any determination by Lender that a Default has occurred or is continuing, nor shall any of such persons have any responsibility for investigation into the facts and circumstances giving rise to any such determination by Lender, nor shall any such person be liable or responsible for following the instructions of Lender in accordance with this Agreement regardless of any notice, information or instructions to the contrary received by HCPI from Pledgor or any other person, including without limitation following instruction of Lender (a) to remit distributions by the Down REIT Sub made in respect of the Pledged Units, and distributions of HCPI made in respect of Pledged Shares, to Lender, pursuant to Section 5 above, (b) to terminate the voting and/or other consensual rights of Pledgor (and consider such right to have vested in Lender) pursuant to Section 5 above, (c) to exercise Pledgor's Exchange Rights in the name of and on behalf of Pledgor pursuant to Section 7 above, or (d) to exercise Pledgor's Registration Rights in the name of and on behalf of Pledgor, pursuant to Section 6 above.
12. Separate Actions; Waiver of Statute of Limitations. The obligations of HCPI and Pledgor hereunder shall be in addition to any obligations of Pledgor under the Loan Agreement. Without limiting the provisions of the Loan Agreement, a separate action or actions may be brought and prosecuted against any one or more of the parties hereto whether or not action is brought against any other person or whether any other person is joined in any such action or actions. HCPI and Pledgor acknowledge that there are no conditions precedent to the effectiveness of this Agreement and that this Agreement is in full force and effect and is binding on such person as of the date hereof. To the extent permitted under applicable law, Pledgor waives the benefit of any statute of limitations affecting such person's liability hereunder or the enforcement thereof. Lender hereby agrees that neither the Down REIT Sub nor HCPI shall have any obligation or liability under the Loan Agreement or any other agreement related to the loan contemplated by the Loan Agreement except as expressly set forth herein and in the Instructions. Pledgor agrees that nothing set forth herein shall alter, diminish or otherwise affect its obligations under the LLC Agreement or any other agreement between Pledgor and HCPI or the Down REIT Sub relating to the Pledged Units or Pledged Shares.
13. Continuing Obligations. Borrower and Pledgor shall indemnify and hold harmless Lender from and against any and all obligations, claims, losses, liabilities, damages, expenses or costs (including reasonable attorneys' fees and expenses and fees and expenses of expert witnesses) arising from or in any way connected with the obligations or liabilities of either such person with respect to agreements, documents or other instruments, whether now existing or hereafter incurred, or the conditions and obligations to be observed and performed by Borrower or Pledgor under any agreement, document or

other instrument relating to the Collateral, except for those arising from Lender's gross negligence or willful misconduct. In addition, Borrower shall indemnify and hold harmless Lender from and against any and all obligations, claims, losses, liabilities, damages, expenses or costs (including reasonable attorneys' fees and expenses and fees and expenses of expert witnesses) arising from or in any way connected with the exercise by Lender of any rights or remedies under the Loan Agreement or this Agreement with respect to the Collateral, including, without limitation, all costs and expenses associated with the exercise of any foreclosure rights and/or exchange rights pursuant to Section 6.b above or otherwise.

14. Appointment as Attorney-in-Fact. Pledgor hereby appoints Lender as its true and lawful attorney-in-fact, with full power of substitution, for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instruments either in the name of Pledgor or in the name of Lender, which such attorney-in-fact may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest; provided, that nothing in this section shall require the Lender to take any action or execute any instruments.
15. Notices. Any notice, demand, request or report required or permitted to be given or made to a party to this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication (including by telecopy, facsimile, or commercial courier service) (a) in the case of a Pledgor, to that Pledgor at the address set forth below and (ii) in the case of each other party, at its address for notices set forth below or at such other address as such party may give notice of in accordance with the provisions of this Section:

Borrower and each Pledgor: c/o The Boyer Company, L.C.
127 South 500 East, Suite 100
Salt Lake City, Utah 84102
Attention: Brian Gochnour
Telephone No.: 801-521-4781
Telecopier: 801-521-4793

Lender: Merrill Lynch Bank USA
15 W. South Temple, Suite 300
Salt Lake City, Utah 84101
Attention: Director
Telephone No.:
Telecopier:

HCPI and/or Down REIT Sub: Health Care Property Investors, Inc.
3760 Kilroy Airport Way, Suite 300
Long Beach, California 90806
Attention: Legal Department
Telephone No.: (562) 733-5100
Telecopier: (562) 733-5200

16. Assignments. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Nothing contained herein, express or implied, is intended to confer on any person other than the parties hereto or their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.
17. Governing Law. This Agreement and the legal relations between the parties hereto shall be governed by and construed in accordance with the internal laws of the State of New York applicable to contracts made and to be performed in that State, without regard to conflict of laws principles.
18. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original but all of which together shall constitute but one agreement. This Agreement may be executed and delivered by facsimile.
19. Entire Agreement; Amendments. This Agreement (including the instruments between the parties referred to herein) constitutes the entire agreement among the parties and supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof. All references to sections, subsections, clauses, exhibits and schedules shall be deemed references to such part of this Agreement, unless the context shall otherwise require. No provisions of this Agreement may be effectively waived, changed or amended, or the termination or discharge thereof agreed to or acknowledged, orally, but only by an agreement in writing signed by the party against whom the enforcement of any waiver, change, amendment, termination or discharge is sought.
20. Headings. The headings contained in this Agreement are inserted for convenience only and do not constitute a part of this Agreement.
21. Invalidity. If any provision of this Agreement is held invalid or unenforceable, the remainder of this Agreement shall nevertheless remain in full force and effect.
22. Attorneys' Fees. In the event of any controversy, claim or dispute between the parties hereto arising out of or relating to this Agreement or any of the documents provided for herein, or the breach thereof, the prevailing party shall be entitled to recover from the losing party reasonable attorneys' fees, expenses and costs.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

LENDER:

MERRILL LYNCH BANK USA

By: _____

Date: _____

Title: _____

BORROWER:

THE BOYER COMPANY, L.C.,
a Utah limited liability company

By: _____

Date: _____

Title: _____

THE DOWN REIT SUB:

HCPI/UTAH, LLC,
a Delaware limited liability company

By: HEALTH CARE PROPERTY
INVESTORS, INC., its Managing Member

By: _____

Date: _____

Title: _____

HCPI:

HEALTH CARE PROPERTY INVESTORS, INC.,
a Maryland corporation

By: _____

Date: _____

Title: _____

PLEDGORS:

BOYER CASTLE DALE MEDICAL CLINIC,
L.L.C., a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____
Name: _____
Title: _____

BOYER DAVIS NORTH MEDICAL
ASSOCIATES, LTD., a Utah limited partnership

By: THE BOYER COMPANY, L.C.,
its General Partner

By: _____
Name: _____
Title: _____

BOYER DESERT SPRINGS, L.C.,
a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____
Name: _____
Title: _____

BOYER MCKAY-DEE ASSOCIATES, LTD.,
a Utah limited partnership

By: BOYER MEDICAL SURGICAL
ASSOCIATES, LTD., its General Partner

By: THE BOYER COMPANY, L.C.,
its General Partner

By: _____
Name: _____
Title: _____

PLEDGORS:

BOYER-OGDEN MEDICAL ASSOCIATES,
LTD., a Utah limited partnership

By: THE BOYER COMPANY, L.C.,
its General Partner

By: _____

Name: _____

Title: _____

EXHIBIT A
PLEDGED UNITS

<u>Member Name</u>	<u>Certificate Nos.</u>	<u>Number of Non-Managing Member Units Pledged</u>
Boyer Castle Dale Medical Clinic, L.L.C.	72	5,595
Boyer Davis North Medical Associates, Ltd.	95	8,977
Boyer Desert Springs, L.C.	82, 101, 108	162,538
Boyer McKay-Dee Associates, Ltd.	24, 25	55,255
Boyer-Ogden Medical Associates, Ltd.	28, 29	628
	TOTAL:	232,993

EXHIBIT B
IRREVOCABLE UNIT POWER

EXHIBIT C
THE INSTRUCTIONS

EXHIBIT D
REGISTERED PLEDGED UNITS

<u>Member Name</u>	<u>Certificate Nos.</u>	<u>Number of Non-Managing Member Units Pledged</u>
Boyer Castle Dale Medical Clinic, L.L.C.	72	5,595
Boyer Davis North Medical Associates, Ltd.	95	8,977
Boyer Desert Springs, L.C.	82, 101, 108	162,538
Boyer McKay-Dee Associates, Ltd.	24, 25	55,255
Boyer-Ogden Medical Associates, Ltd.	28, 29	628
	TOTAL:	232,993

EXHIBIT E
UNREGISTERED PLEDGED UNITS

NONE.

EXHIBIT F
NOTICE OF EXCHANGE

EXHIBIT G
DEFICIENCY NOTICE

EXHIBIT H
LLC AGREEMENT

EXHIBIT I
REGISTRATION RIGHTS AGREEMENT

ACKNOWLEDGMENT AND CONSENT

THIS ACKNOWLEDGMENT AND CONSENT (this “Agreement”) dated as of March 1, 2005 is by and among Merrill Lynch Bank USA (“Lender”), The Boyer Company, L.C., a Utah limited liability company (“Borrower”), HCPI/Utah II, LLC, a Delaware limited liability company (the “Down REIT Sub”), each of the entities that is affiliated with Borrower and that is a signatory hereto under the designation “Pledgor” (individually and collectively, as the context requires, “Pledgor”), and Health Care Property Investors, Inc., a Maryland corporation (“HCPI”).

RECITALS:

1. Each Pledgor is a Non-Managing Member of the Down REIT Sub pursuant to that certain Amended and Restated Limited Liability Company Agreement of HCPI/Utah II, LLC, dated as of August 17, 2001, as amended (the “LLC Agreement”). Further, each Pledgor is the record owner of the number of Non-Managing Member Units, as set forth opposite such Pledgor’s name on Exhibit A attached hereto (collectively, the “Pledged Units”). As of the date of this Agreement, the Pledged Units are evidenced by the LLC Unit Certificates referred to on Exhibit A (collectively, the “Certificates”). All references herein to the Pledged Units shall include all additional or substituted Non-Managing Member Units, from time to time pledged to Lender pursuant to the Loan Agreement, as defined below, and all references herein to the Certificates shall include the Certificates related to such additional or substituted Non-Managing Member Units.

2. Lender is a party to that certain Loan Management Account Agreement, dated as of the date hereof, by and among Borrower, Pledgor, Lender and Merrill Lynch, Pierce, Fenner & Smith Incorporated (as such agreement has been or may hereafter be amended, supplemented or otherwise modified from time to time, the “Loan Agreement”), whereby Lender has agreed to lend to Borrower from time to time, on a revolving basis, an amount not to exceed \$11,250,000 as presently established.

3. Pursuant to the Loan Agreement, the loan contemplated therein is secured by, inter alia, (i) all of Pledgor’s right, title and interest in the Pledged Units, and (ii) all of Pledgor’s right, title and interest in the Registration Rights Agreement dated as of August 17, 2001, as amended, among each Pledgor and HCPI, and those certain other Registration Rights Agreements between each Pledgor and HCPI with respect to certain of the Pledged Units (individually and collectively, referred to herein as the “Registration Rights Agreement”). The loan contemplated in the Loan Agreement is also secured, pursuant to the Loan Agreement, by similar collateral security pertaining to HCPI/Utah, LLC, a Delaware limited liability company (“HCPI/Utah, LLC”) as confirmed in the Acknowledgment and Consent, dated as of the date hereof (the “Utah I Acknowledgment and Consent”), among Lender, Borrower, HCPI, HCPI/Utah, LLC and certain other pledgors specified therein.

4. The parties hereto desire to enter into this Agreement for the purpose of setting forth certain agreements among Lender, Borrower, Pledgor, HCPI and the Down REIT Sub with respect to the Collateral.

5. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the LLC Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the meanings hereinafter set forth unless the context shall otherwise require.
 - a. "Collateral" shall mean, collectively, the Pledged Units, the Pledged Shares and any and all securities issued or issuable on the conversion or redemption of the Pledged Units or Pledged Shares, or cash or other distributions of every kind in respect of any of the foregoing.
 - b. "Commission" shall mean the Securities and Exchange Commission.
 - c. "Default" shall mean a Remedy Event as defined in the Loan Agreement or a demand under Section 8.3 of the Loan Agreement.
 - d. "Material Adverse Effect" shall mean (i) an adverse condition or event material to, (ii) a material adverse effect on, or (iii) a material adverse change in, as the case may be, any one or more of the following: (A) the business, assets, results of operations, financial condition or prospects of HCPI or the Down REIT Sub, as the case may be, or (B) the ability of HCPI or the Down REIT Sub, as the case may be, to perform its obligations under any material contract to which it is a party.
 - e. "Pledged Shares" shall mean REIT Shares which are exchanged by HCPI for any Pledged Units which are tendered to HCPI, as the Managing Member of the Down REIT Sub, pursuant to the exchange provisions set forth in Section 8.6 of the LLC Agreement, as the same are amended as provided in Section 7.b.i below.
 - f. "Registration Rights" shall mean a Pledgor's rights under the Registration Rights Agreement, as supplemented and modified in Section 7.b below.
 - g. "S-3 Expiration Date" means the date on which Form S-3 (or a similar successor form of registration statement) is not available to HCPI for the registration of REIT Shares pursuant to the Securities Act.
 - h. "Securities Act" shall mean the Securities Act of 1933, as amended.

2. Acknowledgment of Pledge, etc.

- a. HCPI and the Down REIT Sub hereby agree, acknowledge and approve, as being subject to, but complying with Section 11.3 of the LLC Agreement, (i) the grant by Pledgor to Lender of a security interest in the Collateral pursuant to the Loan Agreement, and (ii) subject to Section 7.a below, the Transfer, to Lender or other purchaser at foreclosure, of the Pledged Units upon foreclosure (or transfer in lieu of foreclosure, with each reference herein to foreclosure to include such a transfer) thereon by Lender under or pursuant to the Loan Agreement; provided, however, that such acknowledgement and approval of the Down REIT Sub is not, and shall not be construed to be, the consent to or approval of any other Transfer in the event Lender or other purchaser at foreclosure becomes the owner of any of the Pledged Units. HCPI agrees to note in its and the Down REIT Sub's books and records that the undersigned Pledgors have granted to Lender security interests in the Collateral and agrees that upon delivery to HCPI by Lender of the Certificates evidencing ownership of the Pledged Units, together with original unit powers duly executed by Pledgor in blank in the form attached hereto as Exhibit B, if requested by Lender, HCPI will register in its books and records, or the books and records of the Down REIT Sub, ownership of such Pledged Units in the name of Lender or its nominee. HCPI agrees that it will not register the Pledged Units (or any entitlement to any dividend, distribution or other proceeds thereof) into the name of any person other than the Pledgor listed as the owner thereof on Exhibit A attached hereto, or recognize any person other than such Pledgor as the owner of such Pledged Units, without the prior written consent of Lender.
- b. HCPI and the Down REIT Sub agree that notwithstanding Section 11.3.D of the LLC Agreement, they will not require an opinion of counsel in order for the Down REIT Sub and HCPI to recognize the Pledgor's pledge of the Pledged Units and the grant of a security interest to Lender in the Collateral.
- c. HCPI and the Down REIT Sub hereby acknowledge receipt of copies of the Instructions to Register Security Interest attached hereto as Exhibit C (the "Instructions") and the notice of Lender's security interest contained therein and agree to comply with the terms of the Instructions.
- d. HCPI and the Down REIT Sub hereby agree that by virtue of Lender holding a security interest in the Pledged Units (i) Lender does not and shall not become a Substituted Member under Section 11.4 of the LLC Agreement unless and until Lender forecloses on the Pledged Units and (ii) Lender does not and shall not undertake any obligations or liabilities of Pledgor of any nature whatsoever pertaining to the Pledged Units or under the LLC Agreement, both before or after any foreclosure by Lender on the Pledged Units.
- e. HCPI and the Down REIT Sub acknowledge and agree that upon the execution and delivery to Lender by the Pledgors of this Agreement, the Loan Agreement and all schedules hereto and thereto to which the Pledgors are parties, and the

Certificates, the Pledgors will not be required to sign any other documents or take any other action with respect to the Transfer of the Pledged Units to Lender in connection with the exercise of Lender's rights under this Agreement.

- f. The parties acknowledge and agree that Lender and Borrower may from time to time further modify the Loan Agreement, including by way of adding additional entities as Pledgors thereunder and/or by adding additional Non-Managing Member Units as Pledged Units. Any such additional entities added as Pledgors and/or any existing Pledgors who pledge additional Pledged Units shall concurrently acknowledge their status as parties to this Agreement on such terms and with the same force and effect as if each such entity had originally executed and delivered same. Lender shall give written notice thereof to the Down REIT Sub, HCPI and each Pledgor contemporaneously with any such modification of the Loan Agreement; no written consent or other acknowledgement shall be required from any entity to which such notice is sent as a condition to the effectiveness of the foregoing. Such notice shall include such further amendment and restatement of Exhibit A to this Agreement as necessary in order to reflect the additional Pledged Units of each such entity added as an additional Pledgor and/or the additional Pledged Units of each such existing Pledgor. Following such notification from Lender, each reference to "Pledgor" in this Agreement shall be understood to include for all purposes any such entity so added to the Loan Agreement.
3. Notices. Unless and until HCPI has received written notice from Lender to the effect that Lender no longer claims any interest in the Collateral, (a) HCPI shall send to Lender a copy of each notice sent to holders of LLC Units by HCPI under the LLC Agreement as and when it delivers such notice to Pledgor, including any notice of Reduction pursuant to Section 8.6.D of the LLC Agreement, and (b) at the written request of Lender, HCPI shall send to Lender a copy of each other communication, report or other information from time to time sent to Pledgor as holder of the Pledged Units or Pledged Shares.
4. Amendments to Registration Rights Agreement and the LLC Agreement. Unless and until HCPI has received written notice from Lender to the effect that Lender no longer claims any interest in the Collateral, (a) no amendment of, termination of, or supplement to, the Registration Rights Agreement shall be effective without the prior written consent of Lender, and (b) no amendment of, termination of or supplement to the LLC Agreement for which the consent of any Pledgor is required shall be effective without the prior written consent of Lender, which consent shall not be unreasonably withheld; provided that if written disapproval is not received from Lender within 10 Business Days following receipt by Lender of a written request to approve such amendment (which request shall specifically reference the time limitation imposed by this Section 4), then Lender's approval of such amendment shall be deemed to have been given.
5. Distributions, etc.
 - a. Following receipt by the Down REIT Sub of written notice (which notice shall specifically reference this Section 5 of this Agreement) from Lender that a

Default has occurred and is continuing (a “Default Notice”): (i) upon the written instruction of Lender and until instructions to the contrary are received from Lender, the Down REIT Sub shall remit to Lender all cash distributions otherwise payable to Pledgor in respect of the Pledged Units, and HCPI shall remit to Lender all cash dividends otherwise payable to Pledgor in respect of the Pledged Shares, of any nature, and (ii) upon the written instruction of Lender and until instructions to the contrary are received from Lender, all rights of Pledgor to exercise the voting or other consensual rights that Pledgor would otherwise be entitled to exercise in respect of the Collateral shall cease, and all such rights (and any other rights Pledgor may have in respect of the Collateral) shall thereupon become vested in Lender, which shall have the sole right to exercise such rights, until further notice from Lender. With respect to cash distributions payable during such time as no event of Default is occurring, each Pledgor hereby directs the Down REIT Sub and/or HCPI, as the case may be, and the Down REIT Sub and/or HCPI, as the case may be, agrees to deposit any and all such dividends and distributions in the following account as set forth in Section 3.1. of the Loan Agreement: 43JO7293. Any amounts paid to the Lender or its designee as contemplated by the terms of the foregoing shall be treated as amounts paid or distributed to Pledgor for all purposes of the LLC Agreement, or other agreement pursuant to which the payment or distribution is made or is required to be made and shall be deemed to satisfy the obligations of the Down REIT Sub or HCPI to make such payment thereunder. Each Pledgor hereby agrees that neither the Down REIT Sub nor HCPI shall be deemed to be in breach of its obligations under, or in violation of the provisions of, any such agreement by virtue of having made such payments in the foregoing manner.

- b. From and after the date of this Agreement, and whether or not a Default has occurred and is continuing, if Pledgor shall become entitled to receive, in connection with any of the Collateral, any:
- i. LLC Units or stock certificates (including, without limitation, stock certificates relating to the Pledged Shares), including, without limitation, any certificates (1) issued in respect of additional properties contributed by such Pledgor to the Down REIT Sub, or (2) representing a dividend or distribution or issued in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares or partnership units, stock or partnership units split, spin-off, or split-off;
 - ii. Options, warrants, rights or other securities or instruments, whether as an addition to, or in substitution or in exchange for, any of the Collateral, or otherwise;
 - iii. Dividends or distributions payable in property other than cash, including securities issued by other than the issuer of any of the Collateral; or
 - iv. Any sums paid in redemption of any of the Collateral,

then HCPI shall deliver the same to Lender, to be held by Lender as part of the Collateral. Any amounts paid to the Lender or its designee as contemplated by the terms of the foregoing shall be treated as amounts paid or distributed to Pledgor for all purposes of the LLC Agreement, or other agreement pursuant to which the payment or distribution is made or is required to be made and shall be deemed to satisfy the obligations of the Down REIT Sub or HCPI to make such payment thereunder. Each Pledgor hereby agrees that neither the Down REIT Sub nor HCPI shall be deemed to be in breach of its obligations under, or in violation of the provisions of, any such agreement by virtue of having made such payments in the foregoing manner.

6. Registration Rights and Registration Statements.

- a. Shelf Registration Statement. HCPI hereby represents and warrants to Lender that it has filed pursuant to the Securities Act, and has kept continuously effective, a registration statement on Form S-3, dated August 30, 2002 and a registration statement on Form S-3, dated February 1, 2005 (such registration statements, including all amendments (including post-effective amendments) and all exhibits thereto and materials incorporated by reference therein, collectively, the “Shelf Registration Statement”) that relate to the offer and sale of certain REIT Shares issued or to be issued by the Down REIT Sub upon exchange of those Pledged Units described on Exhibit D attached hereto (the “Registered Pledged Units”). HCPI hereby agrees, if not so amended prior to the date of this Agreement, to amend and supplement the Shelf Registration Statement within 10 Business Days after the date of this Agreement and to file one or more such amendments and supplements with the Commission as required by Rule 424 or similar rule that may be adopted under the Securities Act to include Lender as a “Selling Shareholder” thereunder.
- b. Registration Rights. In addition to the specific registration rights set forth in this Agreement, in the name of and on behalf of Pledgor, Lender shall have the right to exercise Pledgor’s Registration Rights with respect to any Pledged Units then owned by Pledgor and held by Lender, including without limitation (i) subject to the terms and conditions of the Registration Rights Agreement, the right to enforce the applicable provisions of the Registration Rights Agreement pertaining to HCPI’s obligation to file with the commission a registration statement on Form S-3 (the “Issuance Registration Statement”) covering, among other things, the issuance to Lender of REIT Shares issued or to be issued by the Down REIT Sub upon exchange of those Pledged Units described on Exhibit E attached hereto and naming Lender as a “Selling Shareholder” thereunder and (ii) the right to request, at the times and in the manner set forth in the Registration Rights Agreement, HCPI to register for sale under the Securities Act any Pledged Shares issuable or issued upon exchange of Pledged Units; provided, however, that, in the case of a Demand Registration pursuant to Section 3.1(a) of the Registration Rights Agreement, the Down REIT Sub agrees that Lender shall not be subject to the once-every-twelve-months limitation set forth in clause (i) thereof (provided that if at any time Lender has exercised a Demand Registration right in the previous

twelve month period, for which the Down REIT Sub or HCPI has paid the expenses thereof, as provided in Section 3.4 of the Registration Rights Agreement, Lender shall pay the expenses described in Section 3.4 of the Registration Rights Agreement in connection with the filing of such Demand Registration), nor shall Lender be subject to the \$1,000,000 minimum requirement referred to in clause (ii) thereof if Lender is exercising Demand Registration Rights with respect to all of the Pledged Shares it owns or has the right to acquire upon an Exchange. Pledgor hereby irrevocably appoints Lender as his attorney-in-fact to exercise any such Registration Rights, and irrevocably instructs HCPI to honor any such exercise by Lender of Pledgor's Registration Rights.

7. Rights upon Remedy Events.

- a. Restrictions on Transfer. Upon foreclosure of any Pledged Units, the Lender shall be entitled to Transfer such Pledged Units, in whole or in part, subject to applicable restrictions set forth in Section 11.3 through 11.6 of the LLC Agreement; provided, however, that HCPI and the Down REIT Sub acknowledge and agree that (i) the provisions of Section 11.6.C shall not apply to any foreclosure by Lender on any Pledged Units, (ii) to the extent any such restrictions require the consent of HCPI or the Down REIT Sub, HCPI and the Down REIT Sub hereby provide their consent to such foreclosure, (iii) if Lender or a purchaser of Pledged Units at foreclosure is prohibited from becoming a Substituted Member of HCPI, Lender or such purchaser may become an Assignee in accordance with such restrictions, (iv) the Down REIT Sub shall conduct its business in the ordinary course in accordance with past practices, and (v) neither Lender nor any purchaser of Pledged Units or Pledged Shares at foreclosure shall be obligated to assume, or otherwise be responsible for, any obligation a Pledgor may have under the LLC Agreement or any other obligation of Pledgor accrued prior to foreclosure under the LLC Agreement; provided that nothing in this subclause 7.a.(v) shall release or reduce any prior obligations of a Pledgor to HCPI or the Down REIT Sub, it being acknowledged and agreed by the Down REIT Sub or HCPI that the Down REIT Sub and HCPI have recourse against any such Pledgor only and not against Lender. HCPI further acknowledges and agrees that the aforesaid restrictions do not apply to Pledged Shares. Lender acknowledges and agrees that the Pledged Shares are subject to certain restrictions on ownership and transfer as set forth in the Charter of the HCPI, as amended from time to time.

b. Exchange of Pledged Shares; Foreclosure. In addition to (i) Lender's rights under Section 5 of this Agreement, (ii) Lender's rights as a pledgee, transferee or Assignee at foreclosure of LLC Units or a Membership Interest as provided in the LLC Agreement, and (iii) any and all other rights Lender may have in respect of a Default under any other agreement, document or instrument, or under applicable law, upon the occurrence of any one or more Defaults (including, without limitation, the right of Lender to exercise its rights under the Loan Agreement to foreclose on or acquire the entire interest of Pledgor in all or any portion of any Collateral), Lender shall thereupon and thereafter during the continuance thereof have the right, in its sole and absolute discretion, to do or cause to be done any one or more of the following:

i. Exchange of Registered Pledged Units.

Lender shall have the right, upon written notice to the Down REIT Sub and in the name of and on behalf of Pledgor, to exercise Pledgor's exchange rights and require HCPI to exchange all or any portion (as selected and in such order as Lender may elect in its sole discretion) of the Registered Pledged Units in accordance with Section 8.6.A of the LLC Agreement (the "Exchange Rights"). Any request for such exchange shall be made on the form of Notice of Exchange attached hereto as Exhibit F. Pledgor hereby irrevocably appoints Lender as its attorney-in-fact to exercise such Exchange Rights, and irrevocably instructs the Down REIT Sub and HCPI to honor any such exercise by Lender of the Exchange Rights. HCPI hereby agrees that upon any such exercise of the Exchange Rights, HCPI shall deliver the entire Cash Amount or REIT Shares to Lender, in each case without deduction in respect of any claim which HCPI or the Down REIT Sub may from time to time have of any nature or kind against Pledgor (other than with respect to any withholding tax obligation imposed by law on the Down REIT Sub with respect to any amount distributable or allocable to a Pledgor in respect of Registered Pledged Units, as contemplated in Section 5.3 of the LLC Agreement).

In addition to the foregoing, the second sentence of Section 8.6.A of the LLC Agreement is hereby amended with respect to Lender to provide that notwithstanding the first sentence of Section 8.6.A of the LLC Agreement, after, or concurrently with, receipt by HCPI of any Default Notice, the Lender shall have the right to (i) tender Registered Pledged Units for Exchange (subject to the following terms and conditions of Section 8.6.A of the LLC Agreement) and require the Down REIT Sub to acquire up to the number of Registered Pledged Units specified in the Notice of Exchange as referred to in the definition of "Specified Exchange Date" set forth in subparagraph (c) immediately following; provided, however that Lender may tender Registered Pledged Units for Exchange hereunder once, irrespective of the aggregate market value of such Registered Pledged Units, and an unlimited number of times, provided the aggregate market value of such Registered Pledged Units is at least \$1,000,000 on the date of any such Notice of Exchange.

In connection with the foregoing, the definition of the term "Specified Exchange Date" in the LLC Agreement shall, with respect to Lender and only with respect to Lender, be amended to read as follows:

"Specified Exchange Date" means in the case of an Exchange pursuant to Section 8.6.A hereof, that date

specified by Lender in a Notice of Exchange to the Company; *provided*, however, that such date shall in no event be less than fourteen (14) days (or if such day is not a Business Day, the next following Business Day) after HCPI's receipt of such Notice of Exchange and provided further that the Specified Exchange Date, as well as the closing of an Exchange on the Specified Exchange Date, may be deferred in the Managing Member's sole and absolute discretion, for such time as may be reasonably required to effect, as applicable, (i) necessary funding arrangements, (ii) compliance with the Securities Act or other applicable laws (including, but not limited to, (a) state "blue sky" or other securities laws and (b) the expiration or termination of the applicable waiting period, if any, under the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, and (iii) satisfaction or waiver of other commercially reasonable and customary closing conditions and requirements for a transaction of such nature (provided that in no event shall such Exchange be delayed more than 30 days in the aggregate with respect to (i) and (iii) above, or more than 150 days in the aggregate with respect to (ii) above.

ii. Put for Unregistered Pledged Units.

Until such time as HCPI has filed, pursuant to Section 6 of this Agreement, the Issuance Registration Statement, Lender shall have the right upon written notice to HCPI in the form of Deficiency Notice attached hereto as Exhibit G (a "Deficiency Notice"), to exchange all or any portion of the Unregistered Pledged Units for one or more cash payments from HCPI on any foreclosure of the Unregistered Pledged Units, where the cash or fair market value of Pledged Shares (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice, as reported on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed) issued on exchange of Registered Pledged Units will be insufficient to satisfy Borrower's Obligations (as defined in the Loan Agreement) under the Loan Agreement, in an amount (the "Unregistered Units Cash Payment") equal to (i) the fair market value of such Unregistered Pledged Units (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed), multiplied by (ii) the number of such Unregistered Pledged Units exchanged, less (iii) 1% of the product of (i) and (ii). Each Unregistered Units Cash Payment shall be payable by HCPI within 14 days following its receipt of the Deficiency Notice with respect thereto; provided, however, that at such time as Lender receives written notice from HCPI of the filing and effectiveness

of the Issuance Registration Statement, Lender's rights pursuant to this Section 7.b.ii shall terminate with respect to any such Unregistered Pledged Units covered by such registration, so long as such registration remains effective. In the event and to the extent that any registration statement with respect to any Pledged Units ceases to be effective, the provisions of this Section 7.b.ii shall again apply with respect to all affected Pledged Units and/or Pledged Shares.

Notwithstanding the provisions of Section 7.b.ii above, but subject to Section 7.b.iii below and Section 7.b.iii of the Utah I Acknowledgement and Consent, Lender agrees that to the extent Lender has the right to exchange Registered Pledged Units under either this Agreement or under the Utah I Acknowledgment and Consent on or before the specified date in the applicable Notice of Exchange, Lender shall exercise any and all such exchange rights hereunder and thereunder, prior to delivering a Deficiency Notice under Section 7.b.ii above.

- iii. Put for Exchange Delays in Pledged Units. Notwithstanding anything to the contrary in this Agreement, in the event that the Specified Exchange Date under Section 7.b.i is deferred to a date that is later than the date specified in the applicable Notice of Exchange and where the cash or fair market value of the Pledged Units (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed), if any, which may be exchanged on or before the specified date in the applicable Notice of Exchange will be insufficient to satisfy Borrower's Obligations (as defined in the Loan Agreement) under the Loan Agreement, Lender shall have the right, upon providing a Deficiency Notice to HCPI, to exchange all or any portion of the affected Pledged Units for one or more cash payments from HCPI in an amount (the "Exchange Delay Cash Payment") equal to (i) the fair market value (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed) of such affected Pledged Units, multiplied by (ii) the number of such affected Pledged Units to be exchanged, less (iii) 1% of the product of (i) and (ii). Each Exchange Delay Cash Payment shall be payable by HCPI within 14 days following its receipt of the Deficiency Notice with respect thereto.

In addition, the parties hereto agree and acknowledge that the obligation of HCPI, HCPI/Utah, LLC and/or the Down REIT Sub, as the case may be, to make Unregistered Units Cash Payments and/or Exchange Delay Cash Payments under this Section 7 and under Section 7 of the Utah I Acknowledgment and Consent shall not exceed, in the aggregate, \$10,000,000.

- iv. Concurrent Exercise. The rights exercisable by Lender under this Section 7.b may be invoked before or after foreclosure under the Loan Agreement in Lender's sole discretion, and all without further notice to or any requirement of consent by Pledgor, which hereby irrevocably and unconditionally waives any right to give any contrary instructions to HCPI. All parties acknowledge that Lender desires to consummate any necessary foreclosure under the Loan Agreement on a basis that such foreclosure occurs concurrent with the closing of an Exchange; all parties agree to cooperate reasonably with Lender to that end. HCPI agrees that it will not act on any separate instructions or communications from Pledgor pertaining to the Pledged Units or Pledged Shares or Registration Rights Agreement without the express written consent of Lender. Nothing in this subparagraph (v) shall in any way obligate Lender to consummate any necessary foreclosure under the Loan Agreement in the manner referred to above; Lender may, in its sole discretion, determine that another method of realization upon the Collateral is preferable or required, and such determination by Lender shall in no manner limit or restrict the obligations of Borrower, Pledgor or any other person or entity with respect to the loans contemplated herein.
 - v. Foreclosure. Subject to the terms and conditions of the Loan Agreement, Lender shall have the right to foreclose on or acquire the entire interest of Pledgor in all or any portion of any Pledged Shares (including all of Pledgor's right, title and interest in the Registration Rights Agreement to the extent applicable to such Pledged Shares) owned by Pledgor, by foreclosure or in any other manner. In the event that Lender elects to exercise its rights under this Section 7.b.v, Lender shall deliver to HCPI a notice of its intent to do so no later than 10 Business Days prior to the date of any sale, public or private, or of any transfer in lieu of foreclosure, and HCPI (without limitation on its own right, under applicable law, to participate in any sale or other disposition of any of the Collateral) shall reasonably cooperate, at no expense to itself, with Lender in completing its foreclosure on the affected Pledged Shares in compliance with applicable laws, including, if applicable, all actions reasonably necessary to comply with the filing requirements described in Rule 144(c)(1) of the Securities Act, so as to enable the Lender to sell such Pledged Shares without registration under the Securities Act.
8. Representations and Warranties by the Down REIT Sub and HCPI. The Down REIT Sub and HCPI hereby represent and warrant to Lender as follows as of the date hereof:
- a. LLC Agreement. A true and correct copy of the LLC Agreement as in effect as of the date hereof is attached as Exhibit H hereto.
 - b. Organization And Authority of the Down REIT Sub. The Down REIT Sub has been duly formed, is validly existing as a limited liability company in good standing under the laws of the State of Delaware, and is duly qualified to transact

business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification except where the absence of such qualification would not have a Material Adverse Effect. The Down REIT Sub has all requisite power and authority to own or hold under lease the property it purports to own or hold under lease, to carry on its business as now conducted and as proposed to be conducted except as would not have a Material Adverse Effect, and to execute and deliver this Agreement and to perform its obligations hereunder.

- c. Authorization by the Down REIT Sub; Binding Effect. The Down REIT Sub has by all necessary action duly authorized (i) the execution and delivery of this Agreement and (ii) the performance of its obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of the Down REIT Sub, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
- d. Pledged Units; Managing Member of the Down REIT Sub. All of the Pledged Units are validly issued and non-assessable. The identity of the registered owners, the total number of Pledged Units and the corresponding Certificates evidencing ownership thereof are accurately set forth on Exhibit A attached hereto. No security interest in the Pledged Units has been registered on the records of the Down REIT Sub (or its transfer agent). HCPI is the sole Managing Member of the Down REIT Sub and owns the only Managing Member Units thereof.
- e. Organization and Authority of HCPI. HCPI is a corporation duly organized, validly existing and in good standing under the laws of Maryland, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification except where the absence of such qualification would not have a Material Adverse Effect. HCPI has all requisite power and authority to own or hold under lease the property it purports to own or hold under lease, to carry on its business as now conducted and as proposed to be conducted except as would not have a Material Adverse Effect, and to execute and deliver this Agreement and to perform its obligations hereunder.
- f. No Claims. To their knowledge, neither HCPI nor the Down REIT Sub has any existing claim, defense, setoff or right of recoupment under the LLC Agreement, any other agreement, or any law, rule or regulation, against or with respect to (i) any of the Pledged Units, (ii) any of REIT Shares that may be issuable or any amount that may be payable in connection with the exchange of any Pledged Units or (iii) any obligation of Pledgor under the LLC Agreement or any other agreement with respect to any of the Pledged Units, any of the REIT Shares that may be issued or any amount that may be payable in connection with the redemption of any Pledged Units.

- g. Authorization by HCPI; Binding Effect. HCPI has by all necessary action duly authorized the execution and delivery of this Agreement and the performance of its obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of HCPI, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
 - h. HCPI Status. HCPI is organized in conformity with the requirements for qualification as a real estate investment trust under the Code and its ownership and method of operation enables it to meet the requirements for taxation as a real estate investment trust under the Code.
 - i. No Conflict. The execution, delivery and performance by HCPI of this Agreement, and the consummation of the transactions contemplated hereby, do not and will not violate any provision of the charter or bylaws of HCPI, or the LLC Agreement, or any contractual or other undertaking by which HCPI or any of its assets are bound. As of the date of this Agreement, the Pledged Units are not evidenced by writing or certificate except by the Certificates expressly referred to on Exhibit A hereto.
 - j. Registration Rights Agreement. A true and complete copy of the Registration Rights Agreement, including any amendments and supplements thereto, is attached to this Agreement as Exhibit I. The Registration Rights Agreement remains in full force and effect as of the date of this Agreement, and is the legal, valid and binding obligation of HCPI enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
 - k. Governmental or Other Approvals. No governmental or other approval is or will be required in connection with the execution, delivery and performance by the Down REIT Sub or HCPI of this Agreement or the transactions contemplated hereby or to ensure the legality, validity or enforceability hereof.
9. Representations and Warranties by Pledgor. To its knowledge, Pledgor does not have any existing claims, defenses, setoff rights or rights of recoupment under the LLC Agreement, under any other agreement, or any law, rule or regulation, against or with respect to any obligation of either HCPI or the Down REIT Sub under the LLC Agreement or any other agreement.
10. Compliance with Securities Laws. Lender, Borrower and Pledgor hereby acknowledge that a portion of the Collateral has not been registered for sale under the Securities Act, that Lender may be unable to effect a public sale (under applicable provisions of the Uniform Commercial Code) of all or any part of the Collateral, and subject to the restrictions on transfer described above, may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among

other things, to acquire the Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Lender and Pledgors hereby further acknowledge that any such private sales may be at prices and on terms less favorable than those of public sales.

11. Liability to Pledgor. Pledgor and Borrower assume all risks of the acts or omissions of Lender with respect to its exercise of its rights hereunder. Neither the Down REIT Sub, HCPI, nor any of their officers, directors, partners, employees or agents shall be liable or responsible for any acts or omissions of the Lender, including without limitation the validity of any determination by Lender that a Default has occurred or is continuing, nor shall any of such persons have any responsibility for investigation into the facts and circumstances giving rise to any such determination by Lender, nor shall any such person be liable or responsible for following the instructions of Lender in accordance with this Agreement regardless of any notice, information or instructions to the contrary received by HCPI from Pledgor or any other person, including without limitation following instruction of Lender (a) to remit distributions by the Down REIT Sub made in respect of the Pledged Units, and distributions of HCPI made in respect of Pledged Shares, to Lender, pursuant to Section 5 above, (b) to terminate the voting and/or other consensual rights of Pledgor (and consider such right to have vested in Lender) pursuant to Section 5 above, (c) to exercise Pledgor's Exchange Rights in the name of and on behalf of Pledgor pursuant to Section 7 above, or (d) to exercise Pledgor's Registration Rights in the name of and on behalf of Pledgor, pursuant to Section 6 above.
12. Separate Actions; Waiver of Statute of Limitations. The obligations of HCPI and Pledgor hereunder shall be in addition to any obligations of Pledgor under the Loan Agreement. Without limiting the provisions of the Loan Agreement, a separate action or actions may be brought and prosecuted against any one or more of the parties hereto whether or not action is brought against any other person or whether any other person is joined in any such action or actions. HCPI and Pledgor acknowledge that there are no conditions precedent to the effectiveness of this Agreement and that this Agreement is in full force and effect and is binding on such person as of the date hereof. To the extent permitted under applicable law, Pledgor waives the benefit of any statute of limitations affecting such person's liability hereunder or the enforcement thereof. Lender hereby agrees that neither the Down REIT Sub nor HCPI shall have any obligation or liability under the Loan Agreement or any other agreement related to the loan contemplated by the Loan Agreement except as expressly set forth herein and in the Instructions. Pledgor agrees that nothing set forth herein shall alter, diminish or otherwise affect its obligations under the LLC Agreement or any other agreement between Pledgor and HCPI or the Down REIT Sub relating to the Pledged Units or Pledged Shares.

13. Continuing Obligations. Borrower and Pledgor shall indemnify and hold harmless Lender from and against any and all obligations, claims, losses, liabilities, damages, expenses or costs (including reasonable attorneys' fees and expenses and fees and expenses of expert witnesses) arising from or in any way connected with the obligations or liabilities of either such person with respect to agreements, documents or other instruments, whether now existing or hereafter incurred, or the conditions and obligations to be observed and performed by Borrower or Pledgor under any agreement, document or

other instrument relating to the Collateral, except for those arising from Lender's gross negligence or willful misconduct. In addition, Borrower shall indemnify and hold harmless Lender from and against any and all obligations, claims, losses, liabilities, damages, expenses or costs (including reasonable attorneys' fees and expenses and fees and expenses of expert witnesses) arising from or in any way connected with the exercise by Lender of any rights or remedies under the Loan Agreement or this Agreement with respect to the Collateral, including, without limitation, all costs and expenses associated with the exercise of any foreclosure rights and/or exchange rights pursuant to Section 6.b above or otherwise.

14. Appointment as Attorney-in-Fact. Pledgor hereby appoints Lender as its true and lawful attorney-in-fact, with full power of substitution, for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instruments either in the name of Pledgor or in the name of Lender, which such attorney-in-fact may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest; provided, that nothing in this section shall require the Lender to take any action or execute any instruments.
15. Notices. Any notice, demand, request or report required or permitted to be given or made to a party to this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication (including by telecopy, facsimile, or commercial courier service) (a) in the case of a Pledgor, to that Pledgor at the address set forth below and (ii) in the case of each other party, at its address for notices set forth below or at such other address as such party may give notice of in accordance with the provisions of this Section:

Borrower and each Pledgor: c/o The Boyer Company, L.C.
127 South 500 East, Suite 100
Salt Lake City, Utah 84102
Attention: Brian Gochour
Telephone No.: 801-521-4781
Telecopier: 801-521-4793

Lender: Merrill Lynch Bank USA
15 W. South Temple, Suite 300
Salt Lake City, Utah 84101
Attention: Director
Telephone No.:
Telecopier:

HCPI and/or Down REIT Sub: Health Care Property Investors, Inc.
3760 Kilroy Airport Way, Suite 300
Long Beach, California 90806
Attention: Legal Department
Telephone No.: (562) 733-5100
Telecopier: (562) 733-5200

16. Assignments. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Nothing contained herein, express or implied, is intended to confer on any person other than the parties hereto or their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.
17. Governing Law. This Agreement and the legal relations between the parties hereto shall be governed by and construed in accordance with the internal laws of the State of New York applicable to contracts made and to be performed in that State, without regard to conflict of laws principles.
18. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original but all of which together shall constitute but one agreement. This Agreement may be executed and delivered by facsimile.
19. Entire Agreement; Amendments. This Agreement (including the instruments between the parties referred to herein) constitutes the entire agreement among the parties and supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof. All references to sections, subsections, clauses, exhibits and schedules shall be deemed references to such part of this Agreement, unless the context shall otherwise require. No provisions of this Agreement may be effectively waived, changed or amended, or the termination or discharge thereof agreed to or acknowledged, orally, but only by an agreement in writing signed by the party against whom the enforcement of any waiver, change, amendment, termination or discharge is sought.
20. Headings. The headings contained in this Agreement are inserted for convenience only and do not constitute a part of this Agreement.
21. Invalidity. If any provision of this Agreement is held invalid or unenforceable, the remainder of this Agreement shall nevertheless remain in full force and effect.
22. Attorneys' Fees. In the event of any controversy, claim or dispute between the parties hereto arising out of or relating to this Agreement or any of the documents provided for herein, or the breach thereof, the prevailing party shall be entitled to recover from the losing party reasonable attorneys' fees, expenses and costs.

[Remainder of page intentionally left blank.]

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

LENDER:

MERRILL LYNCH BANK USA

By: _____

Date: _____

Title: _____

BORROWER:

THE BOYER COMPANY, L.C.,
a Utah limited liability company

By: _____

Date: _____

Title: _____

THE DOWN REIT SUB:

HCPI/UTAH II, LLC,
a Delaware limited liability company

By: HEALTH CARE PROPERTY
INVESTORS, INC., its Managing Member

By: _____

Date: _____

Title: _____

HCPI:

HEALTH CARE PROPERTY INVESTORS, INC.,
a Maryland corporation

By: _____

Date: _____

Title: _____

PLEDGORS:

BOYER-ALTA VIEW ASSOCIATES, LTD.,
a Utah limited partnership

By: THE BOYER COMPANY, L.C.,
its General Partner

By: _____
Name: _____
Title: _____

BOYER OLD MILL II, L.C.,
a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____
Name: _____
Title: _____

BOYER RANCHO VISTOSO, L.C.,
a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____
Name: _____
Title: _____

BOYER-RESEARCH PARK ASSOCIATES,
LTD., a Utah limited partnership

By: THE BOYER COMPANY, L.C.,
its General Partner

By: _____
Name: _____
Title: _____

PLEDGORS:

BOYER STANSBURY II, L.C.,
a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____

Name: _____

Title: _____

BOYER TATUM HIGHLANDS DENTAL
CLINIC, L.C., a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____

Name: _____

Title: _____

EXHIBIT A
PLEDGED UNITS

<u>Member Name</u>	<u>Certificate Nos.</u>	<u>Number of Non-Managing Member Units Pledged</u>
Boyer-Alta View Associates, Ltd.	66, 67	28,789
Boyer Old Mill II, L.C.	49	36,842
Boyer Rancho Vistoso, L.C.	7	43,773
Boyer-Research Park Associates, Ltd.	17	195,462
Boyer Stansbury II, L.C.	64, 65	33,969
Boyer Tatum Highlands Dental Clinic, L.C.	13	4,623
	TOTAL:	343,458

EXHIBIT B
IRREVOCABLE UNIT POWER

EXHIBIT C
THE INSTRUCTIONS

EXHIBIT D
REGISTERED PLEDGED UNITS

<u>Member Name</u>	<u>Certificate Nos.</u>	<u>Number of Non-Managing Member Units Pledged</u>
Boyer-Alta View Associates, Ltd.	66,67	28,789
Boyer Old Mill II, L.C.	49	36,842
Boyer Rancho Vistoso, L.C.	7	43,773
Boyer-Research Park Associates, Ltd.	17	195,462
Boyer Stansbury II, L.C.	64, 65	33,969
Boyer Tatum Highlands Dental Clinic, L.C.	13	4,623
	TOTAL:	343,458

EXHIBIT E
UNREGISTERED PLEDGED UNITS

None.

EXHIBIT F
NOTICE OF EXCHANGE

EXHIBIT G
DEFICIENCY NOTICE

EXHIBIT H
LLC AGREEMENT

EXHIBIT I
REGISTRATION RIGHTS AGREEMENT

ACKNOWLEDGMENT AND CONSENT

THIS ACKNOWLEDGMENT AND CONSENT (this “Agreement”) dated as of March 1, 2005 is by and among Merrill Lynch Bank USA (“Lender”), Gardner Property Holdings, L.C., a Utah limited liability company (“Borrower”), HCPI/Utah II, LLC, a Delaware limited liability company (the “Down REIT Sub”), each of the entities that is affiliated with Borrower and that is a signatory hereto under the designation “Pledgor” (individually and collectively, as the context requires, “Pledgor”), and Health Care Property Investors, Inc., a Maryland corporation (“HCPI”).

RECITALS:

1. Each Pledgor is a Non-Managing Member of the Down REIT Sub pursuant to that certain Amended and Restated Limited Liability Company Agreement of HCPI/Utah II, LLC, dated as of August 17, 2001, as amended (the “LLC Agreement”). Further, each Pledgor is the record owner of the number of Non-Managing Member Units, as set forth opposite such Pledgor’s name on Exhibit A attached hereto (collectively, the “Pledged Units”). As of the date of this Agreement, the Pledged Units are evidenced by the LLC Unit Certificates referred to on Exhibit A (collectively, the “Certificates”). All references herein to the Pledged Units shall include all additional or substituted Non-Managing Member Units, from time to time pledged to Lender pursuant to the Loan Agreement, as defined below, and all references herein to the Certificates shall include the Certificates related to such additional or substituted Non-Managing Member Units.

2. Lender is a party to that certain Loan Management Account Agreement, dated as of the date hereof, by and among Borrower, Pledgor, Lender and Merrill Lynch, Pierce, Fenner & Smith Incorporated (as such agreement has been or may hereafter be amended, supplemented or otherwise modified from time to time, the “Loan Agreement”), whereby Lender has agreed to lend to Borrower from time to time, on a revolving basis, an amount not to exceed \$11,250,000 as presently established.

3. Pursuant to the Loan Agreement, the loan contemplated therein is secured by, inter alia, (i) all of Pledgor’s right, title and interest in the Pledged Units, and (ii) all of Pledgor’s right, title and interest in the Registration Rights Agreement dated as of August 17, 2001, as amended, among each Pledgor and HCPI, and those certain other Registration Rights Agreements between each Pledgor and HCPI with respect to certain of the Pledged Units (individually and collectively, referred to herein as the “Registration Rights Agreement”). The loan contemplated in the Loan Agreement is also secured, pursuant to the Loan Agreement, by similar collateral security pertaining to HCPI/Utah, LLC, a Delaware limited liability company (“HCPI/Utah, LLC”) as confirmed in the Acknowledgment and Consent, dated as of the date hereof (the “Utah I Acknowledgment and Consent”), among Lender, Borrower, HCPI, HCPI/Utah, LLC and certain other pledgors specified therein.

4. The parties hereto desire to enter into this Agreement for the purpose of setting forth certain agreements among Lender, Borrower, Pledgor, HCPI and the Down REIT Sub with respect to the Collateral.

5. Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the LLC Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the meanings hereinafter set forth unless the context shall otherwise require.
 - a. "Collateral" shall mean, collectively, the Pledged Units, the Pledged Shares and any and all securities issued or issuable on the conversion or redemption of the Pledged Units or Pledged Shares, or cash or other distributions of every kind in respect of any of the foregoing.
 - b. "Commission" shall mean the Securities and Exchange Commission.
 - c. "Default" shall mean a Remedy Event as defined in the Loan Agreement or a demand under Section 8.3 of the Loan Agreement.
 - d. "Material Adverse Effect" shall mean (i) an adverse condition or event material to, (ii) a material adverse effect on, or (iii) a material adverse change in, as the case may be, any one or more of the following: (A) the business, assets, results of operations, financial condition or prospects of HCPI or the Down REIT Sub, as the case may be, or (B) the ability of HCPI or the Down REIT Sub, as the case may be, to perform its obligations under any material contract to which it is a party.
 - e. "Pledged Shares" shall mean REIT Shares which are exchanged by HCPI for any Pledged Units which are tendered to HCPI, as the Managing Member of the Down REIT Sub, pursuant to the exchange provisions set forth in Section 8.6 of the LLC Agreement, as the same are amended as provided in Section 7.b.i below.
 - f. "Registration Rights" shall mean a Pledgor's rights under the Registration Rights Agreement, as supplemented and modified in Section 7.b below.
 - g. "S-3 Expiration Date" means the date on which Form S-3 (or a similar successor form of registration statement) is not available to HCPI for the registration of REIT Shares pursuant to the Securities Act.
 - h. "Securities Act" shall mean the Securities Act of 1933, as amended.
2. Acknowledgment of Pledge, etc.
 - a. HCPI and the Down REIT Sub hereby agree, acknowledge and approve, as being subject to, but complying with Section 11.3 of the LLC Agreement, (i) the grant

by Pledgor to Lender of a security interest in the Collateral pursuant to the Loan Agreement, and (ii) subject to Section 7.a below, the Transfer, to Lender or other purchaser at foreclosure, of the Pledged Units upon foreclosure (or transfer in lieu of foreclosure, with each reference herein to foreclosure to include such a transfer) thereon by Lender under or pursuant to the Loan Agreement; provided, however, that such acknowledgement and approval of the Down REIT Sub is not, and shall not be construed to be, the consent to or approval of any other Transfer in the event Lender or other purchaser at foreclosure becomes the owner of any of the Pledged Units. HCPI agrees to note in its and the Down REIT Sub's books and records that the undersigned Pledgors have granted to Lender security interests in the Collateral and agrees that upon delivery to HCPI by Lender of the Certificates evidencing ownership of the Pledged Units, together with original unit powers duly executed by Pledgor in blank in the form attached hereto as Exhibit B, if requested by Lender, HCPI will register in its books and records, or the books and records of the Down REIT Sub, ownership of such Pledged Units in the name of Lender or its nominee. HCPI agrees that it will not register the Pledged Units (or any entitlement to any dividend, distribution or other proceeds thereof) into the name of any person other than the Pledgor listed as the owner thereof on Exhibit A attached hereto, or recognize any person other than such Pledgor as the owner of such Pledged Units, without the prior written consent of Lender.

- b. HCPI and the Down REIT Sub agree that notwithstanding Section 11.3.D of the LLC Agreement, they will not require an opinion of counsel in order for the Down REIT Sub and HCPI to recognize the Pledgor's pledge of the Pledged Units and the grant of a security interest to Lender in the Collateral.
- c. HCPI and the Down REIT Sub hereby acknowledge receipt of copies of the Instructions to Register Security Interest attached hereto as Exhibit C (the "Instructions") and the notice of Lender's security interest contained therein and agree to comply with the terms of the Instructions.
- d. HCPI and the Down REIT Sub hereby agree that by virtue of Lender holding a security interest in the Pledged Units (i) Lender does not and shall not become a Substituted Member under Section 11.4 of the LLC Agreement unless and until Lender forecloses on the Pledged Units and (ii) Lender does not and shall not undertake any obligations or liabilities of Pledgor of any nature whatsoever pertaining to the Pledged Units or under the LLC Agreement, both before or after any foreclosure by Lender on the Pledged Units.
- e. HCPI and the Down REIT Sub acknowledge and agree that upon the execution and delivery to Lender by the Pledgors of this Agreement, the Loan Agreement and all schedules hereto and thereto to which the Pledgors are parties, and the Certificates, the Pledgors will not be required to sign any other documents or take any other action with respect to the Transfer of the Pledged Units to Lender in connection with the exercise of Lender's rights under this Agreement.

- f. The parties acknowledge and agree that Lender and Borrower may from time to time further modify the Loan Agreement, including by way of adding additional entities as Pledgors thereunder and/or by adding additional Non-Managing Member Units as Pledged Units. Any such additional entities added as Pledgors and/or any existing Pledgors who pledge additional Pledged Units shall concurrently acknowledge their status as parties to this Agreement on such terms and with the same force and effect as if each such entity had originally executed and delivered same. Lender shall give written notice thereof to the Down REIT Sub, HCPI and each Pledgor contemporaneously with any such modification of the Loan Agreement; no written consent or other acknowledgement shall be required from any entity to which such notice is sent as a condition to the effectiveness of the foregoing. Such notice shall include such further amendment and restatement of Exhibit A to this Agreement as necessary in order to reflect the additional Pledged Units of each such entity added as an additional Pledgor and/or the additional Pledged Units of each such existing Pledgor. Following such notification from Lender, each reference to “Pledgor” in this Agreement shall be understood to include for all purposes any such entity so added to the Loan Agreement.
3. Notices. Unless and until HCPI has received written notice from Lender to the effect that Lender no longer claims any interest in the Collateral, (a) HCPI shall send to Lender a copy of each notice sent to holders of LLC Units by HCPI under the LLC Agreement as and when it delivers such notice to Pledgor, including any notice of Reduction pursuant to Section 8.6.D of the LLC Agreement, and (b) at the written request of Lender, HCPI shall send to Lender a copy of each other communication, report or other information from time to time sent to Pledgor as holder of the Pledged Units or Pledged Shares.
4. Amendments to Registration Rights Agreement and the LLC Agreement. Unless and until HCPI has received written notice from Lender to the effect that Lender no longer claims any interest in the Collateral, (a) no amendment of, termination of, or supplement to, the Registration Rights Agreement shall be effective without the prior written consent of Lender, and (b) no amendment of, termination of or supplement to the LLC Agreement for which the consent of any Pledgor is required shall be effective without the prior written consent of Lender, which consent shall not be unreasonably withheld; provided that if written disapproval is not received from Lender within 10 Business Days following receipt by Lender of a written request to approve such amendment (which request shall specifically reference the time limitation imposed by this Section 4), then Lender’s approval of such amendment shall be deemed to have been given.
5. Distributions, etc.
- a. Following receipt by the Down REIT Sub of written notice (which notice shall specifically reference this Section 5 of this Agreement) from Lender that a Default has occurred and is continuing (a “Default Notice”): (i) upon the written instruction of Lender and until instructions to the contrary are received from Lender, the Down REIT Sub shall remit to Lender all cash distributions otherwise payable to Pledgor in respect of the Pledged Units, and HCPI shall remit to

Lender all cash dividends otherwise payable to Pledgor in respect of the Pledged Shares, of any nature, and (ii) upon the written instruction of Lender and until instructions to the contrary are received from Lender, all rights of Pledgor to exercise the voting or other consensual rights that Pledgor would otherwise be entitled to exercise in respect of the Collateral shall cease, and all such rights (and any other rights Pledgor may have in respect of the Collateral) shall thereupon become vested in Lender, which shall have the sole right to exercise such rights, until further notice from Lender. With respect to cash distributions payable during such time as no event of Default is occurring, each Pledgor hereby directs the Down REIT Sub and/or HCPI, as the case may be, and the Down REIT Sub and/or HCPI, as the case may be, agrees to deposit any and all such dividends and distributions in the following account as set forth in Section 3.1. of the Loan Agreement: 43JO7293. Any amounts paid to the Lender or its designee as contemplated by the terms of the foregoing shall be treated as amounts paid or distributed to Pledgor for all purposes of the LLC Agreement, or other agreement pursuant to which the payment or distribution is made or is required to be made and shall be deemed to satisfy the obligations of the Down REIT Sub or HCPI to make such payment thereunder. Each Pledgor hereby agrees that neither the Down REIT Sub nor HCPI shall be deemed to be in breach of its obligations under, or in violation of the provisions of, any such agreement by virtue of having made such payments in the foregoing manner.

- b. From and after the date of this Agreement, and whether or not a Default has occurred and is continuing, if Pledgor shall become entitled to receive, in connection with any of the Collateral, any:
- i. LLC Units or stock certificates (including, without limitation, stock certificates relating to the Pledged Shares), including, without limitation, any certificates (1) issued in respect of additional properties contributed by such Pledgor to the Down REIT Sub, or (2) representing a dividend or distribution or issued in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares or partnership units, stock or partnership units split, spin-off, or split-off;
 - ii. Options, warrants, rights or other securities or instruments, whether as an addition to, or in substitution or in exchange for, any of the Collateral, or otherwise;
 - iii. Dividends or distributions payable in property other than cash, including securities issued by other than the issuer of any of the Collateral; or
 - iv. Any sums paid in redemption of any of the Collateral,

then HCPI shall deliver the same to Lender, to be held by Lender as part of the Collateral. Any amounts paid to the Lender or its designee as contemplated by the terms of the foregoing shall be treated as amounts paid or distributed to

Pledgor for all purposes of the LLC Agreement, or other agreement pursuant to which the payment or distribution is made or is required to be made and shall be deemed to satisfy the obligations of the Down REIT Sub or HCPI to make such payment thereunder. Each Pledgor hereby agrees that neither the Down REIT Sub nor HCPI shall be deemed to be in breach of its obligations under, or in violation of the provisions of, any such agreement by virtue of having made such payments in the foregoing manner.

6. Registration Rights and Registration Statements.

- a. Shelf Registration Statement. HCPI hereby represents and warrants to Lender that it has filed pursuant to the Securities Act, and has kept continuously effective, a registration statement on Form S-3, dated August 30, 2002 and a registration statement on Form S-3, dated February 1, 2005 (such registration statements, including all amendments (including post-effective amendments) and all exhibits thereto and materials incorporated by reference therein, collectively, the “Shelf Registration Statement”) that relate to the offer and sale of certain REIT Shares issued or to be issued by the Down REIT Sub upon exchange of those Pledged Units described on Exhibit D attached hereto (the “Registered Pledged Units”). HCPI hereby agrees, if not so amended prior to the date of this Agreement, to amend and supplement the Shelf Registration Statement within 10 Business Days after the date of this Agreement and to file one or more such amendments and supplements with the Commission as required by Rule 424 or similar rule that may be adopted under the Securities Act to include Lender as a “Selling Shareholder” thereunder.
- b. Registration Rights. In addition to the specific registration rights set forth in this Agreement, in the name of and on behalf of Pledgor, Lender shall have the right to exercise Pledgor’s Registration Rights with respect to any Pledged Units then owned by Pledgor and held by Lender, including without limitation (i) subject to the terms and conditions of the Registration Rights Agreement, the right to enforce the applicable provisions of the Registration Rights Agreement pertaining to HCPI’s obligation to file with the commission a registration statement on Form S-3 (the “Issuance Registration Statement”) covering, among other things, the issuance to Lender of REIT Shares issued or to be issued by the Down REIT Sub upon exchange of those Pledged Units described on Exhibit E attached hereto and naming Lender as a “Selling Shareholder” thereunder and (ii) the right to request, at the times and in the manner set forth in the Registration Rights Agreement, HCPI to register for sale under the Securities Act any Pledged Shares issuable or issued upon exchange of Pledged Units; provided, however, that, in the case of a Demand Registration pursuant to Section 3.1(a) of the Registration Rights Agreement, the Down REIT Sub agrees that Lender shall not be subject to the once-every-twelve-months limitation set forth in clause (i) thereof (provided that if at any time Lender has exercised a Demand Registration right in the previous twelve month period, for which the Down REIT Sub or HCPI has paid the expenses thereof, as provided in Section 3.4 of the Registration Rights Agreement, Lender shall pay the expenses described in Section 3.4 of the

Registration Rights Agreement in connection with the filing of such Demand Registration), nor shall Lender be subject to the \$1,000,000 minimum requirement referred to in clause (ii) thereof if Lender is exercising Demand Registration Rights with respect to all of the Pledged Shares it owns or has the right to acquire upon an Exchange. Pledgor hereby irrevocably appoints Lender as his attorney-in-fact to exercise any such Registration Rights, and irrevocably instructs HCPI to honor any such exercise by Lender of Pledgor's Registration Rights.

7. Rights upon Remedy Events.

- a. Restrictions on Transfer. Upon foreclosure of any Pledged Units, the Lender shall be entitled to Transfer such Pledged Units, in whole or in part, subject to applicable restrictions set forth in Section 11.3 through 11.6 of the LLC Agreement; provided, however, that HCPI and the Down REIT Sub acknowledge and agree that (i) the provisions of Section 11.6.C shall not apply to any foreclosure by Lender on any Pledged Units, (ii) to the extent any such restrictions require the consent of HCPI or the Down REIT Sub, HCPI and the Down REIT Sub hereby provide their consent to such foreclosure, (iii) if Lender or a purchaser of Pledged Units at foreclosure is prohibited from becoming a Substituted Member of HCPI, Lender or such purchaser may become an Assignee in accordance with such restrictions, (iv) the Down REIT Sub shall conduct its business in the ordinary course in accordance with past practices, and (v) neither Lender nor any purchaser of Pledged Units or Pledged Shares at foreclosure shall be obligated to assume, or otherwise be responsible for, any obligation a Pledgor may have under the LLC Agreement or any other obligation of Pledgor accrued prior to foreclosure under the LLC Agreement; provided that nothing in this subclause 7.a.(v) shall release or reduce any prior obligations of a Pledgor to HCPI or the Down REIT Sub, it being acknowledged and agreed by the Down REIT Sub or HCPI that the Down REIT Sub and HCPI have recourse against any such Pledgor only and not against Lender. HCPI further acknowledges and agrees that the aforesaid restrictions do not apply to Pledged Shares. Lender acknowledges and agrees that the Pledged Shares are subject to certain restrictions on ownership and transfer as set forth in the Charter of the HCPI, as amended from time to time.

b. Exchange of Pledged Shares; Foreclosure. In addition to (i) Lender's rights under Section 5 of this Agreement, (ii) Lender's rights as a pledgee, transferee or Assignee at foreclosure of LLC Units or a Membership Interest as provided in the LLC Agreement, and (iii) any and all other rights Lender may have in respect of a Default under any other agreement, document or instrument, or under applicable law, upon the occurrence of any one or more Defaults (including, without limitation, the right of Lender to exercise its rights under the Loan Agreement to foreclose on or acquire the entire interest of Pledgor in all or any portion of any Collateral), Lender shall thereupon and thereafter during the continuance thereof have the right, in its sole and absolute discretion, to do or cause to be done any one or more of the following:

i. Exchange of Registered Pledged Units.

Lender shall have the right, upon written notice to the Down REIT Sub and in the name of and on behalf of Pledgor, to exercise Pledgor's exchange rights and require HCPI to exchange all or any portion (as selected and in such order as Lender may elect in its sole discretion) of the Registered Pledged Units in accordance with Section 8.6.A of the LLC Agreement (the "Exchange Rights"). Any request for such exchange shall be made on the form of Notice of Exchange attached hereto as Exhibit F. Pledgor hereby irrevocably appoints Lender as its attorney-in-fact to exercise such Exchange Rights, and irrevocably instructs the Down REIT Sub and HCPI to honor any such exercise by Lender of the Exchange Rights. HCPI hereby agrees that upon any such exercise of the Exchange Rights, HCPI shall deliver the entire Cash Amount or REIT Shares to Lender, in each case without deduction in respect of any claim which HCPI or the Down REIT Sub may from time to time have of any nature or kind against Pledgor (other than with respect to any withholding tax obligation imposed by law on the Down REIT Sub with respect to any amount distributable or allocable to a Pledgor in respect of Registered Pledged Units, as contemplated in Section 5.3 of the LLC Agreement).

In addition to the foregoing, the second sentence of Section 8.6.A of the LLC Agreement is hereby amended with respect to Lender to provide that notwithstanding the first sentence of Section 8.6.A of the LLC Agreement, after, or concurrently with, receipt by HCPI of any Default Notice, the Lender shall have the right to (i) tender Registered Pledged Units for Exchange (subject to the following terms and conditions of Section 8.6.A of the LLC Agreement) and require the Down REIT Sub to acquire up to the number of Registered Pledged Units specified in the Notice of Exchange as referred to in the definition of "Specified Exchange Date" set forth in subparagraph (c) immediately following; provided, however that Lender may tender Registered Pledged Units for Exchange hereunder once, irrespective of the aggregate market value of such Registered Pledged Units, and an unlimited number of times, provided the aggregate market value of such Registered Pledged Units is at least \$1,000,000 on the date of any such Notice of Exchange.

In connection with the foregoing, the definition of the term "Specified Exchange Date" in the LLC Agreement shall, with respect to Lender and only with respect to Lender, be amended to read as follows:

"Specified Exchange Date" means in the case of an Exchange pursuant to Section 8.6.A hereof, that date specified by Lender in a Notice of Exchange to the Company; *provided*, however, that such date shall in no event be less than fourteen (14) days (or if such day is not a Business Day, the next following Business Day) after

HCPI's receipt of such Notice of Exchange and provided further that the Specified Exchange Date, as well as the closing of an Exchange on the Specified Exchange Date, may be deferred in the Managing Member's sole and absolute discretion, for such time as may be reasonably required to effect, as applicable, (i) necessary funding arrangements, (ii) compliance with the Securities Act or other applicable laws (including, but not limited to, (a) state "blue sky" or other securities laws and (b) the expiration or termination of the applicable waiting period, if any, under the Hart Scott Rodino Antitrust Improvements Act of 1976, as amended, and (iii) satisfaction or waiver of other commercially reasonable and customary closing conditions and requirements for a transaction of such nature (provided that in no event shall such Exchange be delayed more than 30 days in the aggregate with respect to (i) and (iii) above, or more than 150 days in the aggregate with respect to (ii) above.

ii. Put for Unregistered Pledged Units.

Until such time as HCPI has filed, pursuant to Section 6 of this Agreement, the Issuance Registration Statement, Lender shall have the right upon written notice to HCPI in the form of Deficiency Notice attached hereto as Exhibit G (a "Deficiency Notice"), to exchange all or any portion of the Unregistered Pledged Units for one or more cash payments from HCPI on any foreclosure of the Unregistered Pledged Units, where the cash or fair market value of Pledged Shares (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice, as reported on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed) issued on exchange of Registered Pledged Units will be insufficient to satisfy Borrower's Obligations (as defined in the Loan Agreement) under the Loan Agreement, in an amount (the "Unregistered Units Cash Payment") equal to (i) the fair market value of such Unregistered Pledged Units (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed), multiplied by (ii) the number of such Unregistered Pledged Units exchanged, less (iii) 1% of the product of (i) and (ii). Each Unregistered Units Cash Payment shall be payable by HCPI within 14 days following its receipt of the Deficiency Notice with respect thereto; provided, however, that at such time as Lender receives written notice from HCPI of the filing and effectiveness of the Issuance Registration Statement, Lender's rights pursuant to this Section 7.b.ii shall terminate with respect to any such Unregistered Pledged Units covered by such registration, so long as such registration remains effective. In the event and to the extent that any registration statement with respect to any Pledged Units ceases to be effective, the provisions of this Section 7.b.ii shall again apply with respect to all affected Pledged Units and/or Pledged Shares.

Notwithstanding the provisions of Section 7.b.ii above, but subject to Section 7.b.iii below and Section 7.b.iii of the Utah I Acknowledgment and Consent, Lender agrees that to the extent Lender has the right to exchange Registered Pledged Units under either this Agreement or under the Utah I Acknowledgment and Consent on or before the specified date in the applicable Notice of Exchange, Lender shall exercise any and all such exchange rights hereunder and thereunder, prior to delivering a Deficiency Notice under Section 7.b.ii above.

- iii. Put for Exchange Delays in Pledged Units. Notwithstanding anything to the contrary in this Agreement, in the event that the Specified Exchange Date under Section 7.b.i is deferred to a date that is later than the date specified in the applicable Notice of Exchange and where the cash or fair market value of the Pledged Units (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed), if any, which may be exchanged on or before the specified date in the applicable Notice of Exchange will be insufficient to satisfy Borrower's Obligations (as defined in the Loan Agreement) under the Loan Agreement, Lender shall have the right, upon providing a Deficiency Notice to HCPI, to exchange all or any portion of the affected Pledged Units for one or more cash payments from HCPI in an amount (the "Exchange Delay Cash Payment") equal to (i) the fair market value (determined based on the closing price of the REIT Shares on the date of the Deficiency Notice on the New York Stock Exchange or such other exchange on which the REIT Shares are then listed) of such affected Pledged Units, multiplied by (ii) the number of such affected Pledged Units to be exchanged, less (iii) 1% of the product of (i) and (ii). Each Exchange Delay Cash Payment shall be payable by HCPI within 14 days following its receipt of the Deficiency Notice with respect thereto.

In addition, the parties hereto agree and acknowledge that the obligation of HCPI, HCPI/Utah, LLC and/or the Down REIT Sub, as the case may be, to make Unregistered Units Cash Payments and/or Exchange Delay Cash Payments under this Section 7 and under Section 7 of the Utah I Acknowledgment and Consent shall not exceed, in the aggregate, \$10,000,000.

- iv. Concurrent Exercise. The rights exercisable by Lender under this Section 7.b may be invoked before or after foreclosure under the Loan Agreement in Lender's sole discretion, and all without further notice to or any requirement of consent by Pledgor, which hereby irrevocably and unconditionally waives any right to give any contrary instructions to

HCPI. All parties acknowledge that Lender desires to consummate any necessary foreclosure under the Loan Agreement on a basis that such foreclosure occurs concurrent with the closing of an Exchange; all parties agree to cooperate reasonably with Lender to that end. HCPI agrees that it will not act on any separate instructions or communications from Pledgor pertaining to the Pledged Units or Pledged Shares or Registration Rights Agreement without the express written consent of Lender. Nothing in this subparagraph (v) shall in any way obligate Lender to consummate any necessary foreclosure under the Loan Agreement in the manner referred to above; Lender may, in its sole discretion, determine that another method of realization upon the Collateral is preferable or required, and such determination by Lender shall in no manner limit or restrict the obligations of Borrower, Pledgor or any other person or entity with respect to the loans contemplated herein.

- v. Foreclosure. Subject to the terms and conditions of the Loan Agreement, Lender shall have the right to foreclose on or acquire the entire interest of Pledgor in all or any portion of any Pledged Shares (including all of Pledgor's right, title and interest in the Registration Rights Agreement to the extent applicable to such Pledged Shares) owned by Pledgor, by foreclosure or in any other manner. In the event that Lender elects to exercise its rights under this Section 7.b.v, Lender shall deliver to HCPI a notice of its intent to do so no later than 10 Business Days prior to the date of any sale, public or private, or of any transfer in lieu of foreclosure, and HCPI (without limitation on its own right, under applicable law, to participate in any sale or other disposition of any of the Collateral) shall reasonably cooperate, at no expense to itself, with Lender in completing its foreclosure on the affected Pledged Shares in compliance with applicable laws, including, if applicable, all actions reasonably necessary to comply with the filing requirements described in Rule 144(c)(1) of the Securities Act, so as to enable the Lender to sell such Pledged Shares without registration under the Securities Act.

8. Representations and Warranties by the Down REIT Sub and HCPI. The Down REIT Sub and HCPI hereby represent and warrant to Lender as follows as of the date hereof:

- a. LLC Agreement. A true and correct copy of the LLC Agreement as in effect as of the date hereof is attached as Exhibit H hereto.
- b. Organization And Authority of the Down REIT Sub. The Down REIT Sub has been duly formed, is validly existing as a limited liability company in good standing under the laws of the State of Delaware, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification except where the absence of such qualification would not have a Material Adverse Effect. The Down REIT Sub has all requisite power and authority to own or hold under lease the property it purports to own or hold under lease, to carry on its business as now conducted and as proposed to be conducted except as would not have a Material Adverse Effect, and to execute and deliver this Agreement and to perform its obligations hereunder.

- c. Authorization by the Down REIT Sub; Binding Effect. The Down REIT Sub has by all necessary action duly authorized (i) the execution and delivery of this Agreement and (ii) the performance of its obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of the Down REIT Sub, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
- d. Pledged Units; Managing Member of the Down REIT Sub. All of the Pledged Units are validly issued and non-assessable. The identity of the registered owners, the total number of Pledged Units and the corresponding Certificates evidencing ownership thereof are accurately set forth on Exhibit A attached hereto. No security interest in the Pledged Units has been registered on the records of the Down REIT Sub (or its transfer agent). HCPI is the sole Managing Member of the Down REIT Sub and owns the only Managing Member Units thereof.
- e. Organization and Authority of HCPI. HCPI is a corporation duly organized, validly existing and in good standing under the laws of Maryland, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification except where the absence of such qualification would not have a Material Adverse Effect. HCPI has all requisite power and authority to own or hold under lease the property it purports to own or hold under lease, to carry on its business as now conducted and as proposed to be conducted except as would not have a Material Adverse Effect, and to execute and deliver this Agreement and to perform its obligations hereunder.
- f. No Claims. To their knowledge, neither HCPI nor the Down REIT Sub has any existing claim, defense, setoff or right of recoupment under the LLC Agreement, any other agreement, or any law, rule or regulation, against or with respect to (i) any of the Pledged Units, (ii) any of REIT Shares that may be issuable or any amount that may be payable in connection with the exchange of any Pledged Units or (iii) any obligation of Pledgor under the LLC Agreement or any other agreement with respect to any of the Pledged Units, any of the REIT Shares that may be issued or any amount that may be payable in connection with the redemption of any Pledged Units.
- g. Authorization by HCPI; Binding Effect. HCPI has by all necessary action duly authorized the execution and delivery of this Agreement and the performance of its obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of HCPI, enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.

- h. HCPI Status. HCPI is organized in conformity with the requirements for qualification as a real estate investment trust under the Code and its ownership and method of operation enables it to meet the requirements for taxation as a real estate investment trust under the Code.
 - i. No Conflict. The execution, delivery and performance by HCPI of this Agreement, and the consummation of the transactions contemplated hereby, do not and will not violate any provision of the charter or bylaws of HCPI, or the LLC Agreement, or any contractual or other undertaking by which HCPI or any of its assets are bound. As of the date of this Agreement, the Pledged Units are not evidenced by writing or certificate except by the Certificates expressly referred to on Exhibit A hereto.
 - j. Registration Rights Agreement. A true and complete copy of the Registration Rights Agreement, including any amendments and supplements thereto, is attached to this Agreement as Exhibit I. The Registration Rights Agreement remains in full force and effect as of the date of this Agreement, and is the legal, valid and binding obligation of HCPI enforceable against it in accordance with its terms, except as enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally.
 - k. Governmental or Other Approvals. No governmental or other approval is or will be required in connection with the execution, delivery and performance by the Down REIT Sub or HCPI of this Agreement or the transactions contemplated hereby or to ensure the legality, validity or enforceability hereof.
9. Representations and Warranties by Pledgor. To its knowledge, Pledgor does not have any existing claims, defenses, setoff rights or rights of recoupment under the LLC Agreement, under any other agreement, or any law, rule or regulation, against or with respect to any obligation of either HCPI or the Down REIT Sub under the LLC Agreement or any other agreement.
10. Compliance with Securities Laws. Lender, Borrower and Pledgor hereby acknowledge that a portion of the Collateral has not been registered for sale under the Securities Act, that Lender may be unable to effect a public sale (under applicable provisions of the Uniform Commercial Code) of all or any part of the Collateral, and subject to the restrictions on transfer described above, may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire the Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Lender and Pledgors hereby further acknowledge that any such private sales may be at prices and on terms less favorable than those of public sales.

11. Liability to Pledgor. Pledgor and Borrower assume all risks of the acts or omissions of Lender with respect to its exercise of its rights hereunder. Neither the Down REIT Sub, HCPI, nor any of their officers, directors, partners, employees or agents shall be liable or responsible for any acts or omissions of the Lender, including without limitation the validity of any determination by Lender that a Default has occurred or is continuing, nor shall any of such persons have any responsibility for investigation into the facts and circumstances giving rise to any such determination by Lender, nor shall any such person be liable or responsible for following the instructions of Lender in accordance with this Agreement regardless of any notice, information or instructions to the contrary received by HCPI from Pledgor or any other person, including without limitation following instruction of Lender (a) to remit distributions by the Down REIT Sub made in respect of the Pledged Units, and distributions of HCPI made in respect of Pledged Shares, to Lender, pursuant to Section 5 above, (b) to terminate the voting and/or other consensual rights of Pledgor (and consider such right to have vested in Lender) pursuant to Section 5 above, (c) to exercise Pledgor's Exchange Rights in the name of and on behalf of Pledgor pursuant to Section 7 above, or (d) to exercise Pledgor's Registration Rights in the name of and on behalf of Pledgor, pursuant to Section 6 above.
12. Separate Actions; Waiver of Statute of Limitations. The obligations of HCPI and Pledgor hereunder shall be in addition to any obligations of Pledgor under the Loan Agreement. Without limiting the provisions of the Loan Agreement, a separate action or actions may be brought and prosecuted against any one or more of the parties hereto whether or not action is brought against any other person or whether any other person is joined in any such action or actions. HCPI and Pledgor acknowledge that there are no conditions precedent to the effectiveness of this Agreement and that this Agreement is in full force and effect and is binding on such person as of the date hereof. To the extent permitted under applicable law, Pledgor waives the benefit of any statute of limitations affecting such person's liability hereunder or the enforcement thereof. Lender hereby agrees that neither the Down REIT Sub nor HCPI shall have any obligation or liability under the Loan Agreement or any other agreement related to the loan contemplated by the Loan Agreement except as expressly set forth herein and in the Instructions. Pledgor agrees that nothing set forth herein shall alter, diminish or otherwise affect its obligations under the LLC Agreement or any other agreement between Pledgor and HCPI or the Down REIT Sub relating to the Pledged Units or Pledged Shares.
13. Continuing Obligations. Borrower and Pledgor shall indemnify and hold harmless Lender from and against any and all obligations, claims, losses, liabilities, damages, expenses or costs (including reasonable attorneys' fees and expenses and fees and expenses of expert witnesses) arising from or in any way connected with the obligations or liabilities of either such person with respect to agreements, documents or other instruments, whether now existing or hereafter incurred, or the conditions and obligations to be observed and performed by Borrower or Pledgor under any agreement, document or other instrument relating to the Collateral, except for those arising from Lender's gross negligence or willful misconduct. In addition, Borrower shall indemnify and hold harmless Lender from and against any and all obligations, claims, losses, liabilities, damages, expenses or costs (including reasonable attorneys' fees and expenses and fees and expenses of expert witnesses) arising from or in any way connected with the exercise

by Lender of any rights or remedies under the Loan Agreement or this Agreement with respect to the Collateral, including, without limitation, all costs and expenses associated with the exercise of any foreclosure rights and/or exchange rights pursuant to Section 6.b above or otherwise.

14. Appointment as Attorney-in-Fact. Pledgor hereby appoints Lender as its true and lawful attorney-in-fact, with full power of substitution, for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instruments either in the name of Pledgor or in the name of Lender, which such attorney-in-fact may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest; provided, that nothing in this section shall require the Lender to take any action or execute any instruments.
15. Notices. Any notice, demand, request or report required or permitted to be given or made to a party to this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication (including by telecopy, facsimile, or commercial courier service) (a) in the case of a Pledgor, to that Pledgor at the address set forth below and (ii) in the case of each other party, at its address for notices set forth below or at such other address as such party may give notice of in accordance with the provisions of this Section:

Borrower and each Pledgor: c/o The Boyer Company, L.C.
127 South 500 East, Suite 100
Salt Lake City, Utah 84102
Attention: Brian Gochour
Telephone No.: 801-521-4781
Telecopier: 801-521-4793

Lender: Merrill Lynch Bank USA
15 W. South Temple, Suite 300
Salt Lake City, Utah 84101
Attention: Director
Telephone No.:
Telecopier:

HCPI and/or Down REIT Sub: Health Care Property Investors, Inc.
3760 Kilroy Airport Way, Suite 300
Long Beach, California 90806
Attention: Legal Department
Telephone No.: (562) 733-5100
Telecopier: (562) 733-5200

16. Assignments. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Nothing contained herein, express or implied, is intended to confer on any person other than the parties hereto or their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

17. Governing Law. This Agreement and the legal relations between the parties hereto shall be governed by and construed in accordance with the internal laws of the State of New York applicable to contracts made and to be performed in that State, without regard to conflict of laws principles.
18. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original but all of which together shall constitute but one agreement. This Agreement may be executed and delivered by facsimile.
19. Entire Agreement; Amendments. This Agreement (including the instruments between the parties referred to herein) constitutes the entire agreement among the parties and supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof. All references to sections, subsections, clauses, exhibits and schedules shall be deemed references to such part of this Agreement, unless the context shall otherwise require. No provisions of this Agreement may be effectively waived, changed or amended, or the termination or discharge thereof agreed to or acknowledged, orally, but only by an agreement in writing signed by the party against whom the enforcement of any waiver, change, amendment, termination or discharge is sought.
20. Headings. The headings contained in this Agreement are inserted for convenience only and do not constitute a part of this Agreement.
21. Invalidity. If any provision of this Agreement is held invalid or unenforceable, the remainder of this Agreement shall nevertheless remain in full force and effect.
22. Attorneys' Fees. In the event of any controversy, claim or dispute between the parties hereto arising out of or relating to this Agreement or any of the documents provided for herein, or the breach thereof, the prevailing party shall be entitled to recover from the losing party reasonable attorneys' fees, expenses and costs.

[Remainder of page intentionally left blank.]

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

LENDER:

MERRILL LYNCH BANK USA

By: _____

Date: _____

Title: _____

BORROWER:

GARDNER PROPERTY HOLDINGS, L.C.,
a Utah limited liability company

By: _____

Date: _____

Title: _____

THE DOWN REIT SUB:

HCPI/UTAH II, LLC,
a Delaware limited liability company

By: HEALTH CARE PROPERTY
INVESTORS, INC., its Managing Member

By: _____

Date: _____

Title: _____

HCPI:

HEALTH CARE PROPERTY INVESTORS, INC.,
a Maryland corporation

By: _____

Date: _____

Title: _____

PLEDGORS:

BOYER-FOOTHILL ASSOCIATES, LTD.,
a Utah limited partnership

By: THE BOYER COMPANY, L.C.,
its General Partner

By: _____

Name: _____

Title: _____

BOYER KAYSVILLE ASSOCIATES, L.C.,
a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____

Name: _____

Title: _____

BOYER RESEARCH PARK ASSOCIATES VI,
L.C., a Utah limited liability company

By: THE BOYER COMPANY, L.C.,
its Manager

By: _____

Name: _____

Title: _____

EXHIBIT A
PLEDGED UNITS

<u>Member Name</u>	<u>Certificate Nos.</u>	<u>Number of Non-Managing Member Units Pledged</u>
Boyer-Foothill Associates, Ltd.	42, 47, 120	115,237
Boyer Kaysville Associates, L.C.	10	20,876
Boyer Research Park Associates VI, L.C.	37	43,794
	TOTAL:	179,907

EXHIBIT B
IRREVOCABLE UNIT POWER

EXHIBIT C
THE INSTRUCTIONS

EXHIBIT D
REGISTERED PLEDGED UNITS

<u>Member Name</u>	<u>Certificate Nos.</u>	<u>Number of Non-Managing Member Units Pledged</u>
Boyer-Foothill Associates, Ltd.	42, 47, 120	115,237
Boyer Kaysville Associates, L.C.	10	20,876
Boyer Research Park Associates VI, L.C.	37	43,794
	TOTAL:	179,907

EXHIBIT E
UNREGISTERED PLEDGED UNITS

None.

EXHIBIT F
NOTICE OF EXCHANGE

EXHIBIT G
DEFICIENCY NOTICE

EXHIBIT H
LLC AGREEMENT

EXHIBIT I
REGISTRATION RIGHTS AGREEMENT

PERFORMANCE RESTRICTED STOCK UNIT AGREEMENT

James F. Flaherty III, Grantee:

On the ____ day of _____ (the "Grant Date"), Health Care Property Investors, Inc., a Maryland corporation (the "Company"), pursuant to the Health Care Property Investors, Inc. 2000 Stock Incentive Plan, as amended and/or restated from time to time (the "Plan"), has granted to you, the Grantee named above, _____ performance restricted stock units (the "Units") with respect to _____ shares of Common Stock on the terms and conditions set forth in this Performance Restricted Stock Unit Agreement (this "Agreement") and the Plan. The Units are subject to adjustment as provided in Section 11(a) of the Plan. Capitalized terms not defined herein shall have the meanings assigned to such terms in the Plan. The Compensation Committee (the "Committee") of the Board of Directors of the Company (the "Board") is the administrator of the Plan for purposes of your Units.

I. Forfeiture of Units.

(a) Forfeiture Based Upon Company Performances. Your Units are subject to forfeiture if the Company's Funds From Operations Per Share for the 2004 calendar year (the "Performance Period") is less than \$ _____. If the Company's Funds From Operations Per Share for the Performance Period is less than \$ _____, the aggregate percentage of Units that you will forfeit will be determined in accordance with Exhibit A hereto. For purposes of this Agreement, "Funds From Operations Per Share" means the Company's funds from operations per share during the Performance Period, as prescribed by the National Association of Real Estate Investment Trusts (NAREIT) as in effect on the first day of the Performance Period, and shall be calculated on a fully diluted basis using the weighted average of diluted shares of Common Stock outstanding during the Performance Period. Funds From Operations Per Share shall be calculated before taking into account any charges incurred by the Company with respect to the Performance Period for (i) amounts paid in connection with the settlement of disputes with employees or former employees regarding their employment or former employment with the Company or the payment of severance benefits and (ii) impairment. The determination as to whether the Company has attained the performance goals with respect to the Performance Period shall be made by the Committee acting in good faith and based upon the Company's audited financial statements. The Committee's determination regarding whether the Company has attained the performance goals shall be made no later than 120 days following the end of the Performance Period. Your Units shall not vest in accordance with Section 2 unless and until the Company has achieved the performance goals with respect to the Performance Period, as required by Section 162(m) of the Code and the regulations promulgated thereunder.

(b) Termination due to Retirement during the Performance Period. Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) upon completion of the Performance Period if, prior to the completion of the Performance Period, your employment with the Company is terminated as a result of your Retirement. In the event of any such termination during the Performance Period, any Units not forfeited pursuant to subsection (a) shall fully vest as of the first day following the completion of the Performance Period.

(c) Termination Other Than For Cause under Employment Agreement during the Performance Period. Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) upon completion of the Performance Period if, prior to the completion of the Performance Period, your employment with the Company is “Terminated Other Than For Cause” as defined in, and otherwise pursuant to the terms of, your Employment Agreement with the Company dated October 8, 2002, as the same may be amended or restated from time to time and any successor agreement (the “Employment Agreement”). In the event of any such termination during the Performance Period, any Units not forfeited pursuant to subsection (a) shall fully vest as of the first day following the completion of the Performance Period.

(d) Change in Control during the Performance Period.

(i) Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) in the event of a Change in Control occurring during the Performance Period. In such event, any Units not forfeited pursuant to subsection (a) shall be deemed restricted stock under your Employment Agreement and shall fully vest as of the first day following the completion of the Performance Period.

(ii) Notwithstanding the foregoing, the Committee may, in its sole and absolute discretion, take action to fully vest your Units immediately prior to, and subject to the consummation of, a Change in Control occurring during the Performance Period. Any Units that become vested in accordance with this subsection (d)(ii) shall not be subject to forfeiture in the manner set forth in subsection (a).

(e) Forfeiture of Units Upon Other Terminations. If at any time during the Performance Period, your employment with the Company is terminated (i) by the Company, or (ii) by you, excluding any Termination Other Than For Cause pursuant to your Employment Agreement, or any termination by reason of your Retirement, death or Disability, or any termination that occurs upon or after a Change in Control, all of your Units shall be automatically forfeited and cancelled in full effective as of such termination of employment and this Agreement shall be null and void and of no further force and effect

II. Vesting.

(a) Vesting of Non-Forfeited Units. You will have no further rights with respect to any Units that are forfeited in accordance with Section I. Subject to the terms and conditions of this Agreement, your Units that (i) are not forfeited in accordance with Section I and (ii) do not otherwise vest in accordance with Section I, if any, shall vest in accordance with the following schedule, subject to your continuous service to the Company until the applicable vesting date. (Vesting amounts pursuant to the following schedule are cumulative.)

<u>Tranche</u>	<u>Percentage of Non Forfeited Units that vest (number of Units)</u>	<u>Vesting Date</u>
1	20% (Maximum of _____)	1 st Anniversary of Grant Date
2	20% (Maximum of _____)	2 nd Anniversary of Grant Date
3	20% (Maximum of _____)	3 rd Anniversary of Grant Date
4	20% (Maximum of _____)	4 th Anniversary of Grant Date
5	20% (Maximum of _____)	5 th Anniversary of Grant Date

(b) Termination for death or Disability. If at any time during the Performance Period or following the completion of the Performance Period, your employment with the Company is terminated as a result of your death or Disability, your Units shall fully vest immediately upon such termination of employment. For the avoidance of doubt, any Units that become vested in accordance with this subsection (b) during the Performance Period shall not be subject to the forfeiture provisions of Section I(a).

(c) Termination Other Than For Cause or by reason of Retirement following the Performance Period. If at any time following the completion of the Performance Period, your employment with the Company is (i) Terminated Other Than For Cause pursuant to your Employment Agreement, or (iii) terminated as a result of your Retirement, your unvested Units shall fully vest immediately upon such termination of employment.

(d) Acceleration Upon Failure to Offer Employment Agreement on Substantially Similar Terms. Notwithstanding anything herein to the contrary, your unvested Units shall fully vest upon the expiration of your Employment Agreement on October 8, 2005 in the event the Company fails to offer you an extension of your employment agreement prior to such expiration on substantially the same terms and conditions as then in existence.

(e) No Acceleration or Vesting Upon Other Terminations. If at any time following the completion of the Performance Period, your employment with the Company is terminated (i) by the Company, or (ii) by you, excluding any Termination Other Than For Cause pursuant to your Employment Agreement, or any termination by reason of your Retirement, death or Disability, or any termination that occurs upon or after a Change in Control, your unvested Units shall be automatically forfeited and cancelled in full effective as of such termination of employment.

III. Change in Control following the Performance Period.

(a) In the event of a Change in Control at any time following the completion of the Performance Period, your Units shall be deemed to be "restricted stock" under your Employment Agreement and your Units shall vest fully upon such Change in Control as provided in your Employment Agreement.

(b) Notwithstanding the foregoing, in the event of a pending or threatened takeover bid or tender offer at any time following the completion of the Performance Period and pursuant to which 10% or more of the outstanding securities of the Company is acquired, whether or not deemed a tender offer under applicable state or Federal laws, or in the event that any person makes any filing under Sections 13(d) or 14(d) of the Securities Exchange Act of 1934 with respect to the Company, the Committee may in its sole discretion:

(i) Make the Units fully vested; or

(ii) Make any other reasonable adjustments or amendments to the Units or substitute new units on substantially similar terms.

IV. Timing and Form of Payment.

(a) Unless you elect otherwise, the distribution date (the “Distribution Date”) for your vested Units will be the Vesting Date with respect to such vested Units. Distribution of your vested Units will be made by the Company in shares of Common Stock (on a one-to-one basis) on the Distribution Date with respect to such vested Units. You will only receive distributions in respect of your vested Units and will have no right to distribution of your unvested Units. You may elect (a “Distribution Election”) to (A) defer your Distribution Date with respect to some or all of your vested Units and/or (B) have your vested Units distributed to you in annual installments over a fixed number of years selected by you; provided that each installment payment must be for a minimum of 1,000 shares of Common Stock. You may make up to three Distribution Elections with respect to each Tranche (set forth in Section II (a) above) without the approval of the Committee, provided such Distribution Election is made in a timely manner. Any Distribution Elections with respect to a Tranche in addition to the three provided in the preceding sentence may only be made with the approval of the Committee, in its sole discretion. If you elect to have some or all of your vested Units underlying a Tranche distributed in annual installments, the first installment will be paid on the Distribution Date with respect to such Tranche and subsequent installments will be paid on each of the anniversaries of the Distribution Date with respect to such Tranche during your elected installment period. In order for a Distribution Election to be valid, it must be made at least one year prior to the then-existing Distribution Date with respect to the Units subject to such Distribution Election and the new Distribution Date must be at least one year after the then-existing Distribution Date with respect to such Units. Your Distribution Date with respect to any portion of your Units may not be prior to the Vesting Date for such vested Units. Distribution Elections may only be made by delivering a written election to the Committee in the form attached as Exhibit B hereto.

(b) Accelerated Distributions. At any time prior to the Distribution Date with respect to any or all of your vested Units, you may elect an immediate distribution (the “Accelerated Distribution”) of such vested Units by delivering a written election to the Committee in the form attached as Exhibit B hereto; provided, however, that if you make such election, you will forfeit 10% of the Units that would otherwise be distributed to you pursuant to the Accelerated Distribution.

(c) Hardship Distribution. If you experience an Unforeseen Financial Emergency (as defined below) you may elect to receive immediate distribution of some or all of your vested Units upon such Unforeseen Financial Emergency. Distribution upon an Unforeseen Financial Emergency shall be made no later than thirty (30) days following written notice to the Committee of the Unforeseen Financial Emergency. For purposes of this Agreement, an “Unforeseen Financial Emergency” shall mean an unforeseeable emergency which constitutes a severe financial hardship resulting from any one or more of the following: (i) your or any of your dependent’s (as defined in Section 152(a) of the Code) sudden and unexpected illness or accident, (ii) loss of your property due to casualty; or (iii) any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond your control, all as reasonably determined by the Committee in good faith. No distribution shall be made in respect of an Unforeseen Financial Emergency unless such Unforeseen Financial Emergency is not otherwise relievable by liquidation of your assets (to the extent such liquidation does not itself cause an Unforeseen Financial Emergency) or through reimbursement or compensation by insurance or otherwise. Any distribution of your vested Units as a result of an Unforeseen Financial Emergency shall be limited to the amount reasonably necessary to relieve the Unforeseen Financial Emergency (which may include amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the distribution).

(d) Distribution Upon Adverse Judgment. Notwithstanding anything to the contrary in this Section IV, your vested Units shall become immediately distributable to you if (A) the Internal Revenue Service (the “IRS”) successfully challenges, in a court of competent jurisdiction, any deferral election made by you in accordance with subsection (a) with respect to such Units, and (B) as a result of which, you have a taxable event with respect to such Units. Such distribution shall be made no later than thirty (30) days following the final judgment of a court of competent jurisdiction upholding the position of the IRS with respect to the taxation of such Units.

V. Dividend Equivalent Rights. During such time as each Unit remains outstanding and prior to the distribution of such Unit in accordance with Section IV, you will have the right to receive, in cash, with respect to such Unit, the amount of any cash dividend paid on a share of Common Stock (a “Dividend Equivalent Right”). You will have a Dividend Equivalent Right with respect to each Unit that is outstanding on the record date of such dividend. Dividend Equivalent Rights will be paid to you at the same time dividends are paid to stockholders of the Company. Dividend Equivalent Rights will not be paid to you with respect to any Units that are forfeited pursuant to Sections I and II, effective as of the date such Units are forfeited. You will have no Dividend Equivalent Rights as of the record date of any such cash dividend in respect of any Units that have been paid in Common Stock; provided that you are the record holder of such Common Stock on or before such record date.

VI. Transferability. No benefit payable under, or interest in, the Units or this Agreement shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge and any such attempted action shall be void and no such benefit or interest shall be, in any manner, liable for, or subject to, your or your beneficiary’s debts, contracts, liabilities or torts; *provided, however*, nothing in this Section VI shall prevent transfer

of your Units by will or by applicable laws of descent and distribution. You may designate a beneficiary to receive distribution of your vested Units upon your death by submitting a written beneficiary designation to the Committee in the form attached hereto as Exhibit B. You may revoke a beneficiary designation by submitting a new beneficiary designation.

VII. Withholding. You will be required to pay in cash or deduction from other compensation payable to you by the Company any sums required by federal, state or local tax law to be withheld with respect to the issuance, vesting or payment of Units and the payment of Dividend Equivalent Rights. At your election and in satisfaction of the foregoing requirement, the Company will withhold shares of Common Stock underlying the Units and otherwise issuable in accordance with paragraph 2, in the manner prescribed by, and subject to the limitations of, Section 12 of the Plan, in satisfaction of such withholding obligations.

VIII. No Contract for Employment. This Agreement is not an employment or service contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ or service of the Company, or of the Company to continue your employment or service with the Company.

IX. Notices. Any notices provided for in this Agreement or the Plan, including a Deferral Election, shall be given in writing and shall be deemed effectively given upon receipt if delivered by hand or, in the case of notices delivered by United States mail, five (5) days after deposit in the United States mail, postage prepaid, addressed, as applicable, to the Company or if to you, at such address as is currently maintained in the Company's records or at such other address as you hereafter designate by written notice to the Company.

X. Plan. This Agreement is subject to all the provisions of the Plan and their provisions are hereby made a part of this Agreement. In the event of any conflict between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall control.

XI. Entire Agreement. This Agreement and the Employment Agreement contains the entire understanding of the parties in respect of the Units and supersedes upon its effectiveness all other prior agreements and understandings between the parties with respect to the Units. In the event of any discrepancy between this Agreement and the Employment Agreement, the Employment agreement shall control.

XII. Amendment. This Agreement may be amended by the Committee; provided, however that no such amendment shall, without your consent, alter, terminate, impair or adversely affect your rights under this Agreement.

XIII. Governing Law. This Agreement shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the laws of the State of California, without regard to conflicts of law provisions thereof.

XIV. Tax Consequences. You may be subject to adverse tax consequences as a result of the issuance, vesting and/or distribution of your Units. YOU ARE ENCOURAGED TO CONSULT A TAX ADVISOR AS TO THE TAX CONSEQUENCES OF YOUR UNITS AND SUBSEQUENT DISTRIBUTION OF COMMON STOCK.

Very truly yours,

HEALTH CARE PROPERTY INVESTORS, INC.

By: _____

Name: Michael D. McKee

Title: Director

And: _____

Name: Edward J. Henning

Title: Senior Vice President, General Counsel and
Corporate Secretary

Accepted and Agreed,
effective as of the date first written above.

By: _____

Name: James F. Flaherty III

PERFORMANCE GOALS

Funds From Operations Per Share

Aggregate Percentage Forfeited
(Number of Units Forfeited)

\$ _____ or greater	0% (0)
Equal to or greater than \$ _____ but less than \$ _____	2% (_____)
Equal to or greater than \$ _____ but less than \$ _____	4% (_____)
Equal to or greater than \$ _____ but less than \$ _____	6% (_____)
Equal to or greater than \$ _____ but less than \$ _____	8% (_____)
Equal to or greater than \$ _____ but less than \$ _____	10% (_____)
Equal to or greater than \$ _____ but less than \$ _____	12% (_____)
Equal to or greater than \$ _____ but less than \$ _____	14% (_____)
Equal to or greater than \$ _____ but less than \$ _____	16% (_____)
Equal to or greater than \$ _____ but less than \$ _____	18% (_____)
Equal to or greater than \$ _____ but less than \$ _____	20% (_____)
Equal to or greater than \$ _____ but less than \$ _____	22% (_____)
Equal to or greater than \$ _____ but less than \$ _____	24% (_____)
Equal to or greater than \$ _____ but less than \$ _____	26% (_____)
Equal to or greater than \$ _____ but less than \$ _____	28% (_____)
Equal to or greater than \$ _____ but less than \$ _____	30% (_____)
Equal to or greater than \$ _____ but less than \$ _____	32% (_____)
Equal to or greater than \$ _____ but less than \$ _____	34% (_____)
Equal to or greater than \$ _____ but less than \$ _____	36% (_____)
Equal to or greater than \$ _____ but less than \$ _____	38% (_____)
Equal to or greater than \$ _____ but less than \$ _____	40% (_____)
Equal to or greater than \$ _____ but less than \$ _____	50% (_____)
Equal to or greater than \$ _____ but less than \$ _____	60% (_____)
Equal to or greater than \$ _____ but less than \$ _____	70% (_____)
Equal to or greater than \$ _____ but less than \$ _____	80% (_____)
Equal to or greater than \$ _____ but less than \$ _____	90% (_____)
Equal to or greater than \$ _____ but less than \$ _____	100% (_____)

HEALTH CARE PROPERTY INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

RESTRICTED STOCK UNITS
DISTRIBUTION ELECTION AND BENEFICIARY DESIGNATION FORM

Name: James F. Flaherty III

Social Security No.: _____

In connection with your award of Performance Restricted Stock Unit on _____ under the Health Care Property Investors, Inc. 2000 Stock Incentive Plan, as amended and/or restated from time to time (the "Plan"), you have the option of selecting the timing and form of payment of the shares of Common Stock underlying your vested Units.

Please complete this election form and return it to Edward J. Henning, the Company's General Counsel and Corporate Secretary.

Deferral of Distribution Date

Unless you elect otherwise, the Distribution Date for your vested Units will be the Vesting Date with respect to such vested Units. You may elect a new Distribution Date with respect to some or all of the Tranches by completing the deferral election grid below.

Please note that your new Distribution Date with respect to a Tranche can take any of the following forms:

- You may elect a date certain for your Distribution Date (*e.g.*, January 1, 2010),
- You may elect a specific event as your Distribution Date (*e.g.*, termination of employment, age 65, death, etc.), or
- You may elect a Distribution Date that is the earlier of two dates/events (*e.g.*, the earlier of January 1, 2010, or termination of your employment).

In order for an election to defer the Distribution Date with respect to any of your vested Units to be valid it must be made at least one year prior to the then-existing Distribution Date and the new Distribution Date must be no earlier than at least one year after the then-existing Distribution Date. If your election to defer your Distribution Date is not timely, it will not be valid.

You acknowledge and understand that by electing a new Distribution Date with respect to one or more of the Tranches, you are hereby revoking the then-existing Distribution Date with respect to such Tranche(s). You further acknowledge and agree that the distribution of the shares of Common Stock underlying your Units may coincide with a period during which you are prohibited from selling, disposing or otherwise transferring such shares pursuant to the Company's Insider Trading Policy, or by law, and therefore, you may not be able to sell, dispose or otherwise transfer such shares to pay any sums required by federal, state or local tax law to be withheld with respect to the issuance of such shares.

<u>Tranche</u>	<u>Number of Units subject to Tranche</u>	<u>Vesting Date</u>	<u>New Distribution Date</u>
1	Maximum of _____ Units		
2	Maximum of _____ Units		
3	Maximum of _____ Units		
4	Maximum of _____ Units		
5	Maximum of _____ Units		

Form of Payment

Distribution of all of your vested Units underlying a Tranche will be made in shares of Common Stock on the Distribution Date with respect to such Units. For example, all of your vested Units under Tranche 1 will be distributed to you on the Vesting Date with respect to Tranche 1 (unless you elect to defer your Distribution Date as provided above). You may, however, elect to stagger distribution of your vested Units underlying one or more of the Tranches in the form of two or more annual installments. For example, if you elect to stagger distribution of your vested Units underlying Tranche 1 in five equal installments, your vested Units will be distributed to you in five equal payments on the Distribution Date with respect to Tranche 1 and each of the first four anniversaries of the Distribution Date for Tranche 1.

If you elect to stagger distribution of any or all of your vested Units underlying a Tranche, you must elect a number of equal annual installments which will result in a distribution of at least 1,000 shares of Common Stock per installment with respect to such Tranche. Any election to change your form of distribution with respect to any vested Units must be made at least one year prior to the Distribution Date for such Units. If your election is not timely, it will not be valid.

PERFORMANCE RESTRICTED STOCK UNIT AGREEMENT

James F. Flaherty III, Grantee:

On the ____ day of _____ (the "Grant Date"), Health Care Property Investors, Inc., a Maryland corporation (the "Company"), pursuant to the Health Care Property Investors, Inc. 2000 Stock Incentive Plan, as amended and/or restated from time to time (the "Plan"), has granted to you, the Grantee named above, _____ performance restricted stock units (the "Units") with respect to _____ shares of Common Stock on the terms and conditions set forth in this Performance Restricted Stock Unit Agreement (this "Agreement"). The Units are subject to adjustment as provided in Section 11(a) of the Plan. Capitalized terms not defined herein shall have the meanings assigned to such terms in the Plan. The Compensation Committee (the "Committee") of the Board of Directors of the Company (the "Board") is the administrator of the Plan for purposes of your Units.

I. Forfeiture of Units.

(a) Forfeiture Based Upon Company Performance. Your Units are subject to forfeiture if the Company's Funds From Operations Per Share for the 2004 calendar year (the "Performance Period") is less than \$ _____. If the Company's Funds From Operations Per Share for the Performance Period is less than \$ _____, the aggregate percentage of Units that you will forfeit will be determined in accordance with Exhibit A hereto. For purposes of this Agreement, "Funds From Operations Per Share" means the Company's funds from operations per share during the Performance Period, as prescribed by the National Association of Real Estate Investment Trusts (NAREIT) as in effect on the first day of the Performance Period, and shall be calculated on a fully diluted basis using the weighted average of diluted shares of Common Stock outstanding during the Performance Period. Funds From Operations Per Share shall be calculated before taking into account any charges incurred by the Company with respect to the Performance Period for (i) amounts paid in connection with the settlement of disputes with employees or former employees regarding their employment or former employment with the Company or the payment of severance benefits and (ii) impairment. The determination as to whether the Company has attained the performance goals with respect to the Performance Period shall be made by the Committee acting in good faith and based upon the Company's audited financial statements. The Committee's determination regarding whether the Company has attained the performance goals shall be made no later than 120 days following the end of the Performance Period. Your Units shall not vest in accordance with Section 2 unless and until the Company has achieved the performance goals with respect to the Performance Period, as required by Section 162(m) of the Code and the regulations promulgated thereunder.

(b) Termination due to Retirement during the Performance Period. Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) upon completion of the Performance Period if, prior to the completion of the Performance Period, your employment with the Company is terminated as a result of your Retirement. In the event of any such termination during the Performance Period, any Units not forfeited pursuant to subsection (a) shall fully vest as of the first day following the completion of the Performance Period.

(c) Termination Other Than For Cause under Employment Agreement during the Performance Period Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) upon completion of the Performance Period if, prior to the completion of the Performance Period, your employment with the Company is “Terminated Other Than For Cause” as defined in, and otherwise pursuant to the terms of, your Employment Agreement with the Company dated October 8, 2002, as the same may be amended or restated from time to time and any successor agreement (the “Employment Agreement”). In the event of any such termination during the Performance Period, any Units not forfeited pursuant to subsection (a) shall fully vest as of the first day following the completion of the Performance Period.

(d) Change in Control during the Performance Period.

(i) Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) in the event of a Change in Control occurring during the Performance Period. In such event, any Units not forfeited pursuant to subsection (a) shall be deemed restricted stock under your Employment Agreement and shall fully vest as of the first day following the completion of the Performance Period.

(ii) Notwithstanding the foregoing, the Committee may, in its sole and absolute discretion, take action to fully vest your Units immediately prior to, and subject to the consummation of, a Change in Control occurring during the Performance Period. Any Units that become vested in accordance with this subsection (d)(ii) shall not be subject to forfeiture in the manner set forth in subsection (a).

(e) Forfeiture of Units Upon Other Terminations. If at any time during the Performance Period, your employment with the Company is terminated (i) by the Company, or (ii) by you, excluding any Termination Other Than For Cause pursuant to your Employment Agreement, or any termination by reason of your Retirement, death or Disability, or any termination that occurs upon or after a Change in Control, all of your Units shall be automatically forfeited and cancelled in full effective as of such termination of employment and this Agreement shall be null and void and of no further force and effect.

II. Vesting.

(a) Vesting of Non-Forfeited Units. You will have no further rights with respect to any Units that are forfeited in accordance with Section I. Subject to the terms and conditions of this Agreement, your Units that (i) are not forfeited in accordance with Section I and (ii) do not otherwise vest in accordance with Section I, if any, shall vest upon the third anniversary of the Grant Date (the “Vesting Date”), subject to your continuous service to the Company until the Vesting Date.

(b) Termination for death or Disability. If at any time during the Performance Period or following the completion of the Performance Period, your employment with the Company is terminated as a result of your death or Disability, your Units shall fully vest immediately upon such termination of employment. For the avoidance of doubt, any Units that become vested in accordance with this subsection (b) during the Performance Period shall not be subject to the forfeiture provisions of Section I(a).

(c) Termination Other Than For Cause or by reason of Retirement following the Performance Period. If at any time following the completion of the Performance Period, your employment with the Company is (i) Terminated Other Than For Cause pursuant to your Employment Agreement, or (ii) terminated as a result of your Retirement, your unvested Units shall fully vest immediately upon such termination of employment.

(d) Acceleration Upon Failure to Offer Employment Agreement on Substantially Similar Terms. Notwithstanding anything herein to the contrary, your unvested Units shall fully vest upon the expiration of your Employment Agreement on October 8, 2005 in the event the Company fails to offer you an extension of your Employment Agreement prior to such expiration on substantially the same terms and conditions as then in existence.

(e) No Acceleration or Vesting Upon Other Terminations. If at any time following the completion of the Performance Period, your employment with the Company is terminated (i) by the Company, or (ii) by you, excluding any Termination Other Than For Cause pursuant to your Employment Agreement, or any termination by reason of your Retirement, death or Disability, or any termination that occurs upon or after a Change in Control, your unvested Units shall be automatically forfeited and cancelled in full effective as of such termination of employment.

III. Change in Control following the Performance Period.

(a) In the event of a Change in Control at any time following the completion of the Performance Period, your Units shall be deemed to be "restricted stock" under your Employment Agreement and your Units shall vest fully upon such Change in Control as provided in your Employment Agreement.

(b) Notwithstanding the foregoing, in the event of a pending or threatened takeover bid or tender offer at any time following the completion of the Performance Period and pursuant to which 10% or more of the outstanding securities of the Company is acquired, whether or not deemed a tender offer under applicable state or Federal laws, or in the event that any person makes any filing under Sections 13(d) or 14(d) of the Securities Exchange Act of 1934 with respect to the Company, the Committee may in its sole discretion make the Units fully vested.

IV. Timing and Form of Payment.

(a) Unless you elect otherwise, the distribution date (the "Distribution Date") for your vested Units will be the Vesting Date. Distribution of your vested Units will be made by the Company in shares of Common Stock (on a one-to-one basis) on the Distribution Date. You will only receive distributions in respect of your vested Units and will have no right to distribution of your unvested Units. You may elect (a "Distribution Election") to (A) defer your Distribution Date with respect to your vested Units and/or (B) have your vested Units distributed to you in annual installments over a fixed number of years selected by you; provided that each installment payment must be for a minimum of 1,000 shares of Common Stock. You may make up to three Distribution Elections with respect to your vested Units without the approval of the Committee, provided such Distribution Election is made in a timely manner. Any Distribution Elections with respect to your vested Units in addition to the three provided in the preceding sentence may only be made with the approval of the Committee, in its sole

discretion. If you elect to have your vested Units distributed in annual installments, the first installment will be paid on the Distribution Date and subsequent installments will be paid on each of the anniversaries of the Distribution Date. In order for a Distribution Election to be valid, it must be made at least one year prior to the then-existing Distribution Date and the new Distribution Date must be at least one year after the then-existing Distribution Date. Your Distribution Date with respect to any portion of your Units may not be prior to the Vesting Date for such vested Units. Distribution Elections may only be made by delivering a written election to the Committee in the form attached as Exhibit B hereto.

(b) Accelerated Distributions. At any time prior to the Distribution Date with respect to any or all of your vested Units, you may elect an immediate distribution (the “Accelerated Distribution”) of such vested Units by delivering a written election to the Committee in the form attached as Exhibit B hereto; provided, however, that if you make such election, you will forfeit 10% of the Units that would otherwise be distributed to you pursuant to the Accelerated Distribution.

(c) Hardship Distribution. If you experience an Unforeseen Financial Emergency (as defined below) you may elect to receive immediate distribution of some or all of your vested Units upon such Unforeseen Financial Emergency. Distribution upon an Unforeseen Financial Emergency shall be made no later than thirty (30) days following written notice to the Committee of the Unforeseen Financial Emergency. For purposes of this Agreement, an “Unforeseen Financial Emergency” shall mean an unforeseeable emergency which constitutes a severe financial hardship resulting from any one or more of the following: (i) your or any of your dependent’s (as defined in Section 152(a) of the Code) sudden and unexpected illness or accident, (ii) loss of your property due to casualty; or (iii) any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond your control, all as reasonably determined by the Committee in good faith. No distribution shall be made in respect of an Unforeseen Financial Emergency unless such Unforeseen Financial Emergency is not otherwise relievable by liquidation of your assets (to the extent such liquidation does not itself cause an Unforeseen Financial Emergency) or through reimbursement or compensation by insurance or otherwise. Any distribution of your vested Units as a result of an Unforeseen Financial Emergency shall be limited to the amount reasonably necessary to relieve the Unforeseen Financial Emergency (which may include amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the distribution).

(d) Distribution Upon Adverse Judgment. Notwithstanding anything to the contrary in this Section IV, your vested Units shall be become immediately distributable to you if (A) the Internal Revenue Service (the “IRS”) successfully challenges, in a court of competent jurisdiction, any deferral election made by you in accordance with subsection (a) with respect to such Units, and (B) as a result of which, you have a taxable event with respect to such Units. Such distribution shall be made no later than thirty (30) days following the final judgment of a court of competent jurisdiction upholding the position of the IRS with respect to the taxation of such Units.

V. Dividend Equivalent Rights. During such time as each Unit remains outstanding and prior to the distribution of such Unit in accordance with Section IV, you will have the right to receive, in cash, with respect to such Unit, the amount of any cash dividend paid on a share of Common Stock (a “Dividend Equivalent Right”). You will have a Dividend

Equivalent Right with respect to each Unit that is outstanding on the record date of such dividend. Dividend Equivalent Rights will be paid to you at the same time dividends are paid to stockholders of the Company. Dividend Equivalent Rights will not be paid to you with respect to any Units that are forfeited pursuant to Sections I and II, effective as of the date such Units are forfeited. You will have no Dividend Equivalent Rights as of the record date of any such cash dividend in respect of any Units that have been paid in Common Stock; provided that you are the record holder of such Common Stock on or before such record date.

VI. Transferability. No benefit payable under, or interest in, the Units or this Agreement shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge and any such attempted action shall be void and no such benefit or interest shall be, in any manner, liable for, or subject to, your or your beneficiary's debts, contracts, liabilities or torts; *provided, however*, nothing in this Section VI shall prevent transfer of your Units by will or by applicable laws of descent and distribution. You may designate a beneficiary to receive distribution of your vested Units upon your death by submitting a written beneficiary designation to the Committee in the form attached hereto as Exhibit B. You may revoke a beneficiary designation by submitting a new beneficiary designation.

VII. Withholding. You will be required to pay in cash or deduction from other compensation payable to you by the Company any sums required by federal, state or local tax law to be withheld with respect to the issuance, vesting or payment of Units and the payment of Dividend Equivalent Rights. At your election and in satisfaction of the foregoing requirement, the Company will withhold shares of Common Stock underlying the Units and otherwise issuable in accordance with paragraph 2, in the manner prescribed by, and subject to the limitations of, Section 12 of the Plan, in satisfaction of such withholding obligations.

VIII. No Contract for Employment. This Agreement is not an employment or service contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ or service of the Company, or of the Company to continue your employment or service with the Company.

IX. Notices. Any notices provided for in this Agreement or the Plan, including a Deferral Election, shall be given in writing and shall be deemed effectively given upon receipt if delivered by hand or, in the case of notices delivered by United States mail, five (5) days after deposit in the United States mail, postage prepaid, addressed, as applicable, to the Company or if to you, at such address as is currently maintained in the Company's records or at such other address as you hereafter designate by written notice to the Company.

X. Entire Agreement. This Agreement and the Employment Agreement contains the entire understanding of the parties in respect of the Units and supersedes upon its effectiveness all other prior agreements and understandings between the parties with respect to the Units. In the event of any discrepancy between this Agreement and the Employment Agreement, the Employment Agreement shall control.

XI. Amendment. This Agreement may be amended by the Committee; provided, however that no such amendment shall, without your consent, alter, terminate, impair or adversely affect your rights under this Agreement.

XII. Governing Law. This Agreement shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the laws of the State of California, without regard to conflicts of law provisions thereof.

XIII. Tax Consequences. You may be subject to adverse tax consequences as a result of the issuance, vesting and/or distribution of your Units. YOU ARE ENCOURAGED TO CONSULT A TAX ADVISOR AS TO THE TAX CONSEQUENCES OF YOUR UNITS AND SUBSEQUENT DISTRIBUTION OF COMMON STOCK.

Very truly yours,
HEALTH CARE PROPERTY INVESTORS, INC.

By: _____

Name: Michael D. McKee
Title: Director

And: _____

Name: Edward J. Henning
Title: Senior Vice President, General Counsel and
Corporate Secretary

Accepted and Agreed,
effective as of the date first written above.

By: _____

Name: James F. Flaherty III

PERFORMANCE GOALS

Funds From Operations Per Share

Aggregate Percentage Forfeited
(Number of Units Forfeited)

\$ _____ or greater	0% (0)
Equal to or greater than \$ _____ but less than \$ _____	2% (_____)
Equal to or greater than \$ _____ but less than \$ _____	4% (_____)
Equal to or greater than \$ _____ but less than \$ _____	6% (_____)
Equal to or greater than \$ _____ but less than \$ _____	8% (_____)
Equal to or greater than \$ _____ but less than \$ _____	10% (_____)
Equal to or greater than \$ _____ but less than \$ _____	12% (_____)
Equal to or greater than \$ _____ but less than \$ _____	14% (_____)
Equal to or greater than \$ _____ but less than \$ _____	16% (_____)
Equal to or greater than \$ _____ but less than \$ _____	18% (_____)
Equal to or greater than \$ _____ but less than \$ _____	20% (_____)
Equal to or greater than \$ _____ but less than \$ _____	22% (_____)
Equal to or greater than \$ _____ but less than \$ _____	24% (_____)
Equal to or greater than \$ _____ but less than \$ _____	26% (_____)
Equal to or greater than \$ _____ but less than \$ _____	28% (_____)
Equal to or greater than \$ _____ but less than \$ _____	30% (_____)
Equal to or greater than \$ _____ but less than \$ _____	32% (_____)
Equal to or greater than \$ _____ but less than \$ _____	34% (_____)
Equal to or greater than \$ _____ but less than \$ _____	36% (_____)
Equal to or greater than \$ _____ but less than \$ _____	38% (_____)
Equal to or greater than \$ _____ but less than \$ _____	40% (_____)
Equal to or greater than \$ _____ but less than \$ _____	50% (_____)
Equal to or greater than \$ _____ but less than \$ _____	60% (_____)
Equal to or greater than \$ _____ but less than \$ _____	70% (_____)
Equal to or greater than \$ _____ but less than \$ _____	80% (_____)
Equal to or greater than \$ _____ but less than \$ _____	90% (_____)
Equal to or greater than \$ _____ but less than \$ _____	100% (_____)

HEALTH CARE PROPERTY INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

RESTRICTED STOCK UNITS
DISTRIBUTION ELECTION AND BENEFICIARY DESIGNATION FORM

Name: James F. Flaherty III

Social Security No.: _____

In connection with your award of Performance Restricted Stock Unit on _____ under the Health Care Property Investors, Inc. 2000 Stock Incentive Plan, as amended and/or restated from time to time (the "Plan"), you have the option of selecting the timing and form of payment of the shares of Common Stock underlying your vested Units.

Please complete this election form and return it to Edward J. Henning, the Company's General Counsel and Corporate Secretary.

Deferral of Distribution Date

Unless you elect otherwise, the Distribution Date for your vested Units will be the Vesting Date. You may elect a new Distribution Date with respect to your vested Units by completing the information request below. **Please note that your new Distribution Date can take any of the following forms:**

- You may elect a date certain for your Distribution Date (*e.g.*, January 1, 2010),
- You may elect a specific event as your Distribution Date (*e.g.*, termination of employment, age 65, death, etc.), or
- You may elect a Distribution Date that is the earlier of two dates/events (*e.g.*, the earlier of January 1, 2010, or termination of your employment).

In order for an election to defer the Distribution Date with respect to any of your vested Units to be valid it must be made at least one year prior to the then-existing Distribution Date and the new Distribution Date must be no earlier than at least one year after the then-existing Distribution Date. If your election to defer your Distribution Date is not timely, it will not be valid.

You acknowledge and understand that by electing a new Distribution Date with respect to your vested Units, you are hereby revoking the then-existing Distribution Date. You further acknowledge and agree that the distribution of the shares of Common Stock underlying your Units may coincide with a period during which you are prohibited from selling, disposing or otherwise transferring such shares pursuant to the Company's Insider Trading Policy, or by law, and therefore, you may not be able to sell, dispose or otherwise transfer such shares to pay any sums required by federal, state or local tax law to be withheld with respect to the issuance of such shares.

PERFORMANCE RESTRICTED STOCK UNIT AGREEMENT

_____, Grantee:

On the ____ day of _____ (the "Grant Date"), Health Care Property Investors, Inc., a Maryland corporation (the "Company"), pursuant to the Health Care Property Investors, Inc. 2000 Stock Incentive Plan, as amended and/or restated from time to time (the "Plan"), has granted to you, the Grantee named above, _____ performance restricted stock units (the "Units") with respect to _____ shares of Common Stock on the terms and conditions set forth in this Performance Restricted Stock Unit Agreement (this "Agreement") and the Plan. The Units are subject to adjustment as provided in Section 11(a) of the Plan. Capitalized terms not defined herein shall have the meanings assigned to such terms in the Plan. The Compensation Committee (the "Committee") of the Board of Directors of the Company (the "Board") is the administrator of the Plan for purposes of your Units.

I. Forfeiture of Units.

(a) Forfeiture Based Upon Company Performance. Your Units are subject to forfeiture if the Company's Funds From Operations Per Share for the 2004 calendar year (the "Performance Period") is less than \$ _____. If the Company's Funds From Operations Per Share for the Performance Period is less than \$ _____, the aggregate percentage of Units that you will forfeit will be determined in accordance with Exhibit A hereto. For purposes of this Agreement, "Funds From Operations Per Share" means the Company's funds from operations per share during the Performance Period, as prescribed by the National Association of Real Estate Investment Trusts (NAREIT) as in effect on the first day of the Performance Period, and shall be calculated on a fully diluted basis using the weighted average of diluted shares of Common Stock outstanding during the Performance Period. Funds From Operations Per Share shall be calculated before taking into account any charges incurred by the Company with respect to the Performance Period for (i) amounts paid in connection with the settlement of disputes with employees or former employees regarding their employment or former employment with the Company or the payment of severance benefits and (ii) impairment. The determination as to whether the Company has attained the performance goals with respect to the Performance Period shall be made by the Committee acting in good faith and based upon the Company's audited financial statements. The Committee's determination regarding whether the Company has attained the performance goals shall be made no later than 120 days following the end of the Performance Period. Your Units shall not vest in accordance with Section 2 unless and until the Company has achieved the performance goals with respect to the Performance Period, as required by Section 162(m) of the Code and the regulations promulgated thereunder.

(b) Termination due to Retirement during the Performance Period.

(i) Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) upon completion of the Performance Period if, prior to the completion of the Performance

Period, your employment with the Company is terminated as a result of your Retirement. In the event of any such termination of employment during the Performance Period, any Units not forfeited pursuant to subsection (a) shall fully vest as of the first day following the completion of the Performance Period.

(c) Change in Control during the Performance Period.

(i) Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) in the event of a Change in Control occurring during the Performance Period. In such event, any Units not forfeited pursuant to subsection (a) shall fully vest as of the first day following the completion of the Performance Period; provided, however, that except as otherwise provided in any change in control or other agreement with the Company, your Units shall not be so vested if and to the extent the Units are, in connection with the Change in Control, either to be assumed by the successor or survivor corporation (or parent thereof) or to be replaced with a comparable right with respect to shares of the capital stock of the successor or survivor corporation (or parent thereof), in each case appropriately adjusted. The determination of comparability of rights shall be made by the Committee in good faith. The Committee may adopt provisions to ensure that any such acceleration shall be conditioned upon the consummation of the contemplated Change in Control.

(ii) Notwithstanding the foregoing, the Committee may, in its sole and absolute discretion, take action to fully vest your Units immediately prior to, and subject to the consummation of, a Change in Control occurring during the Performance Period. Any Units that become vested in accordance with this subsection (c)(ii) shall not be subject to forfeiture in the manner set forth in subsection (a).

(d) Forfeiture of Units Upon Certain Terminations of Employment. If at any time during the Performance Period, your employment with the Company is terminated (i) by the Company, or (ii) by you, excluding any termination by reason of your Retirement, death or Disability, all of your Units shall be automatically forfeited and cancelled in full effective as of such termination of employment and this Agreement shall be null and void and of no further force and effect.

II. Vesting.

(a) Vesting of Non-Forfeited Units. You will have no further rights with respect to any Units that are forfeited in accordance with Section I. Subject to the terms and conditions of this Agreement, your Units that (i) are not forfeited in accordance with Section I and (ii) do not otherwise vest in accordance with Section I, if any, shall vest in accordance with the following schedule, subject to your continuous service to the Company until the applicable vesting date. (Vesting amounts pursuant to the following schedule are cumulative.)

<u>Tranche</u>	<u>Percentage of Non-Forfeited Units that vest (number of Units)</u>	<u>Vesting Date</u>
1	20% (up to a maximum of ____)	1 st Anniversary of Grant Date
2	20% (up to a maximum of ____)	2 nd Anniversary of Grant Date
3	20% (up to a maximum of ____)	3 rd Anniversary of Grant Date
4	20% (up to a maximum of ____)	4 th Anniversary of Grant Date
5	20% (up to a maximum of ____)	5 th Anniversary of Grant Date

(b) Termination for death or Disability. If at any time during the Performance Period or following the completion of the Performance Period, your employment with the Company is terminated as a result of your death or Disability, your Units shall fully vest immediately upon such termination of employment. For the avoidance of doubt, any Units that become vested in accordance with this subsection (b) during the Performance Period shall not be subject to the forfeiture provisions of Section I(a).

(c) Termination by reason of Retirement following the Performance Period. If at any time following the completion of the Performance Period, your employment with the Company is terminated as a result of your Retirement, your unvested Units shall fully vest immediately upon such termination of employment.

(d) No Acceleration or Vesting Upon Other Terminations. If at any time following the completion of the Performance Period, your employment with the Company is terminated (i) by the Company, or (ii) by you, excluding any termination by reason of your Retirement, death or Disability, your unvested Units shall be automatically forfeited and cancelled in full effective as of such termination of employment.

III. Change in Control following the Performance Period.

(a) In the event of a Change in Control at any time following the completion of the Performance Period, your Units shall vest immediately prior to the effective date of the Change in Control; provided, however, that except as otherwise provided in any change in control or other agreement with the Company, your Units shall not be so vested if and to the extent the Units are, in connection with the Change in Control, either to be assumed by the successor or survivor corporation (or parent thereof) or to be replaced with a comparable right with respect to shares of the capital stock of the successor or survivor corporation (or parent thereof), in each case appropriately adjusted. The determination of comparability of rights shall be made by the Committee, and such determination, to the extent reasonable and made in good faith, shall be final, binding and conclusive. The Committee may make such reasonable

determinations and adopt such rules and conditions as it, in good faith, deems appropriate in connection with such acceleration of vesting of your Units, including, but not by way of limitation, provisions to ensure that any such acceleration shall be conditioned upon the consummation of the contemplated Change in Control.

(b) Notwithstanding the foregoing, in the event of a pending or threatened takeover bid or tender offer at any time following the completion of the Performance Period and pursuant to which 10% or more of the outstanding securities of the Company is acquired, whether or not deemed a tender offer under applicable state or Federal laws, or in the event that any person makes any filing under Sections 13(d) or 14(d) of the Securities Exchange Act of 1934 with respect to the Company, the Committee may in its sole discretion:

(i) Make the Units fully vested; or

(ii) Make any other reasonable adjustments or amendments to the Units or substitute new units on substantially similar terms.

IV. Timing and Form of Payment.

(a) Unless you elect otherwise, the distribution date (the “Distribution Date”) for your vested Units will be the Vesting Date with respect to such vested Units. Distribution of your vested Units will be made by the Company in shares of Common Stock (on a one-to-one basis) on the Distribution Date with respect to such vested Units. You will only receive distributions in respect of your vested Units and will have no right to distribution of your unvested Units. You may elect (a “Distribution Election”) to (A) defer your Distribution Date with respect to some or all of your vested Units and/or (B) have your vested Units distributed to you in annual installments over a fixed number of years selected by you; provided that each installment payment must be for a minimum of 1,000 shares of Common Stock. You may make up to three Distribution Elections with respect to each Tranche (set forth in Section II (a) above) without the approval of the Committee, provided such Distribution Election is made in a timely manner. Any Distribution Elections with respect to a Tranche in addition to the three provided in the preceding sentence may only be made with the approval of the Committee, in its sole discretion. If you elect to have some or all of your vested Units underlying a Tranche distributed in annual installments, the first installment will be paid on the Distribution Date with respect to such Tranche and subsequent installments will be paid on each of the anniversaries of the Distribution Date with respect to such Tranche during your elected installment period. In order for a Distribution Election to be valid, it must be made at least one year prior to the then-existing Distribution Date with respect to the Units subject to such Distribution Election and the new Distribution Date must be at least one year after the then-existing Distribution Date with respect to such Units. Your Distribution Date with respect to any portion of your Units may not be prior to the Vesting Date for such vested Units. Distribution Elections may only be made by delivering a written election to the Committee in the form attached as Exhibit B hereto.

(b) Accelerated Distributions. At any time prior to the Distribution Date with respect to any or all of your vested Units, you may elect an immediate distribution (the “Accelerated Distribution”) of such vested Units by delivering a written election to the Committee in the form attached as Exhibit B hereto; provided, however, that if you make such election, you will forfeit 10% of the Units that would otherwise be distributed to you pursuant to the Accelerated Distribution.

(c) Hardship Distribution. If you experience an Unforeseen Financial Emergency (as defined below) you may elect to receive immediate distribution of some or all of your vested Units upon such Unforeseen Financial Emergency. Distribution upon an Unforeseen Financial Emergency shall be made no later than thirty (30) days following written notice to the Committee of the Unforeseen Financial Emergency. For purposes of this Agreement, an “Unforeseen Financial Emergency” shall mean an unforeseeable emergency which constitutes a severe financial hardship resulting from any one or more of the following: (i) your or any of your dependent’s (as defined in Section 152(a) of the Code) sudden and unexpected illness or accident, (ii) loss of your property due to casualty; or (iii) any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond your control, all as reasonably determined by the Committee in good faith. No distribution shall be made in respect of an Unforeseen Financial Emergency unless such Unforeseen Financial Emergency is not otherwise relievable by liquidation of your assets (to the extent such liquidation does not itself cause an Unforeseen Financial Emergency) or through reimbursement or compensation by insurance or otherwise. Any distribution of your vested Units as a result of an Unforeseen Financial Emergency shall be limited to the amount reasonably necessary to relieve the Unforeseen Financial Emergency (which may include amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the distribution).

(d) Distribution Upon Adverse Judgment. Notwithstanding anything to the contrary in this Section IV, your vested Units shall be become immediately distributable to you if (A) the Internal Revenue Service (the “IRS”) successfully challenges, in a court of competent jurisdiction, any deferral election made by you in accordance with subsection (a) with respect to such Units, and (B) as a result of which, you have a taxable event with respect to such Units. Such distribution shall be made no later than thirty (30) days following the final judgment of a court of competent jurisdiction upholding the position of the IRS with respect to the taxation of such Units.

V. Dividend Equivalent Rights. During such time as each Unit remains outstanding and prior to the distribution of such Unit in accordance with Section IV, you will have the right to receive, in cash, with respect to such Unit, the amount of any cash dividend paid on a share of Common Stock (a “Dividend Equivalent Right”). You will have a Dividend Equivalent Right with respect to each Unit that is outstanding on the record date of such dividend. Dividend Equivalent Rights will be paid to you at the same time dividends are paid to stockholders of the Company. Dividend Equivalent Rights will not be paid to you with respect to any Units that are forfeited pursuant to Sections I and II, effective as of the date such Units are forfeited. You will have no Dividend Equivalent Rights as of the record date of any such cash dividend in respect of any Units that have been paid in Common Stock; provided that you are the record holder of such Common Stock on or before such record date.

VI. Transferability. No benefit payable under, or interest in, the Units or this Agreement shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge and any such attempted action shall be void and no such benefit

or interest shall be, in any manner, liable for, or subject to, your or your beneficiary's debts, contracts, liabilities or torts; *provided, however*, nothing in this Section VI shall prevent transfer of your Units by will or by applicable laws of descent and distribution. You may designate a beneficiary to receive distribution of your vested Units upon your death by submitting a written beneficiary designation to the Committee in the form attached hereto as Exhibit B. You may revoke a beneficiary designation by submitting a new beneficiary designation.

VII. Withholding. You will be required to pay in cash or deduction from other compensation payable to you by the Company any sums required by federal, state or local tax law to be withheld with respect to the issuance, vesting or payment of Units and the payment of Dividend Equivalent Rights. At your election and in satisfaction of the foregoing requirement, the Company will withhold shares of Common Stock underlying the Units and otherwise issuable in accordance with paragraph 2, in the manner prescribed by, and subject to the limitations of, Section 12 of the Plan, in satisfaction of such withholding obligations.

VIII. No Contract for Employment. This Agreement is not an employment or service contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ or service of the Company, or of the Company to continue your employment or service with the Company.

IX. Notices. Any notices provided for in this Agreement or the Plan, including a Deferral Election, shall be given in writing and shall be deemed effectively given upon receipt if delivered by hand or, in the case of notices delivered by United States mail, five (5) days after deposit in the United States mail, postage prepaid, addressed, as applicable, to the Company or if to you, at such address as is currently maintained in the Company's records or at such other address as you hereafter designate by written notice to the Company.

X. Plan. This Agreement is subject to all the provisions of the Plan and their provisions are hereby made a part of this Agreement. In the event of any conflict between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall control.

XI. Entire Agreement. This Agreement contains the entire understanding of the parties in respect of the Units and supersedes upon its effectiveness all other prior agreements and understandings between the parties with respect to the Units.

XII. Amendment. This Agreement may be amended by the Committee; provided, however that no such amendment shall, without your consent, alter, terminate, impair or adversely affect your rights under this Agreement.

XIII. Governing Law. This Agreement shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the laws of the State of California, without regard to conflicts of law provisions thereof.

XIV. Tax Consequences. You may be subject to adverse tax consequences as a result of the issuance, vesting and/or distribution of your Units. **YOU ARE ENCOURAGED TO CONSULT A TAX ADVISOR AS TO THE TAX CONSEQUENCES OF YOUR UNITS AND SUBSEQUENT DISTRIBUTION OF COMMON STOCK.**

Very truly yours,
HEALTH CARE PROPERTY INVESTORS, INC.

By: _____

Name:

Title:

Accepted and Agreed,
effective as of the date first written above.

By: _____

Name:

PERFORMANCE GOALS

Funds From Operations Per Share

Aggregate Percentage Forfeited
(Number of Units Forfeited)

\$ _____ or greater	0% ()
Equal to or greater than \$ _____ but less than \$ _____	2% ()
Equal to or greater than \$ _____ but less than \$ _____	4% ()
Equal to or greater than \$ _____ but less than \$ _____	6% ()
Equal to or greater than \$ _____ but less than \$ _____	8% ()
Equal to or greater than \$ _____ but less than \$ _____	10% ()
Equal to or greater than \$ _____ but less than \$ _____	12% ()
Equal to or greater than \$ _____ but less than \$ _____	14% ()
Equal to or greater than \$ _____ but less than \$ _____	16% ()
Equal to or greater than \$ _____ but less than \$ _____	18% ()
Equal to or greater than \$ _____ but less than \$ _____	20% ()
Equal to or greater than \$ _____ but less than \$ _____	22% ()
Equal to or greater than \$ _____ but less than \$ _____	24% ()
Equal to or greater than \$ _____ but less than \$ _____	26% ()
Equal to or greater than \$ _____ but less than \$ _____	28% ()
Equal to or greater than \$ _____ but less than \$ _____	30% ()
Equal to or greater than \$ _____ but less than \$ _____	32% ()
Equal to or greater than \$ _____ but less than \$ _____	34% ()
Equal to or greater than \$ _____ but less than \$ _____	36% ()
Equal to or greater than \$ _____ but less than \$ _____	38% ()
Equal to or greater than \$ _____ but less than \$ _____	40% ()
Equal to or greater than \$ _____ but less than \$ _____	50% ()
Equal to or greater than \$ _____ but less than \$ _____	60% ()
Equal to or greater than \$ _____ but less than \$ _____	70% ()
Equal to or greater than \$ _____ but less than \$ _____	80% ()
Equal to or greater than \$ _____ but less than \$ _____	90% ()
Equal to or greater than \$ _____ but less than \$ _____	100% ()

**HEALTH CARE PROPERTY INVESTORS, INC.
2000 STOCK INCENTIVE PLAN**

RESTRICTED STOCK UNITS
DISTRIBUTION ELECTION AND BENEFICIARY DESIGNATION FORM

Name: _____

Social Security No.: _____

In connection with your award of Performance Restricted Stock Unit on _____, ____ under the Health Care Property Investors, Inc. 2000 Stock Incentive Plan, as amended and/or restated from time to time (the "Plan"), you have the option of selecting the timing and form of payment of the shares of Common Stock underlying your vested Units.

Please complete this election form and return it to Edward J. Henning, the Company's General Counsel and Corporate Secretary.

Deferral of Distribution Date

Unless you elect otherwise, the Distribution Date for your vested Units will be the Vesting Date with respect to such vested Units. You may elect a new Distribution Date with respect to some or all of the Tranches by completing the deferral election grid below.

Please note that your new Distribution Date with respect to a Tranche can take any of the following forms:

- You may elect a date certain for your Distribution Date (*e.g.*, January 1, 2010),
- You may elect a specific event as your Distribution Date (*e.g.*, termination of employment, age 65, death, etc.), or
- You may elect a Distribution Date that is the earlier of two dates/events (*e.g.*, the earlier of January 1, 2010, or termination of your employment).

In order for an election to defer the Distribution Date with respect to any of your vested Units to be valid it must be made at least one year prior to the then-existing Distribution Date and the new Distribution Date must be no earlier than at least one year after the then-existing Distribution Date. If your election to defer your Distribution Date is not timely, it will not be valid.

You acknowledge and understand that by electing a new Distribution Date with respect to one or more of the Tranches, you are hereby revoking the then-existing Distribution Date with respect to such Tranche(s). You further acknowledge and agree that the distribution of the shares of Common Stock underlying your Units may coincide with a period during which you are prohibited from selling, disposing or otherwise transferring such shares pursuant to the Company's Insider Trading Policy, or by law, and therefore, you may not be able to sell, dispose or otherwise transfer such shares to pay any sums required by federal, state or local tax law to be withheld with respect to the issuance of such shares.

<u>Tranche</u>	<u>Number of Units subject to Tranche</u>	<u>Vesting Date</u>	<u>New Distribution Date</u>
1	Maximum of _____ Units		
2	Maximum of _____ Units		
3	Maximum of _____ Units		
4	Maximum of _____ Units		
5	Maximum of _____ Units		

Form of Payment

Distribution of all of your vested Units underlying a Tranche will be made in shares of Common Stock on the Distribution Date with respect to such Units. For example, all of your vested Units under Tranche 1 will be distributed to you on the Vesting Date with respect to Tranche 1 (unless you elect to defer your Distribution Date as provided above). You may, however, elect to stagger distribution of your vested Units underlying one or more of the Tranches in the form of two or more annual installments. For example, if you elect to stagger distribution of your vested Units underlying Tranche 1 in five equal installments, your vested Units will be distributed to you in five equal payments on the Distribution Date with respect to Tranche 1 and each of the first four anniversaries of the Distribution Date for Tranche 1.

If you elect to stagger distribution of any or all of your vested Units underlying a Tranche, you must elect a number of equal annual installments which will result in a distribution of at least 1,000 shares of Common Stock per installment with respect to such Tranche. Any election to change your form of distribution with respect to any vested Units must be made at least one year prior to the Distribution Date for such Units. If your election is not timely, it will not be valid.

PERFORMANCE RESTRICTED STOCK UNIT AGREEMENT

_____, Grantee:

On the ____ day of _____ (the "Grant Date"), Health Care Property Investors, Inc., a Maryland corporation (the "Company"), pursuant to the Health Care Property Investors, Inc. 2000 Stock Incentive Plan, as amended and/or restated from time to time (the "Plan"), has granted to you, the Grantee named above, _____ performance restricted stock units (the "Units") with respect to _____ shares of Common Stock on the terms and conditions set forth in this Performance Restricted Stock Unit Agreement (this "Agreement"). The Units are subject to adjustment as provided in Section 11(a) of the Plan. Capitalized terms not defined herein shall have the meanings assigned to such terms in the Plan. The Compensation Committee (the "Committee") of the Board of Directors of the Company (the "Board") is the administrator of the Plan for purposes of your Units.

I. Forfeiture of Units.

(a) Forfeiture Based Upon Company Performance. Your Units are subject to forfeiture if the Company's Funds From Operations Per Share for the 2004 calendar year (the "Performance Period") is less than \$ _____. If the Company's Funds From Operations Per Share for the Performance Period is less than \$ _____, the aggregate percentage of Units that you will forfeit will be determined in accordance with Exhibit A hereto. For purposes of this Agreement, "Funds From Operations Per Share" means the Company's funds from operations per share during the Performance Period, as prescribed by the National Association of Real Estate Investment Trusts (NAREIT) as in effect on the first day of the Performance Period, and shall be calculated on a fully diluted basis using the weighted average of diluted shares of Common Stock outstanding during the Performance Period. Funds From Operations Per Share shall be calculated before taking into account any charges incurred by the Company with respect to the Performance Period for (i) amounts paid in connection with the settlement of disputes with employees or former employees regarding their employment or former employment with the Company or the payment of severance benefits and (ii) impairment. The determination as to whether the Company has attained the performance goals with respect to the Performance Period shall be made by the Committee acting in good faith and based upon the Company's audited financial statements. The Committee's determination regarding whether the Company has attained the performance goals shall be made no later than 120 days following the end of the Performance Period. Your Units shall not vest in accordance with Section 2 unless and until the Company has achieved the performance goals with respect to the Performance Period, as required by Section 162(m) of the Code and the regulations promulgated thereunder.

(b) Termination due to Retirement during the Performance Period.

(i) Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) upon completion of the Performance Period if, prior to the completion of the Performance Period, your employment with the Company is terminated as a result of your Retirement. In the

event of any such termination during the Performance Period, any Units not forfeited pursuant to subsection (a) shall fully vest as of the first day following the completion of the Performance Period.

(c) Change in Control during the Performance Period.

(i) Your Units will remain outstanding during the remainder of the Performance Period and will be subject to forfeiture in the manner set forth in subsection (a) in the event of a Change in Control occurring during the Performance Period. In such event, any Units not forfeited pursuant to subsection (a) shall fully vest as of the first day following the completion of the Performance Period; provided, however, that except as otherwise provided in any change in control or other agreement with the Company, your Units shall not be so vested if and to the extent the Units are, in connection with the Change in Control, either to be assumed by the successor or survivor corporation (or parent thereof) or to be replaced with a comparable right with respect to shares of the capital stock of the successor or survivor corporation (or parent thereof), in each case appropriately adjusted. The determination of comparability of rights shall be made by the Committee in good faith. The Committee may adopt provisions to ensure that any such acceleration shall be conditioned upon the consummation of the contemplated Change in Control.

(ii) Notwithstanding the foregoing, the Committee may, in its sole and absolute discretion, take action to fully vest your Units immediately prior to, and subject to the consummation of, a Change in Control occurring during the Performance Period. Any Units that become vested in accordance with this subsection (c)(ii) shall not be subject to forfeiture in the manner set forth in subsection (a).

(d) Forfeiture of Units Upon Certain Terminations of Employment. If at any time during the Performance Period, your employment with the Company is terminated (i) by the Company, or (ii) by you, excluding any termination by reason of your Retirement, death or Disability, all of your Units shall be automatically forfeited and cancelled in full effective as of such termination of employment and this Agreement shall be null and void and of no further force and effect.

II. Vesting.

(a) Vesting of Non-Forfeited Units. You will have no further rights with respect to any Units that are forfeited in accordance with Section I. Subject to the terms and conditions of this Agreement, your Units that (i) are not forfeited in accordance with Section I and (ii) do not otherwise vest in accordance with Section I, if any, shall vest upon the third anniversary of the Grant Date (the "Vesting Date"), subject to your continuous service to the Company until the Vesting Date.

(b) Termination for death or Disability. If at any time during the Performance Period or following the completion of the Performance Period, your employment with the Company is terminated as a result of your death or Disability, your Units shall fully vest immediately upon such termination of employment. For the avoidance of doubt, any Units that become vested in accordance with this subsection (b) during the Performance Period shall not be subject to the forfeiture provisions of Section I(a).

(c) Termination by reason of Retirement following the Performance Period. If at any time following the completion of the Performance Period, your employment with the Company is terminated as a result of your Retirement, your unvested Units shall fully vest immediately upon such termination of employment.

(d) No Acceleration or Vesting Upon Other Terminations. If at any time following the completion of the Performance Period, your employment with the Company is terminated (i) by the Company, or (ii) by you, excluding any termination by reason of your Retirement, death or Disability, your unvested Units shall be automatically forfeited and cancelled in full effective as of such termination of employment.

III. Change in Control following the Performance Period.

(a) In the event of a Change in Control at any time following the completion of the Performance Period, your Units shall vest immediately prior to the effective date of the Change in Control; provided, however, that except as otherwise provided in any change in control or other agreement with the Company, your Units shall not be so vested if and to the extent the Units are, in connection with the Change in Control, either to be assumed by the successor or survivor corporation (or parent thereof) or to be replaced with a comparable right with respect to shares of the capital stock of the successor or survivor corporation (or parent thereof), in each case appropriately adjusted. The determination of comparability of rights shall be made by the Committee in good faith. The Committee may adopt provisions to ensure that any such acceleration shall be conditioned upon the consummation of the contemplated Change in Control.

(b) Notwithstanding the foregoing, in the event of a pending or threatened takeover bid or tender offer at any time following the completion of the Performance Period and pursuant to which 10% or more of the outstanding securities of the Company is acquired, whether or not deemed a tender offer under applicable state or Federal laws, or in the event that any person makes any filing under Sections 13(d) or 14(d) of the Securities Exchange Act of 1934 with respect to the Company, the Committee may in its sole discretion make the Units fully vested.

IV. Timing and Form of Payment.

(a) Unless you elect otherwise, the distribution date (the "Distribution Date") for your vested Units will be the Vesting Date. Distribution of your vested Units will be made by the Company in shares of Common Stock (on a one-to-one basis) on the Distribution Date. You will only receive distributions in respect of your vested Units and will have no right to distribution of your unvested Units. You may elect (a "Distribution Election") to (A) defer your Distribution Date with respect to your vested Units and/or (B) have your vested Units distributed to you in annual installments over a fixed number of years selected by you; provided that each installment payment must be for a minimum of 1,000 shares of Common Stock. You may make up to three Distribution Elections with respect to your vested Units without the

approval of the Committee, provided such Distribution Election is made in a timely manner. Any Distribution Elections with respect to your vested Units in addition to the three provided in the preceding sentence may only be made with the approval of the Committee, in its sole discretion. If you elect to have your vested Units distributed in annual installments, the first installment will be paid on the Distribution Date and subsequent installments will be paid on each of the anniversaries of the Distribution Date. In order for a Distribution Election to be valid, it must be made at least one year prior to the then-existing Distribution Date and the new Distribution Date must be at least one year after the then-existing Distribution Date. Your Distribution Date with respect to any portion of your Units may not be prior to the Vesting Date for such vested Units. Distribution Elections may only be made by delivering a written election to the Committee in the form attached as Exhibit B hereto.

(b) Accelerated Distributions. At any time prior to the Distribution Date with respect to any or all of your vested Units, you may elect an immediate distribution (the "Accelerated Distribution") of such vested Units by delivering a written election to the Committee in the form attached as Exhibit B hereto; provided, however, that if you make such election, you will forfeit 10% of the Units that would otherwise be distributed to you pursuant to the Accelerated Distribution.

(c) Hardship Distribution. If you experience an Unforeseen Financial Emergency (as defined below) you may elect to receive immediate distribution of some or all of your vested Units upon such Unforeseen Financial Emergency. Distribution upon an Unforeseen Financial Emergency shall be made no later than thirty (30) days following written notice to the Committee of the Unforeseen Financial Emergency. For purposes of this Agreement, an "Unforeseen Financial Emergency" shall mean an unforeseeable emergency which constitutes a severe financial hardship resulting from any one or more of the following: (i) your or any of your dependent's (as defined in Section 152(a) of the Code) sudden and unexpected illness or accident, (ii) loss of your property due to casualty; or (iii) any other similar extraordinary and unforeseeable circumstances arising as a result of events beyond your control, all as reasonably determined by the Committee in good faith. No distribution shall be made in respect of an Unforeseen Financial Emergency unless such Unforeseen Financial Emergency is not otherwise relievable by liquidation of your assets (to the extent such liquidation does not itself cause an Unforeseen Financial Emergency) or through reimbursement or compensation by insurance or otherwise. Any distribution of your vested Units as a result of an Unforeseen Financial Emergency shall be limited to the amount reasonably necessary to relieve the Unforeseen Financial Emergency (which may include amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the distribution).

(d) Distribution Upon Adverse Judgment. Notwithstanding anything to the contrary in this Section IV, your vested Units shall be become immediately distributable to you if (A) the Internal Revenue Service (the "IRS") successfully challenges, in a court of competent jurisdiction, any deferral election made by you in accordance with subsection (a) with respect to such Units, and (B) as a result of which, you have a taxable event with respect to such Units. Such distribution shall be made no later than thirty (30) days following the final judgment of a court of competent jurisdiction upholding the position of the IRS with respect to the taxation of such Units.

V. Dividend Equivalent Rights. During such time as each Unit remains outstanding and prior to the distribution of such Unit in accordance with Section IV, you will have the right to receive, in cash, with respect to such Unit, the amount of any cash dividend paid on a share of Common Stock (a "Dividend Equivalent Right"). You will have a Dividend Equivalent Right with respect to each Unit that is outstanding on the record date of such dividend. Dividend Equivalent Rights will be paid to you at the same time dividends are paid to stockholders of the Company. Dividend Equivalent Rights will not be paid to you with respect to any Units that are forfeited pursuant to Sections I and II, effective as of the date such Units are forfeited. You will have no Dividend Equivalent Rights as of the record date of any such cash dividend in respect of any Units that have been paid in Common Stock; provided that you are the record holder of such Common Stock on or before such record date.

VI. Transferability. No benefit payable under, or interest in, the Units or this Agreement shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge and any such attempted action shall be void and no such benefit or interest shall be, in any manner, liable for, or subject to, your or your beneficiary's debts, contracts, liabilities or torts; *provided, however*, nothing in this Section VI shall prevent transfer of your Units by will or by applicable laws of descent and distribution. You may designate a beneficiary to receive distribution of your vested Units upon your death by submitting a written beneficiary designation to the Committee in the form attached hereto as Exhibit B. You may revoke a beneficiary designation by submitting a new beneficiary designation.

VII. Withholding. You will be required to pay in cash or deduction from other compensation payable to you by the Company any sums required by federal, state or local tax law to be withheld with respect to the issuance, vesting or payment of Units and the payment of Dividend Equivalent Rights. At your election and in satisfaction of the foregoing requirement, the Company will withhold shares of Common Stock underlying the Units and otherwise issuable in accordance with paragraph 2, in the manner prescribed by, and subject to the limitations of, Section 12 of the Plan, in satisfaction of such withholding obligations.

VIII. No Contract for Employment. This Agreement is not an employment or service contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ or service of the Company, or of the Company to continue your employment or service with the Company.

IX. Notices. Any notices provided for in this Agreement or the Plan, including a Deferral Election, shall be given in writing and shall be deemed effectively given upon receipt if delivered by hand or, in the case of notices delivered by United States mail, five (5) days after deposit in the United States mail, postage prepaid, addressed, as applicable, to the Company or if to you, at such address as is currently maintained in the Company's records or at such other address as you hereafter designate by written notice to the Company.

X. Entire Agreement. This Agreement contains the entire understanding of the parties in respect of the Units and supersedes upon its effectiveness all other prior agreements and understandings between the parties with respect to the Units.

XI. Amendment. This Agreement may be amended by the Committee; provided, however that no such amendment shall, without your consent, alter, terminate, impair or adversely affect your rights under this Agreement.

XII. Governing Law. This Agreement shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the laws of the State of California, without regard to conflicts of law provisions thereof.

XIII. Tax Consequences. You may be subject to adverse tax consequences as a result of the issuance, vesting and/or distribution of your Units. **YOU ARE ENCOURAGED TO CONSULT A TAX ADVISOR AS TO THE TAX CONSEQUENCES OF YOUR UNITS AND SUBSEQUENT DISTRIBUTION OF COMMON STOCK.**

Very truly yours,
HEALTH CARE PROPERTY INVESTORS, INC.

By: _____

Name:

Title:

Accepted and Agreed,
effective as of the date first written above.

By: _____

Name:

PERFORMANCE GOALS

Funds From Operations Per Share

Aggregate Percentage Forfeited
(Number of Units Forfeited)

\$ _____ or greater	0% ()
Equal to or greater than \$ _____ but less than \$ _____	2% ()
Equal to or greater than \$ _____ but less than \$ _____	4% ()
Equal to or greater than \$ _____ but less than \$ _____	6% ()
Equal to or greater than \$ _____ but less than \$ _____	8% ()
Equal to or greater than \$ _____ but less than \$ _____	10% ()
Equal to or greater than \$ _____ but less than \$ _____	12% ()
Equal to or greater than \$ _____ but less than \$ _____	14% ()
Equal to or greater than \$ _____ but less than \$ _____	16% ()
Equal to or greater than \$ _____ but less than \$ _____	18% ()
Equal to or greater than \$ _____ but less than \$ _____	20% ()
Equal to or greater than \$ _____ but less than \$ _____	22% ()
Equal to or greater than \$ _____ but less than \$ _____	24% ()
Equal to or greater than \$ _____ but less than \$ _____	26% ()
Equal to or greater than \$ _____ but less than \$ _____	28% ()
Equal to or greater than \$ _____ but less than \$ _____	30% ()
Equal to or greater than \$ _____ but less than \$ _____	32% ()
Equal to or greater than \$ _____ but less than \$ _____	34% ()
Equal to or greater than \$ _____ but less than \$ _____	36% ()
Equal to or greater than \$ _____ but less than \$ _____	38% ()
Equal to or greater than \$ _____ but less than \$ _____	40% ()
Equal to or greater than \$ _____ but less than \$ _____	50% ()
Equal to or greater than \$ _____ but less than \$ _____	60% ()
Equal to or greater than \$ _____ but less than \$ _____	70% ()
Equal to or greater than \$ _____ but less than \$ _____	80% ()
Equal to or greater than \$ _____ but less than \$ _____	90% ()
Equal to or greater than \$ _____ but less than \$ _____	100% ()

HEALTH CARE PROPERTY INVESTORS, INC.
2000 STOCK INCENTIVE PLAN

RESTRICTED STOCK UNITS
DISTRIBUTION ELECTION AND BENEFICIARY DESIGNATION FORM

Name: _____ Social Security No.: _____

In connection with your award of Performance Restricted Stock Unit on _____, _____ under the Health Care Property Investors, Inc. 2000 Stock Incentive Plan, as amended and/or restated from time to time (the "Plan"), you have the option of selecting the timing and form of payment of the shares of Common Stock underlying your vested Units.

Please complete this election form and return it to Edward J. Henning, the Company's General Counsel and Corporate Secretary.

Deferral of Distribution Date

Unless you elect otherwise, the Distribution Date for your vested Units will be the Vesting Date. You may elect a new Distribution Date with respect to your vested Units by completing the information request below. **Please note that your new Distribution Date can take any of the following forms:**

- You may elect a date certain for your Distribution Date (*e.g.*, January 1, 2010),
- You may elect a specific event as your Distribution Date (*e.g.*, termination of employment, age 65, death, etc.), or
- You may elect a Distribution Date that is the earlier of two dates/events (*e.g.*, the earlier of January 1, 2010, or termination of your employment).

In order for an election to defer the Distribution Date with respect to any of your vested Units to be valid it must be made at least one year prior to the then-existing Distribution Date and the new Distribution Date must be no earlier than at least one year after the then-existing Distribution Date. If your election to defer your Distribution Date is not timely, it will not be valid.

You acknowledge and understand that by electing a new Distribution Date with respect to your vested Units, you are hereby revoking the then-existing Distribution Date. You further acknowledge and agree that the distribution of the shares of Common Stock underlying your Units may coincide with a period during which you are prohibited from selling, disposing or otherwise transferring such shares pursuant to the Company's Insider Trading Policy, or by law, and therefore, you may not be able to sell, dispose or otherwise transfer such shares to pay any sums required by federal, state or local tax law to be withheld with respect to the issuance of such shares.

I elect the following Distribution Date with respect to the shares of Common Stock underlying my Units: _____.

Form of Payment

Distribution of all of your vested Units will be made in shares of Common Stock on the Distribution Date with respect to such Units. You may, however, elect to stagger distribution of your vested Units in the form of two or more annual installments. For example, if you elect to stagger distribution of your vested Units in five equal installments, your vested Units will be distributed to you in five equal payments on the Distribution Date and each of the first four anniversaries of the Distribution Date.

If you elect to stagger distribution of any or all of your vested Units, you must elect a number of equal annual installments which will result in a distribution of at least 1,000 shares of Common Stock per installment. Any election to change your form of distribution with respect to any vested Units must be made at least one year prior to the Distribution Date for such Units. If your election is not timely, it will not be valid.

I elect the following number of annual installments with respect to the distribution of the shares of Common Stock underlying my Units: _____.

I hereby designate the following individual as beneficiary to receive distribution of my vested Units, if any, in the event of my death. Distribution of such vested Units will be in the form, and on the Distribution Date(s), in effect with respect to such vested Units as of the date of my death.

Beneficiary Information

Name: _____

(Please print) *Last* *First* *Middle Initial*

Sex: _____ **Relationship to Participant:** _____

Social Security No.: _____ **Date of Birth:** _____

Address: _____

City: _____ **State:** _____ **Zip Code:** _____

Please retain a copy of this Distribution Election Form for your records.

Signature Date Signed

**AMENDMENT NO. 2
TO AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF HCPI/TENNESSEE, LLC**

THIS AMENDMENT NO. 2 TO AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF HCPI/TENNESSEE, LLC (this "Amendment") is dated as of the 27th day of October, 2004 (the "Effective Date") by HEALTH CARE PROPERTY INVESTORS, INC., a Maryland corporation (the "Managing Member").

RECITALS

A. The Managing Member and each of the persons whose names are set forth on Exhibit A thereto entered into the Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC dated as of October 2, 2003, as amended by that certain Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC dated as of September 29, 2004 (as so amended, the "Operating Agreement"), which provides that the Managing Member is the Managing Member of HCPI/Tennessee, LLC ("HCPI/Tennessee").

B. Pursuant to this Amendment, the Managing Member desires to amend the Operating Agreement to remove certain restrictions on the transfer of non-Managing Member Units in HCPI/Tennessee and to revise certain calculations associated with the distribution of Available Cash to the Members.

C. Pursuant to Sections 14.1 and 14.2 of the Operating Agreement, amendments to the Operating Agreement may be proposed by the Managing Member and require the written consent of a majority in interest of the holders of Non-Managing Member Units in order to become effective.

D. The Managing Member has received the written consent of a majority in interest of the holders of Non-Managing Member Units approving this Amendment.

AGREEMENT

NOW, THEREFORE, the Operating Agreement is hereby amended as of the Effective Date as follows:

1. In Section 11.3.A., the phrase "*provided, however, that notwithstanding the foregoing or any other provisions of this Agreement, any Non-Managing Member may, without the consent of the Managing Member,*" is hereby deleted and replaced with the following:

"provided, however, that notwithstanding the foregoing or any other provisions of this Agreement, any Non-Managing Member may, without offering such Membership Interest to the Non-Managing Members or the Managing Member, and without the consent of the Managing Member".

2. Section 5.1.A is hereby deleted in its entirety and replaced with the following:

“A. The Managing Member shall, subject to Section 5.3, cause the Company to distribute on each LLC Distribution Date and may, in its sole and absolute discretion, cause the Company to distribute on any other date (any such date of distribution pursuant to this Section 5.1.A a “**Distribution Date**”), Available Cash and any Property Appreciation generated by the Company as of the end of the calendar quarter most recently ended prior to such Distribution Date (the “**Payment Quarter**”) as follows:

(1) First, to the holders of the Non-Managing Member Units in accordance with their relative Preferred Return Shortfalls at the end of the Payment Quarter, until the Preferred Return Shortfall at the end of the Payment Quarter is zero;

(2) Second, to the holders of the Managing Member Units until the holders of Managing Member Units have received cumulative distributions in an aggregate amount per unit equal to the excess (the “**Managing Member Shortfall**”) of (x) the amounts previously distributed with respect to each Non-Managing Member Unit pursuant to Sections 5.1.A(1), 5.6.A(1) and 5.6.B(1) over (y) all amounts previously distributed with respect to each Managing Member Unit pursuant to this Section 5.1.A (2) and 5.6.A(2) and 5.6.B(2).

provided, however, that in the event a Reduction Date occurs during any Payment Quarter, a distribution shall be made under this Section 5.1.A(1) on the LLC Distribution Date associated with such Payment Quarter to the holder or holders of the Reduction Units in an amount determined by multiplying the amount that would have been distributed on the Distribution Date under Section 5.1.A(1) in respect of the Reduction Units had they been outstanding on the last day of such Payment Quarter by a fraction, the numerator of which shall be the number of days beginning on the first day of the Payment Quarter relating to the LLC Distribution Date and ending on the Reduction Date and the denominator of which shall be the number of days in the Payment Quarter in which the Reduction Date occurs.”

2. Except as expressly amended hereby, the Operating Agreement remains in full force and effect in accordance with its terms.

3. Capitalized terms used herein but not defined herein shall have the meanings given to them in the Operating Agreement.

[signature page follows]

IN WITNESS WHEREOF, the undersigned has executed this Amendment as of the date first written above.

HEALTH CARE PROPERTY INVESTORS, INC.,
a Maryland corporation

By: _____

Name: Edward J. Henning

Title: Senior Vice President, General Counsel and
Corporate Secretary

Health Care Property Investors, Inc.List of Subsidiaries

Health Care Property Partners, a California general partnership
HCPI/San Antonio Limited Partnership, a Delaware limited partnership
HCPI/Kansas Limited Partnership, a Delaware limited partnership
HCPI/Little Rock, Limited Partnership, a Delaware limited partnership
HCPI/Colorado Springs Limited Partnership, a Delaware limited partnership
Fayetteville Health Associates Limited Partnership, a Delaware limited partnership
Wichita Health Associates Limited Partnership, a Delaware limited partnership
HCPI/Indiana, LLC, a Delaware LLC
HCPI/Utah, LLC, a Delaware LLC
Davis North I, LLC, a Delaware LLC
HCPI/Utah II, LLC, a Delaware LLC
HCPI/Stansbury, LLC, a Delaware LLC
HCPI/Wesley, LLC, a Delaware LLC
Edgewood Assisted Living Center, LLC, a Michigan LLC
Seminole Shores Living Center, LLC, a Michigan LLC
Greenleaf Living Center, LLC, a Michigan LLC
Arborwood Living Center, a Michigan LLC
Perris-Cal Associates, LLC, a California LLC
Ft. Worth-Cal Associates, LLC, a California LLC
Louisiana-Two Associates, LLC, a California LLC
Vista-Cal Associates, LLC, a California LLC
Statesboro Associates, LLC, a California LLC
ARC Richmond Place Real Estate Holdings, LLC, a Delaware LLC
ARC Holland Real Estate Holdings, LLC, a Delaware LLC
ARC Lake Seminole Square Real Estate Holdings, LLC, a Delaware LLC
ARC Sun City Center Real Estate Holdings, LLC, a Delaware LLC
ARC LaBarc Real Estate Holdings, LLC
ARC Brandywine Real Estate Holdings, LLC, a Delaware LLC
HCPI/Tennessee, LLC, a Delaware LLC
Medical Office Buildings of California, LLC, a Delaware LLC
Medical Office Buildings of Utah, LLC, a Delaware LLC
Westminster HCP, LLC, a Delaware LLC
HCP Medical Office Portfolio LLC, a Delaware LLC
Texas HCP, Inc., a Maryland corporation
Texas HCP G.P., Inc., a Delaware corporation
HCPI Mortgage Corp., a Delaware corporation
HCPI Knightdale, Inc., a Delaware corporation
HCPI Trust, a Maryland trust
Health Care Investors III, a California general partnership
AHP of Nevada, Inc., a Nevada corporation
AHP of Washington, Inc. a Washington corporation
Texas HCP Medical G.P., Inc. a Delaware corporation

Texas HCP Holding, L.P., a Delaware limited partnership
Texas HCP Medical Office Buildings, L.P., a Delaware limited partnership
Meadowdome LLC, a Maryland LLC
Birmingham HCP, a Delaware LLC
Jackson HCP, LLC, a Delaware LLC
Tampa HCP, LLC, a Delaware LLC
HCP Medical Office Buildings I, LLC, a Delaware LLC
HCP Medical Office Buildings II, LLC, a Delaware LLC
HCPI/Idaho Falls, LLC, a Delaware LLC
HCP MOP Member, LLC, a Delaware LLC
Medical Office Buildings of Colorado II, LLC, a Delaware LLC
Medical Office Buildings of Nevada Southern Hills, LLC, a Delaware LLC
Medical Office Buildings of Reston, LLC, a Delaware LLC
McKinney HCP GP, LLC, a Delaware LLC
McKinney HCP, L.P., a Delaware limited partnership
Medcap HCPI Development, LLC, a Delaware LLC
Aurora HCP, LLC, a Delaware LLC
Emeritus Realty III, a Delaware LLC
Emeritus Realty V, LLC, a Delaware LLC
ESC-La Casa Grande, LLC, a Delaware LLC
HCP 1101 Madison MOB, LLC, a Delaware LLC
HCP 600 Broadway MOB, LLC, a Delaware LLC
HCP Arnold MOB, LLC, a Delaware LLC
HCP Ballard MOB, LLC, a Delaware LLC
HCP NE Retail, LLC, a Delaware LLC
HCP TRS, Inc., a Delaware corporation
HCP Virginia, Inc., a Delaware corporation
Mission Springs AL, LLC, a Delaware LLC
Overland Park AL, LLC, a Delaware LLC
MOB/GP-West Houston, LLC, a Delaware LLC
MOB-West Houston, L.P., a Delaware limited partnership
MOB/Bay-1 of Florida, LLC, a Delaware LLC

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-28483, Form S-8 No. 333-90353, Form S-8 No. 333-54786, Form S-8 No. 333-54784, Form S-8 No. 333-108838, Form S-3 No. 333-99067, Form S-3 No. 333-99063, Form S-3 No. 333-95487, Form S-3 No. 333-111174, Form S-3 No. 333-110939, Form S-3 No. 333-86654, Form S-3 No. 333-112456 and Form S-3 No. 333-119469) of Health Care Property Investors, Inc. and in the related Prospectus of our reports dated March 9, 2005, with respect to the consolidated financial statements and schedule of Health Care Property Investors, Inc., Health Care Property Investors, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Health Care Property Investors, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/ Ernst & Young LLP

Irvine, California
March 9, 2005

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James F. Flaherty III, certify that:

1. I have reviewed this annual report on Form 10-K of Health Care Property Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2005

/s/ JAMES F. FLAHERTY III

James F. Flaherty III
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Mark A. Wallace, certify that:

1. I have reviewed this annual report on Form 10-K of Health Care Property Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2005

/s/ MARK A. WALLACE

Mark A. Wallace
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Health Care Property Investors, Inc., a Maryland corporation (the "Company"), hereby certifies, to his knowledge, that:

(i) the accompanying annual report on Form 10-K of the Company for the period ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 14, 2005

/s/ MARK A. WALLACE

Mark A. Wallace
*Senior Vice President and Chief Financial
Officer (Principal Financial Officer)*

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