

HEALTH CARE PROPERTY INVESTORS INC

Form 424B5

August 18, 2003

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PROSPECTUS SUPPLEMENT

(To prospectus dated June 10, 2002)

Filed pursuant to Rule 424(b)(5)

Registration No. 333-86654

3,600,000 Shares

Health Care Property Investors, Inc.

7.25% Series E Cumulative Redeemable Preferred Stock

(Liquidation Preference \$25.00 Per Share)

We are offering and selling 3,600,000 shares of our 7.25% Series E Cumulative Redeemable Preferred Stock, par value \$1.00 per share. We will receive all of the net proceeds from the sale of the shares of Series E preferred stock.

Dividends on the Series E preferred stock will be cumulative from the date of original issue and payable quarterly in arrears on or about the last day of March, June, September and December of each year, commencing on December 31, 2003, at the rate of 7.25% of the liquidation preference per year, or \$1.8125 per share of Series E preferred stock per year.

We may not redeem the Series E preferred stock before September 15, 2008, except to preserve our status as a real estate investment trust. On or after September 15, 2008, we may redeem the shares in whole or in part at \$25.00 per share, plus any accrued and unpaid dividends to and including the date of redemption. The Series E preferred stock has no maturity date and will remain outstanding indefinitely unless redeemed. The shares of Series E preferred stock will not be subject to any sinking fund or mandatory redemption and will not be convertible into any of our other securities. Investors in the shares of Series E preferred stock will generally have no voting rights, except under limited circumstances.

The shares of our Series E preferred stock are subject to certain restrictions on ownership and transfer designed to preserve our qualification as a real estate investment trust for federal income tax purposes. See Description of Series E Preferred Stock Restrictions on Ownership and Transfer in this prospectus supplement for more information about these restrictions.

Currently no market exists for the Series E preferred stock. We intend to file an application to list the Series E preferred stock on the New York Stock Exchange. If the application is approved, trading of the Series E preferred stock on the NYSE is expected to begin within 30 days after the date of initial delivery of the Series E preferred stock.

Investing in our Series E preferred stock involves risks that are described in Risk Factors beginning on page S-5 of this prospectus supplement.

	<u>Per Share</u>	<u>Total</u>
Public offering price(1)	\$25.00	\$90,000,000
Underwriting discount	\$.7875	\$2,835,000
Proceeds, before expenses, to us	\$24.2125	\$87,165,000

(1) Plus accrued dividends, if any, from September 15, 2003

The underwriters may also purchase up to an additional 540,000 shares of Series E preferred stock from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Series E preferred stock will be ready for delivery through the facilities of The Depository Trust Company on or about September 15, 2003.

Merrill Lynch & Co.

Goldman, Sachs & Co.

Legg Mason Wood Walker

UBS Investment Bank
Banc of America Securities LLC

Incorporated
Wachovia Securities

BNY Capital Markets, Inc.

McDonald Investments Inc.

Wells Fargo Securities, LLC

The date of this prospectus supplement is August 14, 2003.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary may not contain all the information that may be important to you. You should read the entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference in the accompanying prospectus before making a decision to invest in the Series E preferred stock. Unless otherwise noted, the information in this prospectus supplement assumes no exercise of the underwriters overallotment option.

All references to HCPI, our, us and we in this prospectus supplement and the accompanying prospectus mean Health Care Property Investors, Inc. and its majority-owned subsidiaries and other entities controlled by Health Care Property Investors, Inc., except where it is clear from the context that the term means only the issuer, Health Care Property Investors, Inc.

Our Company

We were organized in 1985 to qualify as a real estate investment trust, or a REIT. We invest in health care related real estate located throughout the United States. We commenced business 18 years ago, making us the second oldest REIT specializing in health care real estate. Since 1986, the debt rating agencies have rated our debt investment grade. As of August 13, 2003, Moody's Investors Service, Standard & Poor's and Fitch rated our senior debt at Baa2, BBB+ and BBB+, respectively. The market value of our common stock was approximately \$2.6 billion as of August 13, 2003.

As of June 30, 2003, our gross investment in our properties, including partnership interests and mortgage loans, was approximately \$3.1 billion and our portfolio of 448 properties in 44 states consisted of:

31 hospitals;

175 long-term care facilities;

126 retirement and assisted living facilities;

85 medical office buildings; and

31 other healthcare facilities.

Our principal offices are located at 4675 MacArthur Court, Suite 900, Newport Beach, California 92660, and our telephone number is (949) 221-0600.

Recent Developments

On August 7, 2003, we announced that we will redeem all 2,400,000 shares of our Series A preferred stock on September 10, 2003 at a redemption price of \$25.00 per share, plus accrued and unpaid dividends to the redemption date. On August 6, 2003, we announced that we expect to redeem all of our outstanding Series B preferred stock, which becomes callable on September 30, 2003.

On July 24, 2003, our Board of Directors declared a quarterly dividend of \$0.83 per common share payable on August 20, 2003 to stockholders of record as of the close of business on August 4, 2003.

On July 10, 2003, we completed a public offering of 1,400,000 shares of our common stock at a net offering price of \$41.50 per share. We received proceeds from the offering of \$58.1 million.

On June 2, 2003, we formed a joint venture with GE Commercial Finance, General Electric Co.'s commercial finance division, to buy up to \$600 million of medical office buildings in the United States. We have a 33% economic interest in the new company, HCP Medical Office Portfolio, LLC. As of the date of this prospectus supplement, no assets have been acquired by the joint venture.

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On June 2, 2003, we announced the election of Richard M. Rosenberg to our board of directors. Mr. Rosenberg is the retired chairman and chief executive officer of BankAmerica Corp. He was appointed chairman and chief executive officer of BankAmerica Corp. in 1990 and served until 1996.

On May 7, 2003, we elected James F. Flaherty III as our President and Chief Executive Officer. Prior to this election, Mr. Flaherty served as our President and Chief Operating Officer. On May 6, 2003, we announced the addition of Talya Nevo-Hacohen as our Senior Vice President Strategic Development and Treasurer.

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The Offering

Issuer	Health Care Property Investors, Inc.
Securities Offered	3,600,000 shares of our 7.25% Series E Cumulative Redeemable Preferred Stock (4,140,000 shares if the underwriters' overallotment option is exercised in full).
Maturity	The Series E preferred stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption.
Use of Proceeds	We expect that the net proceeds from this offering will be approximately \$86.7 million after deducting underwriting discounts and commissions and our expenses (or approximately \$99.7 million if the underwriters exercise their overallotment option in full). We intend to use a portion of the net proceeds from the offering (approximately \$60.9 million) for the repayment of outstanding borrowings made under our revolving lines of credit in order to redeem all of our outstanding 7 7/8% Series A Cumulative Redeemable Preferred Stock on September 10, 2003. We intend to use the remaining proceeds for general corporate and business purposes, which may include the acquisition of additional properties, the repayment of outstanding borrowings under our revolving lines of credit and other obligations and the expected redemption of our outstanding 8.70% Series B Cumulative Redeemable Preferred Stock.
Ranking	The Series E preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of HCPI, rank senior to all classes or series of our common stock and on a parity with our 7 7/8% Series A Cumulative Redeemable Preferred Stock and our 8.70% Series B Cumulative Redeemable Preferred Stock.
Dividends	Investors will be entitled to receive cumulative cash dividends from the date of original issue, payable quarterly in arrears on or about the last day of March, June, September and December of each year, commencing December 31, 2003, at the rate of 7.25% of the liquidation preference per annum (equivalent to \$1.8125 per annum per share). Dividends on the Series E preferred stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared.
Liquidation Preference	If we liquidate, dissolve or wind up, holders of the Series E preferred stock will have the right to receive \$25.00 per share, plus accrued and unpaid dividends to the date of payment, before any payment is made to holders of our common stock. See Description of Series E Preferred Stock Liquidation Preference.
Optional Redemption	The Series E preferred stock is not redeemable prior to September 15, 2008, except in limited circumstances to preserve our status as a REIT. On and after September 15, 2008, the Series E preferred stock will be redeemable for cash at our option in whole or from time to time in part, at \$25.00 per share, plus accrued and unpaid dividends to the redemption date. See Description of Series E Preferred Stock Redemption.

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Voting Rights	Holder s of Series E preferred stock will generally have no voting rights. However, if we do not pay dividends on the Series E preferred stock for six or more quarterly periods, whether or not consecutive, holders of the Series E preferred stock (voting separately as a class with all other classes or series of preferred stock upon which like voting rights have been conferred, including the Series A preferred stock and Series B preferred stock, and are exercisable) will be entitled to vote for the election of two additional directors to serve on our board of directors until all dividend arrearages have been paid.
Conversion	The Series E preferred stock is not convertible into or exchangeable for any other property or securities of HCPI.
Ownership and Transfer Limits	The Series E preferred stock will be subject to certain restrictions on ownership and transfer intended to assist us in maintaining our status as a REIT for United States federal income tax purposes. See Description of Series E Preferred Stock Restrictions on Ownership and Transfer.
Trading	We intend to file an application to list the Series E preferred stock on the New York Stock Exchange. If the application is approved, trading of the Series E preferred stock on the NYSE is expected to commence within 30 days after the date of initial delivery of the Series E preferred stock. The underwriters have advised us that they intend to make a market in the Series E preferred stock prior to commencement of any trading on the NYSE. However, the underwriters will have no obligation to do so, and no assurance can be given that a market for the Series E preferred stock will develop prior to commencement of trading on the NYSE or, if developed, will be maintained.
Risk Factors	An investment in the Series E preferred stock involves various risks, and prospective investors should carefully consider the matters discussed under Risk Factors in this prospectus supplement before making a decision to invest in the Series E preferred stock.

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RISK FACTORS

Set forth below are some of the risks that we believe are material to investors who purchase the Series E preferred stock. In addition to other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, you should carefully consider the following factors before investing in the Series E preferred stock. The information set forth below under the caption Risk Factors supersedes and replaces information set forth in the accompanying prospectus under the caption Risk Factors.

Decline in the assisted living sector and the long-term care industry may have significant adverse consequences to us.

Assisted Living Industry. The assisted living industry has been challenged by overbuilding, slow fill-up rates, rising insurance costs and higher operating costs associated with increased acuity of residents. These challenges have had, and are expected to continue to have, an adverse effect on our assisted living facilities and operators.

Long-Term Care Industry. Certain of our long-term care operators and facilities continue to experience operating problems in part due to a national nursing shortage, increased liability insurance costs, and low levels of Medicaid reimbursement in certain states. In addition, certain temporary Medicare add-on payments enacted in The Balanced Budget Refinement Act of 1999 and Medicare, Medicaid and SCHIP Benefit and Protection Act of 2000 expired on October 1, 2002, resulting in decreased reimbursement to nursing homes.

Certain operators of our assisted living and long-term care facilities have filed for protection under bankruptcy laws, which results in uncertainties in our ability to continue to realize the full benefit of such operators' leases. We cannot assure you that the challenges faced by our assisted living operators and long-term care operators will not have an adverse effect on our operating results or the market price of the Series E preferred stock.

The health care industry is heavily regulated by the government, which may adversely affect our rental and debt payment revenues.

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

the financial ability of lessees 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

our additional rents are based on our lessees' gross revenue from operations in many instances, which in turn are affected by the amount of reimbursement such lessees receive from the government.

The failure of any borrower of funds from us or lessee of any of our properties to comply with such laws and regulations could affect its ability to operate its facility or facilities and could adversely affect such borrower's or lessee's ability to make debt or lease payments to us.

Fraud and Abuse. Various federal and state governments have considered or passed laws that attempt to eliminate fraud and abuse by prohibiting payment arrangements that include compensation for patient referrals. We cannot assure you that our operators are in compliance or will remain in compliance in the future with these laws.

Licensure Risks. Most health care facilities must obtain a license to operate. Failure to obtain licensure or loss of licensure would prevent a facility from operating which could adversely affect the facility operator's ability to make rent and debt payments.

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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 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.

Medicare and Medicaid Programs. Sources of revenue for lessees 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. In addition, the failure of any of our operators to comply with various laws and regulations could jeopardize their ability to continue participating in the Medicare and Medicaid programs.

Cost Control. The healthcare industry has continually faced 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 methodology 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. The ultimate timing or effect of legislative efforts cannot be predicted and may impact us in different ways.

Loss of our tax status as a real estate investment trust would have significant adverse consequences to us and the value of our securities.

We currently operate and have operated commencing with our taxable year ended December 31, 1985 in a manner that is intended to allow us to qualify as a real estate investment trust for federal income tax purposes under the Internal Revenue Code of 1986, as amended.

Qualification as a real estate investment trust 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 real estate investment trust. For example, in order to qualify as a real estate investment trust, 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 net 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 are 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 real estate investment trust 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 real estate investment trust:

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 also could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

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unless we are entitled to relief under statutory provisions, we could not elect to be subject to tax as a real estate investment trust for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a real estate investment trust, all distributions to stockholders would be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits and we would not be required to make distributions to stockholders.

As a result of all these factors, our failure to qualify as a real estate investment trust also could impair our ability to expand our business and raise capital, and may adversely affect the market value of the Series E preferred stock.

Our indebtedness could adversely affect our financial results and prevent us from fulfilling our obligations under the Series E preferred stock.

At June 30, 2003, our total consolidated indebtedness was approximately \$1.4 billion with gross real estate assets of \$3.1 billion. We may be able to borrow substantial additional unsecured indebtedness in the future. If new indebtedness is added to our current debt levels, the related risks that we now face could increase.

Our indebtedness could have important consequences for the holders of the Series E preferred stock, including:

limiting our ability to satisfy our obligations with respect to the Series E preferred stock;

increasing our vulnerability to general adverse economic and industry conditions;

limiting our ability to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements;

requiring a substantial portion of our cash flow from operations for the payment of principal of, and interest on, our indebtedness and reducing our ability to use our cash flow to fund working capital, capital expenditures and general corporate requirements;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry; and

putting us at a disadvantage compared to competitors with less indebtedness.

Our business operations may not generate the cash needed to service our indebtedness and pay dividends on our preferred stock.

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Our ability to make payments on our indebtedness and pay dividends on our preferred stock, including the Series E preferred stock, and to fund planned capital expenditures will depend on our ability to generate cash in the future. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make payments on our indebtedness and pay dividends on our preferred stock, including the Series E preferred stock, or to fund our other liquidity needs.

The Series E preferred stock is a new issue of securities and does not have an established trading market, which may negatively affect their market value and your ability to transfer or sell your shares.

The Series E preferred stock is a new issue of securities with no established trading market. We intend to file an application to list the Series E preferred stock on the NYSE. However, we cannot assure you that the Series E preferred stock will be approved for listing on the NYSE. Even if so approved, trading of the Series E preferred stock on the NYSE is not expected to begin until 30 days after the date of initial delivery of the Series E preferred stock and, in any event, we cannot assure you that an active trading market on the NYSE for the Series E preferred stock will develop or, even if one develops, will be maintained. As a result, the ability to transfer or sell the Series E preferred stock and any trading price of the Series E preferred stock could be

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adversely affected. We have been advised by the underwriters that they intend to make a market in the Series E preferred stock, but they are not obligated to do so and may discontinue market-making at any time without notice.

The market value of the Series E preferred stock could be substantially affected by various factors.

As with other publicly traded securities, the trading price of the Series E preferred stock will depend on many factors, which may change from time to time, including:

prevailing interest rates, increases in which may have an adverse effect on the trading price of the Series E preferred stock;

the market for similar securities issued by REITs;

general economic and financial market conditions; and

our financial condition, performance and prospects.

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CAUTIONARY LANGUAGE REGARDING FORWARD LOOKING STATEMENTS

Statements in this prospectus supplement, the accompanying prospectus and the information incorporated by reference that are not historical factual statements are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward looking statements to be covered by the safe harbor provisions for forward looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this section for purposes of complying with these safe harbor provisions. The statements include, among other things, statements regarding the intent, belief or expectations of HCPI 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. All forward looking statements are statements regarding our expected use of proceeds from this offering, our expected revenue from properties held by Tenet Healthcare Corporation, HealthSouth Corporation, Centennial HealthCare Corporation and Sun Healthcare Group, Inc. under the caption The Company Lessees and Operators in this prospectus supplement and statements as to the adequacy of our future liquidity and sources of capital under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. 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. Investors 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 the caption Risk Factors in this prospectus supplement, you should consider the following:

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 lessees or mortgagors;

Changes in the reimbursement available to our lessees and mortgagors by governmental or private payors, including changes in Medicare and Medicaid payment levels and the availability and cost of third party insurance coverage;

Competition for lessees and mortgagors, including with respect to new leases and mortgages and the renewal or rollover of existing leases;

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;

The ability of our lessees and mortgagors to operate our properties in a manner sufficient to maintain or increase revenues and to generate sufficient income to make rent and loan payments;

The financial weakness of operators in the long-term care and assisted living sectors, including the bankruptcies of certain of our operators, which results in uncertainties in our ability to continue to realize the full benefit of such operators' leases;

Changes in national or regional economic conditions, including changes in interest rates and the availability and cost of capital for HCPI;

The risk that we will not be able to sell or lease facilities that are currently vacant; and

Changes in tax laws or regulations.

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We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward looking events discussed in this prospectus supplement or discussed in or incorporated by reference in the accompanying prospectus may not occur.

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THE COMPANY

We were organized in 1985 to qualify as a real estate investment trust, or a REIT. We invest in health care related real estate located throughout the United States. We commenced business 18 years ago, making us the second oldest REIT specializing in health care real estate. Since 1986, the debt rating agencies have rated our debt investment grade. As of August 13, 2003, Moody's Investors Service, Standard & Poor's and Fitch rated our senior debt at Baa2, BBB+ and BBB+, respectively. The market value of our common stock was approximately \$2.6 billion as of August 13, 2003.

Portfolio of Properties

As of June 30, 2003, our gross investment in our properties, including partnership interests and mortgage loans, was approximately \$3.1 billion. Our portfolio of 448 properties in 44 states consisted of:

31 hospitals;

175 long-term care facilities;

126 retirement and assisted living facilities;

85 medical office buildings; and

31 other health care facilities.

As of June 30, 2003, approximately 56.3% of our annualized cash provided by leases and loans was derived from properties operated or guaranteed by publicly traded health care providers. All amounts relating to our properties in this prospectus supplement are exclusive of assets held for sale.

For purposes of this prospectus supplement, annualized cash provided by leases and loans is intended to be an estimate of cash provided by leases and loans for the 12 months ending June 30, 2004 for assets owned on June 30, 2003 and is calculated as (a) base rents, interest or, in the case of our managed properties, net operating income, to be received by us during the 12 months ended June 30, 2004 under existing contracts; plus (b) additional rents received by us during the 12 months ended June 30, 2003, which were approximately \$26 million in the aggregate; plus or minus (c) adjustments for the following items (to the extent they are expected to impact rents, interest or net operating income during the 12 months ending June 30, 2004): assets held for sale; known or expected changes in rent due to contract expirations or rent resets; and known or expected rent reductions. We calculate the net operating income of our managed properties by subtracting from rent the expenses not covered by the tenant under the gross leases underlying such properties. Our estimates of annualized cash provided by leases and loans are based on management assumptions and the information available to us at the date hereof. Actual annualized cash provided by leases and loans could differ materially from the estimates presented in this prospectus supplement.

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The following paragraphs describe each type of property.

Hospitals. As of June 30, 2003, we had investments in 31 general acute care, long-term acute care and rehabilitation hospitals. Acute care 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 more intensive care, monitoring or emergency back-up than that available in most skilled nursing-based subacute programs. Most long-term acute care hospital patients have severe chronic health problems and are medically unstable or at risk of medical instability. The most common cases treated in this setting include high acuity ventilator-dependent patients and patients with multiple system failures relating to cancer, spinal cord injuries or head injuries.

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Services are paid for by private sources, third party payors (e.g., insurance and HMOs) or through the federal Medicare and state Medicaid programs. Medicare provides reimbursement incentives to traditional general acute care hospitals to minimize inpatient length of stay.

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) or through the federal Medicare program.

Long-Term Care Facilities. As of June 30, 2003, we had investments in 175 long-term care facilities. Various health care providers operate these facilities. Long-term care facilities offer restorative, rehabilitative and custodial nursing care for people not requiring the more extensive and sophisticated treatment available at acute care hospitals. Revenue from ancillary and subacute care services are derived from providing services to residents beyond room and board and include occupational, physical, speech, respiratory and IV therapy, wound care, oncology treatment, brain injury care and orthopedic therapy as well as sales of pharmaceutical products and other services. Certain long-term care facilities provide some of the foregoing services on an out-patient basis. Long-term care facilities are designed to supplement hospital care and many have transfer agreements with one or more acute care hospitals. These facilities depend to some degree upon referrals from practicing physicians and hospitals. Long-term care services are paid for either by private sources, or through the federal Medicare and state Medicaid programs.

Long-term care 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 of 1981, or OBRA, Congress established a waiver program under Medicaid to offer an alternative to institutional long-term care 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 long-term care setting. This is a contributing factor to the recent increase in the number of assisted living facilities, which may adversely affect some long-term care facilities as some individuals choose the residential environment and lower cost delivery system provided in the assisted living setting.

Retirement and Assisted Living Facilities. As of June 30, 2003, we had investments in 126 retirement and assisted living facilities. Retirement living communities offer seniors lifelong shelter and access to specified health care services. In return, residents may pay a lump-sum entrance fee and/or regular monthly payments. Depending on the contract, the entrance fee may be nonrefundable, refundable on a declining basis over time, partially refundable or fully refundable. Retirement living community residents enjoy an independent lifestyle with the knowledge that if their health deteriorates, their needs will continue to be met. Most retirement living communities establish minimum requirements for incoming residents based on age, financial assets, income level and physical health and mobility. In general, residents are expected to move into the community while they are independent and self-reliant.

Assisted living facilities serve elderly persons who require more assistance with daily living activities than congregate care residents, but who do not require the constant supervision nursing homes provide. Services include personal supervision and assistance with eating, bathing, grooming and administering medication. Assisted living facilities typically contain larger common areas for dining, group activities and relaxation to encourage social interaction. Residents typically rent studio and one and two bedroom units on a month-to-month basis. Charges for room and board and other services in the assisted living facilities are generally paid from private sources.

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Medical Office Buildings. As of June 30, 2003, we had investments in 85 medical office buildings. These buildings are generally 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. Medical office buildings require more extensive plumbing, electrical, heating and cooling capabilities than commercial office buildings for sinks, brighter lights and special equipment that physicians typically use. Of our owned medical office buildings, some are master leased on a triple net basis to lessees that then sublease office space to physicians or other medical practitioners, while the remainder are managed by third party property management companies and are leased under triple net leases, or gross or modified gross leases under which we are responsible for certain operating expenses.

Other Health Care Facilities. As of June 30, 2003, we had investments in 31 other health care facilities consisting of physician group practice clinic facilities, health care laboratory and biotech research facilities, and health and wellness centers. Physician group practice clinics generally provide a broad range of medical services through organized physician groups representing various medical specialties. Each clinic facility is generally leased to a single lessee under a triple net or modified gross lease.

Our health care laboratory and biotech research facilities are located on a research campus of a major university. The facilities are designed for and accommodate research and development in the biopharmaceutical industry, drug discovery and development and predictive and personalized medicine.

Health and wellness centers link working adults and their families with a wide array of community services essential for maintaining health, independence and well-being.

The following table summarizes the annualized cash provided by leases and loans by property type and State as of June 30, 2003:

	<u>Hospitals</u>	<u>Long-Term Care Facilities</u>	<u>Retirement & Assisted Living Facilities</u>	<u>Medical Office Buildings</u>	<u>Other Healthcare Facilities</u>	<u>Portfolio Total</u>	<u>Percentage of Portfolio Total</u>
(Dollar amounts in thousands)							
Annualized cash provided by leases and loans by State							
California	\$ 29,153	\$ 5,647	\$ 5,782	\$ 10,686	\$ 4,699	\$ 55,967	16.0%
Texas	8,743	4,309	18,499	10,982		42,533	12.1%
Florida	9,796	5,619	12,713	1,514	1,225	30,867	8.8%
Utah	8,372	521		11,680	6,485	27,058	7.7%
Indiana		17,897	1,493	6,619		26,009	7.4%
Tennessee		11,025	164	1,494	1,463	14,146	4.0%
North Carolina	7,844	4,017	1,460		219	13,540	3.9%
Other (37 States)	37,661	37,100	37,198	24,486	4,278	140,723	40.1%
Total (44 States)	\$ 101,569	\$ 86,135	\$ 77,309	\$ 67,461	\$ 18,369	\$ 350,843	100.0%

Listed below is the gross investment in our properties, including partnership interests and mortgage loans, by property type as of June 30, 2003:

<u>Property Type</u>	<u>Investment</u>	<u>Percentage of Portfolio Total</u>
(Dollar amounts in thousands)		
Hospitals	\$ 799,107	29.0%
Long-Term Care Facilities		