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HCP - Q2 2012 HCP, INC. Earnings Conference Call

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OVERVIEW:

HCP reported 2Q12 FFO per share of $0.69. Expects full-year 2012 FFO per share to be $2.70-2.76 and FFO as adjusted per share to be $2.73-2.79.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second quarter 2012 HCP earnings conference call. My name is Bonnie and I will be your coordinator today. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question and answer session. (Operator Instructions) Now, I would like to turn the presentation over to your host for today's conference call, John Lu, Senior Vice President. You may go ahead, sir.

John Lu - *HCP Inc - SVP*

Thank you, Bonnie. Good afternoon and good morning. Some of the statements made during today's conference call will contain forward-looking statements, including the statements about our guidance. These statements are made as of today's date and reflect the Company's good faith beliefs and best judgment based upon currently available information.

The statements are subject to the risks, uncertainties, and assumptions that are described from time to time in the Company's press releases and SEC filings. Forward-looking statements are not guarantees of future performance. Some of these statements may include projections of financial measures that may not be updated until the next earnings announcement or at all.

Events prior to the Company's next earnings announcement could render the forward-looking statements untrue and the Company expressly disclaims any obligation to update earlier statements as a result of new information. Additionally, certain non-GAAP financial measures will be discussed during the course of this call.

We have provided reconciliations of these measures to the most comparable GAAP measures, as well as certain related disclosures in our supplemental information package and earnings release, each of which has been furnished to the SEC today and is available on our website at www.HCPI.com. I will now turn the call over to our Chairman and CEO, Jay Flaherty.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Thank you, John. Welcome to our second quarter earnings conference call. Joining me today are HCP's Executive Vice President, Chief Investment Officer, Paul Gallagher, and Executive Vice President, Chief Financial Officer, Tim Schoen.

We are enjoying significant momentum, allowing us to increase our FFO, our FAD, and our same-property performance 2012 guidance, realized a significant reduction in our cost of capital, and announced $500 million of acquisitions and an additional $100 million commitment. First, we'll begin with a review of the quarterly results we announced this morning. Tim?

Tim Schoen - *HCP Inc - EVP & CFO*

Thank you, Jay. Today, I will cover four topics -- Second quarter results; investment transactions; financing activities and balance sheet; and finally, updated 2012 guidance. Let me start with our second quarter results. Our same-property portfolio continued to perform well, generating a solid 3.1% cash NOI growth compared to the second quarter last year.

The results were primarily driven by contractual rent increases and occupancy gains in our Life Science and Medical Office portfolios. Paul will review our operating performance by segment in a few minutes. For the second quarter, we reported FFO of $0.69 per share and FAD of $0.56 per share, which included a $7 million or $0.02 charge related to insurance recovery of past G&A expenses.

On a year-over-year basis, FFO as adjusted decreased $0.08 per share and FAD decreased $0.06. The decrease resulted from one-time income totalling $41 million or $0.10 per share, primarily related to the gain from monetizing our Genesis debt investment in the second quarter 2011.

Excluding the one-time items from both periods, year-over-year second quarter FFO as adjusted was flat and FAD increased by $0.02 per share or 3.8%. Switching to investment transactions, subsequent to the end of the first quarter, we announced $559 million of investments encompassing four different property types and three different investment products within our five by five business model.

These transactions are immediately accretive to earnings and include -- one, GBP137 million, or $215 million debt investment in UK-based Four Seasons Healthcare, at a yield of 12.5% in late June; two, $274 million acquisitions of on-campus MOB portfolios that represent 1.2 million square feet in total and include a downREIT component with equity units valued at $41 million; and the assumption of $59 million of mortgage debt at a blended rate of 5.7%.

We expect to close these acquisitions on or before August 31. Three, we made other additional investments of $70 million during the quarter, including $48 million of development and capital improvements, $8 million for a pre leased Life Science development with Duke University, and funding for one additional Senior Housing development loan under our program, bringing the total of committed projects to 6.

Turning now to financing activities and balance sheet. On the capital raising front, we generated total gross proceeds of $890 million in June and July, consisting of $376 million of common stock, $300 million of 10-year senior unsecured notes at a coupon of 3.15%, and a GBP137 million four-year term loan that serves as a hedge of our debt investment in Four Seasons Healthcare.

We concurrently entered into a four-year interest rate swap that fixes the interest rate at 1.81%, plus transaction costs of 17 basis points per year. Proceeds from these transactions were primarily used to repay our $250 million bond maturity at an expiring rate of 6.45%, restore full availability under our $1.5 billion revolver, and fund the cash consideration for the acquisitions announced this morning. Combined, these transactions further strengthen our balance sheet.

At quarter end, our financial leverage was slightly below 40% and secured debt ratio below 10%. In addition, our fixed charge coverage increased to 3.6 times in the quarter and is expected to further improve in the coming quarters, driven by the benefit of these activities.

Our remaining 2012 debt maturities are negligible at $29 million and looking ahead into 2013, our debt maturities total $920 million, at an average rate of 5.9%, of which $650 million are due in the fourth quarter of 2013. To help further illustrate our strong credit metrics, we continue to expand our disclosures on page 6 and 7 in this quarter's supplemental.

Lastly, updates to our 2012 guidance. Driven by continued strong performance of our same-property portfolio, we are raising our full-year cash same-property growth to a range of 3.5% to 4.5%, up 25 basis points from our May guidance. We are raising our FFO guidance to a range of $2.70 to $2.76 per share, which is $0.02 higher than our last guidance.

This increase is driven by a $0.02 benefit from the accretive acquisitions described earlier, net of pre-funding activities, and higher same-store projections. Plus an additional $0.01 from $100 million of pending debt investments assumed to close in August, offset in part by $0.01 from several small items.

We are raising our 2012 FFO as adjusted guidance to a range of $2.73 to $2.79 per share, an increase of $0.02 from previous guidance. As a reminder, FFO as adjusted excludes the previously announced $0.025 charge resulting from the $296 million preferred stock redemption in Q2.

Lastly, we are raising our 2012 FAD guidance to a range of $2.18 to $2.24 per share, up $0.02 from our previous guidance. With that, I will now turn the call over to Paul. Paul?

Paul Gallagher - *HCP Inc - EVP & CIO*

Thank you, Tim. I'll review HCP's second quarter portfolio performance and highlight the $500 million of acquisitions announced since the end of the first quarter. Senior Housing. Occupancy in our same-property Senior Housing platform was 85.9%, a 10-basis point sequential increase over the prior quarter and flat versus the prior year.

Same-store cash flow coverage for the portfolio declined 1 basis point to 1.13 times, driven by outsized fixed rent bumps on our transition to assets and higher property expenses in our Brookdale portfolio. Current quarter year-over-year same-property cash NOI was up 2.1%.

Growth was driven by rent steps, including higher rents for assets transitions to new operators, offset by a one-time collection of additional rent in the prior period for two Sunrise portfolios. Net of this item, NOI increased 3.7%.

The calculation of occupancy in our RIDEA portfolio has been changed to be consistent with Brookdale methodology of utilizing a unit occupancy calculation. The resulting occupancy for the quarter is 86.5%, a 40-basis point decrease from the previous quarter, utilizing the new methodology.

Recently we have seen an improvement in move-ins, as Brookdale has implemented several new programs, including personalized living and therapy services. In addition, we are upgrading the dining services in five of our Houston assets. Post acute skilled nursing. Coverages in our post acute skilled nursing portfolio metrics now reflect two quarters of lower reimbursement rates under RUG IV.

HCR's fixed charge coverage ratio was 1.44 times, a 9-basis point decrease for the trailing 12-month period ending March 31, 2012. For the trailing 12 months ending June 30, 2012, the fixed charge coverage was 1.29 times, which includes an increase in reserves for general and professional liability claims for the years 2006 through 2010.

Excluding this charge, the fixed charge coverage would be 1.39 times. Cash flow coverage in our legacy same-store SNF portfolio was 1.58 times, a 6-basis point decrease versus the prior quarter and an 11-basis point decrease versus the prior year, with cash NOI up 2.2%, driven by normal rent steps.

Hospitals. Same-property cash flow coverage increased 21 basis points to 4.73 times, driven by continued strong performance at our Medical City Dallas and Hoag Irvin Hospitals. Year-over-year same-property cash NOI for the second quarter increased 3.5%. Medical Office buildings. Same-property cash NOI for the second quarter was up 3%.

The growth was a result of normal rent steps, coupled with increased occupancy versus the second quarter 2011. Our MOB occupancy for the second quarter increased 20 basis points to 91.4%. During the quarter, tenants representing 585,000 square feet took occupancy, of which 338,000 square feet related to previously occupied space. Our year-to-date average retention rate is 78.4%.

Renewals for the quarter occurred at 0.5% higher mark-to-market rents. We have 973,000 square feet of scheduled expirations for the balance of 2012, including 195,000 square feet of month-to-month leases. Our leasing pipeline includes new and renewal prospects totalling 900,000 square feet, representing 92% of our remaining 2012 rollover exposure.

Life Science. Occupancy for our Life Science portfolio increased 50 basis points to 89.6% and includes a 41,000 square-foot expansion for Takeda Pharmaceuticals on our Torrey Pines campus, where they now lease 167,000 square feet.

Same-property cash NOI was up 4.9% in the second quarter, driven by normal rent steps and the previously announced LinkedIn expansion on our Mountain View campus. For the quarter, we completed 113,000 square feet of leasing, bringing the year-to-date total to 402,000 square feet, with a retention rate of 81.1%.

The Life Sciences portfolio has only 91,000 square feet of scheduled expirations for the balance of 2012, including approximately 29,000 square feet of month-to-month leases. We are currently tracking over 300,000 square feet of activities on this space.

Acquisitions. Since our May call, we have announced six acquisitions. First, HCP provided GBP137 million in financing for Terra Firma's GBP825 million acquisition of the Four Seasons Healthcare, the largest elderly and specialist care provider in the UK.

HCP was the lead investor in the senior unsecured tranche, with an eight-year term, four-year call protection, a 12.25% coupon, with an original issue discount resulting in a yield to maturity of 12.5%. The tranche is subordinate to GBP350 million of senior secured debt and a GBP40 million unfunded revolver.

Terra Firma's significant equity contribution of GBP345 million results in HCP's loan to cost of 62%, a debt coverage service ratio of just under two times and an EBITDA yield to HCP's last dollar investment of 18%. Second, we executed agreements to acquire any downREIT transaction, a 12-property, 758,000 square foot, high quality medical office portfolio located primarily in Utah and Kansas City.

The properties, 83% of which are on the campuses of HCA, Iasis, and Community Health hospitals, have an average age of eight years and occupancy of 88%. The purchase price was $179 million, representing a cap rate of 7.2% and included the assumption of $59 million of secured debt.

The deal was sourced through HCP's existing relationship with the Boyer Company, who now manage over 2 million square feet in our MOB and Life Science portfolio. Third, we executed agreements to purchase an 8 asset, 398,000-square foot portfolio of medical office buildings in the Phoenix market.

These high quality assets are all on the campuses of Scottsdale Healthcare, the leading healthcare provider in Scottsdale, Arizona. This portfolio was acquired for $81.4 million at a cap rate of 7.4% and is 89% leased.

Fourth, we made an opportunistic acquisition of an 80,000 square foot MOB in Dallas, Texas, for $13.5 million. The property is currently 59% leased to HCA and was purchased at a 6.6% cap rate on in-place rents. Upon stabilization, the property's expected to yield 9%.

This property's adjacent to HCA's North Richland Hills Hospital campus, where we currently own an 86,000-square foot, 92% occupied medical office building. Fifth, we closed on $18.4 million development loan on a 86 unit assisted living facility located at the end of the main line in Willistown, Pennsylvania.

This is the sixth transaction in our development loan platform, bringing our total commitment to $119 million. The stabilized return on cost is 11.7%. Sixth, HCP acquired a 115,000-square foot building in Durham, North Carolina, for $8 million. The building is 100% leased to Duke University.

HCP committed $40 million to build out lab space in this project and made an additional commitment of $13 million to complete build out of our existing 53,000-square foot building that is also 100% leased to Duke University. The new commitments will provide HCP with an 8% return on cost and both leases will now have a 17-year term, with 3% annual rent escalations.

Finally, sustainability. As a result of HCP's sustainability initiatives, utility costs continue to generate positive economic results. On a same-property basis, utility expenses were down $202,000 versus the second quarter of 2011 and $648,000 on a year-to-date basis. We continue to make strides in our green initiatives. Our Soledad Business Park in San Diego was awarded the prestigious LEED Platinum certification.

Also during the quarter, we received an additional seven Energy Star labels, four in our Senior Housing portfolio, one in Medical Office, and two in our Life Science portfolio. This brings HCP's total Energy Star labels to 75.

In June, as a part of our increased sustainability reporting, we completed our first response to the Carbon Disclosure Project's 2012 investor questionnaire, as well as our response to the 2012 Global Real Estate Sustainability Benchmark Survey sponsored by NAREIT. With that, I would like to turn it back to Jay.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Thanks, Paul. I want to highlight a less well known, but critically important component of HCP's real estate portfolio, standalone memory care facilities. HCP owns over 7000 memory care units, representing 20% of our total Senior Housing footprint.

Included in this total, HCP owns 58 standalone memory care buildings, or roughly half of our total memory care units, making HCP one of the largest owners of standalone memory care facilities in the United States. The majority of HCP's standalone memory care facilities were acquired as part of our HCR acquisition, where 20% of the properties from the $6.1 billion transaction are in the Senior Housing sector.

HCR's Arden Court portfolio represents purpose-built facilities developed by HCR in the late 1990s. These properties are often co-located on campuses with HCR's post acute and skilled nursing facilities, and specialize in memory care, dementia, and early stage Alzheimer's Disease.

Alzheimer's Disease research reports that roughly 5.4 million Americans of all ages had Alzheimer's Disease in 2012. And by 2050, more than 15 million Americans could be living with the disease, a key reason memory care residents are predicted to double over the next 30 years.

The increasing incidence of memory care issues among our nation's aging senior population and HCR's premier national reputation for caring for residents with memory impairment are an attractive feature of our HCR transaction. As Tim described, we enjoyed an active period of capital markets activity.

If you look at the first seven months of 2012, HCP has achieved a remarkable reduction in its cost of capital and improvement in all of its credit metrics. In January, we issued $450 million of 3.75% seven-year debt. In March, we repriced our $1.5 billion line of credit on attractive terms and raised $359 million of equity to fund the redemption of our outstanding 7.15% preferred stock, which we closed in April.

In June, we raised $376 million of equity to fund in part the retirement of $250 million of 6.45% senior notes. This month, we closed on $0.5 billion in two separate eye-opening debt issuances, a $300 million 3.15%, 10-year senior note transaction and a $200 million four-year term loan denominated in pound Sterling at a cost of 1.81%, which will hedge our 12.5% yielding pound Sterling investment in Four Seasons Healthcare.

Together, these balance sheet actions have produced weak single-A credit metrics for HCP. HCP's opportunity to achieve further cost of capital benefits expands next year, as the Company has $920 million of debt maturing in 2013, with an average interest rate of 5.9%.

To facilitate your understanding of the dramatic improvement in our balance sheet, please take a few minutes and review the expanded credit profile in this quarter's supplemental report. On our last earnings call, I indicated that our five by five business model was sourcing a significant level of acquisition dialogue across our investing platforms.

This activity has accelerated in the last three months, as we closed on two of the highest quality MOB portfolios we have ever acquired at cap rates of 7.2% and 7.4%, one skilled nursing debt investment in the UK yielding 12.5%, and an additional $100 million commitment.

With an undrawn, $1.5 billion line of credit and approximately $300 million of cash currently on hand, we are positioned nicely to finance our accretive acquisition pipeline. With that summary, Paul, Tim and I are delighted to take your questions. Bonnie?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Paul Morgan of Morgan Stanley.

Paul Morgan - *Morgan Stanley - Analyst*

Jay, maybe you could talk a little bit about, now that you've had a little time with the Four Seasons investment, kind of your view on the UK Senior Housing market and then just whether you see this as opening up other opportunities in Europe and whether that might be on the debt and equity, or equity side.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Yes, sure. Thank you, Paul. I understand the thought process and the speculation and even the intrigue of our Four Seasons investment in terms of what that might portend for the Company's strategy offshore, in Europe, elsewhere.

The reality is, it's something much more straightforward. We use our five by five business model to source proprietary opportunities that produce negotiated transactions that result in very attractive risk/reward outcomes for our shareholders.

And when you cut through it, quite frankly, that's really what was going on here. This was equity-like return for debt risk exposure. I would liken this transaction -- when we move away from 100% fee simple real estate transactions, we always look for optionality for those investments to eventually move to 100% fee simple real estate.

Realistically, I liken this transaction to the HCA toggle note transaction we made back at the end of '06, where we had the best in class operator in the market, in that case HCA. In this case Four Seasons at an attractive yield, but with a very, very substantial equity base below us, 40% in the case of this acquisition transaction is the Terra Firma equity investment below us, much like the HCA equity investment from the [Frise] family, Bain, KKR, and Merrill at the time.

While I think there could be some optionality for us to end up in the real estate, my guess is with that amount of equity below us, you're looking at a, either a par plus a premium payoff or potentially, as we watch REITs evolve in terms of their acceptance in the UK market, there's a potential for that to unfold as well.

But this is just very attractive investment for our shareholders and then the icing on the cake was the execution of the 1.81% four-year term debt. If you look at the, not that we project finance our investments, but if you look at the 12.5 plus the 1.81, you're at a spread there of almost 1100 basis points, which is very, very attractive for our shareholders.

Paul Morgan - *Morgan Stanley - Analyst*

I shouldn't read too much into this in terms of initiative abroad. Try to think of this more as just an opportunistic deal in isolation. It could be replicated, but that's not part of a grand plan.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

I think that's fair. Sourced by our five by five model. And again, we like to stay away from auction situations where highest price wins. So this was a very attractive result for our shareholders.

Paul Morgan - *Morgan Stanley - Analyst*

Thanks. My other question, just on, you made a lot of mention of the cost of capital, which is very impressive these days. How do you think about underwriting acquisition IRRs, given your cost of capital? I mean, are you willing to drop IRRs on new deals and does it make you more inclined to be acquisitive, given changes in your cost of capital over the past six months?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

No, absolutely not. I mean, I think, if anything, you're seeing some backing up of cap rates, at least in terms of the deal flow and the transactions that we've announced, which means the spread and the relative profitability of those investments is increasing to the betterment of our shareholders return.

I think it's actually fascinating. If you take a look at the Four Seasons investment and then go back almost three years to the day when we announced the second of our HCR Manor Care investments. So, that was back on August 3 of '09. This is, you got to write this down, this is kind of interesting.

So, the yield there, if you carve out the benefit that accrued to HCP from the seller financing on the second HCR debt investment, the yield was 9.8%. And that was done at a time that the 10-year treasury was 3.64% and our stock price was approximately $26 a share, okay. So three years ago, 9.8% yield on the debt investment, 3.64% 10-year treasury, and a $26 HCP stock price.

At the time we announced the Four Seasons deal, which was about a month ago, the yield there with the discount that Paul referenced is 12.5%, the 10-year was about 1.5% and our stock price at the time was $44 a share. So you can see the differential, the -- it's kind of upside down when you think about it.

The yield has widened out by almost 300 basis points and our cost of capital has come in by almost a similar amount. So I find that very interesting and that's why we're in such an attractive position right now and that's why we've got the liquidity that we've built into the balance sheet, both in terms of the 100% availability on our line, plus the existing cash balances, Paul.

Paul Morgan - *Morgan Stanley - Analyst*

Great, thanks.

Operator

Our next question comes from Rich Anderson of BMO Capital Markets.

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Rich Anderson - *BMO Capital Markets - Analyst*

Jay, I was looking back in time and post acute over the past call at 2.5 years has gone from 15% of your portfolio to 32%, if I'm doing the right analysis. And that's kind of a dead heat with your Senior Housing exposure to the overall portfolio. I'm curious, is this a grand plan?

As Paul Morgan used that term for the UK investment, do you see the balance post acute versus Senior Housing as being attractive or as again, has this just been opportunistic things that have come across your plate and that there's not a whole grand scheme involved in that change in your exposure to post acute?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

I think the grand scheme is kind of the model, the business model that we created several years ago, which has been -- which we've got -- it's been replicated I guess to a certain extent in terms of our interest in widening out the property types that we're investing in.

We now are a major investor in five property types. But also, the different levels of the capital stack, if you will, where we apply those investments. I think the nuance to HCP is probably twofold. One, we tend to use that model to source proprietary opportunities that result in negotiated transactions.

And then secondly, the organic growth that we've been able to generate because of those, the outcomes of those negotiated transactions is quite substantial. I don't think we've had a quarterly conference call in the last three years where we haven't raised the existing guidance on the performance of our same-property portfolio and you saw that continue again.

So, if there's any grand scheme, that's the grand scheme. We feel that we've got a very, very attractive business model, which we have attempted to build the barriers around. With respect to post acute, I don't think you would be at 15, your starting off point, Rich, if you thought about that in terms of just a real estate investment. I think you're probably putting the debt investment--

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Rich Anderson - *BMO Capital Markets - Analyst*

Yes, I am, I am.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

-- in Genesis at the time and HCR at the time. So, again, we see a tremendous opportunity here in the next couple years in terms of the reforming of healthcare, which will not be driven by Washington, DC. It will be driven by the market.

And when you do that, again, I think you've heard us say that our three top criteria are aligning ourselves with operators that have quality outcomes, that have efficient operations, read that to mean margin, they make money, and have critical mass, read that to be market share.

And we feel that HCR is, as we feel about HCA and Hospital Land and Genentech and Amgen and Life Science, and NHCA to a very real sense in Medical Office buildings, are the partners we want to align ourselves with.

So, the HCR, if anything, would have driven the opportunity in post acute for us. Had that not been HCR, I don't think you would have seen us today with the exposure we have. So that's how I would respond to that question.

Rich Anderson - *BMO Capital Markets - Analyst*

Would you have made the same deal, as substantial as it was, had you known about the cuts that were coming? How much has that kind of taken you a step back in terms of the quality of that investment, understanding it's a quality operator and all the rest, how much has that sobered the view of the investment?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Well, I think it's done just the opposite. I think it's increased the attractiveness of the investment just because of now the consolidation play, which we anticipated would be back-end loaded to the second half of the decade, I think we're looking at that here and now with HCR. So that's made that investment and our alignment there much more attractive than we would have envisioned at the time we made the investment.

Rich Anderson - *BMO Capital Markets - Analyst*

Just one final question, can you walk through the economics of your direct investment in BKD stock, where are the IRRs, where do you expect them to go, that kind of thing?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Oh, that's just, that's a relatively small investment that at this point we don't mark that to market.

Rich Anderson - *BMO Capital Markets - Analyst*

It's down 30%. I'm just wondering how that plays into anything.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

I think we'll make very, very good money for our shareholders on that investment.

Rich Anderson - *BMO Capital Markets - Analyst*

Okay. Thank you.

Operator

Our next question comes from Derek Bauer of UBS.

Ross Nussbaum - *UBS - Analyst*

Hi, it's Ross Nussbaum here with Derek. Jay, you referenced quite a number of times your decline in your cost of capital. How has that influenced, if at all, how you are approaching putting capital out to work? Do you feel that this might be short lived and there's a short duration and you should take advantage of it? Or do you say, you know what, I'm just going to remain patient?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Well, I don't think this is a short-lived duration. I mean, if you look at the macro issues, you've got an economic recovery that at best is muted. That would be at best. You've got an unemployment situation that is challenged. I don't think that's going to change any time soon. You've got a housing recovery that is tepid.

I don't think that's going to change any time soon. I think you've got an interest rate environment, courtesy of the fed, that is likely to remain benign for the foreseeable future. And I think when you put all those things together, I think two things. One, those are big issues that are certainly not short-term in nature. And I think it will drive investor demand, whether it be the retail investor, whether it be pension fund investors, or dedicated REIT investors.

The combination of attractive yields that grow over time, in our case they have grown for 27 consecutive years, with a very, very strong balance sheet, with ever accelerating same-property performance growth organically and some optionality on accretive external acquisitions, I don't think those dynamics are going to change any time soon.

So I would expect that in part because of the opportunity set that we have in front of us and in part because of investors -- I think David Rosenburg yesterday authored a piece calling for the end of equity ownership on the part of investors globally, with an eye towards more of an income orientation.

So, I think these are big macro trends that are moving funds flow, Ross, and I don't think these things are going to reverse for the foreseeable future. That said, we consistently look to source very accretive transactions. That's been our hallmark.

I think you see the results of that most immediately in the performance of our -- same-property performance results, but increasingly, I think you'll see us add to that stable of organic growth with external acquisitions.

Ross Nussbaum - *UBS - Analyst*

Different topic, on page 10 of your supplemental focuses in on what you have on the development side of the business, which is something that doesn't get much attention. You've got $225 million of redevelopments and then there's another bucket of $390 million of land and I think there's some activity going on there.

Can you just walk us through on each of those buckets, what's the expected yield on the redevelopment and what should we be thinking about relative to that $390 million investment on those land parcels?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Let me just say, we actually -- I would take exception. I think we talk a fair amount about development. We've obviously had an enormous success up in our Mountain View campus with the LinkedIn development, the build to suit there. We've got, which we've continued to talk about in the last couple of quarterly earnings calls, a very successful Senior Housing development program. I think we're up to six communities now.

And then we've got the redevelopment opportunities and the development opportunities, the land. I've spoken in previous calls about the ability to take the 6% of our overall portfolio that is not stabilized. So, in other words, if you take a look at our portfolio, you got 94% of that portfolio is kicking out 8% plus current yields. 6% of the portfolio, which is just under $1 billion when you do the math, is probably generating plus or minus 3%.

And I've spoken before about the opportunity, if we can move some or all of that unstabilized, call it $1 billion of investments up closer to what the remainder of the portfolio is producing, is very, very attractive incremental cash flow, with not a whole lot of incremental CapEx associated with it. So that's how I would frame the overall perspective to your question. But let me have Paul kind of dig into the buckets, as you refer to them, that are on page 10 of our supplemental.

Paul Gallagher - *HCP Inc - EVP & CIO*

Yes, if you look on the pure development, that's our LinkedIn property, that's 100% leased, if you look at the overall redevelopment sector right now, that's tracking at about 45% occupancy across the board, looking at all those assets.

And incremental return on costs range anywhere from probably 7.5% to kind of mid-teens type returns, depending on the amount of work associated with that. And then with respect to the development land, once those things are developed, you will probably be looking at probably somewhere in the 7.5% to 8.5% return on cost kind of range.

Ross Nussbaum - *UBS - Analyst*

I think Derek Bower had a question.

Derek Bauer - *UBS - Analyst*

Yes, just one quick one. I know RIDEA is still a small part of the portfolio, but we've seen some pretty positive industry trends so far in 2Q. So, can you just discuss what drove that 40 bp decline in sequential occupancy and maybe remind us if there's any geographic concentration in that portfolio.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Well, again, just to set it up, this is the portfolio that we transition from Horizon Bay.

So, new operator, Brookdale versus Horizon Bay, and we perceive when we went out to the market an opportunity to vest in capital in this portfolio and change the profile in terms of senior demand, more from a pure play independent living, which was why it was so important that we added, when we got down to the final selection process, Brookdale, who had the ability to -- with capital, which we would provide in pursuant to the joint venture there, the [Nike 10] joint venture, trick out those communities so that they could begin to have their ancillary revenue opportunity set.

And we're well into that investment period at this point. We made investment in the properties. Paul referenced the change that we're doing. We're adding the bistro concept down in our Houston portfolio, five former Horizon Bay communities. So I think Paul can take you through that. But this is a portfolio in transition.

We feel better about this opportunity than we did at the time we made the investment and Brookdale is working quite hard at transitioning this portfolio to where we all believe the upside's going to be for this portfolio.

Paul Gallagher - *HCP Inc - EVP & CIO*

Yes, I think if you look in the first quarter, there was probably a little bit more from the move outs, both from a death and, more importantly, from an acuity standpoint and that's one of the reasons why Brookdale has implemented the personal living and the therapy services to kind of help address some of those acuity issues.

Derek Bauer - *UBS - Analyst*

And there was no regional concentration mix or anything like that affecting it in the quarter?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Absolutely not.

Paul Gallagher - *HCP Inc - EVP & CIO*

No.

Derek Bauer - *UBS - Analyst*

Okay, thanks.

Operator

Our next question comes from Jeff Theiler of Green Street Advisors.

Jeff Theiler - *Green Street Advisors - Analyst*

Question on HCR Manor Care. I knew the coverages would start to drop off as the RUGs continues to burn off, but it seems to be going a little bit faster than I would have thought.

At 144, we're kind of below the 15 coverage that was underwritten without any RUGs benefit and I think we still have six months of the higher RUGs rates in that number. Can you talk about what's happening there and kind of what you think the coverages will be by the end of the year after all those cuts have come through the system.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Well, I think Paul took you through, not with six months to go, but with three months to go, what the coverage is, Jeff, in his script.

Jeff Theiler - *Green Street Advisors - Analyst*

I'm sorry. I can go back and read it, but was it -- can you talk about--

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Jay Flaherty - *HCP Inc - Chairnan & CEO*

Adjusting out the prior year, the 2006 to 2010 GLPO adjustment, the coverage is 1.39. And that's through -- that's with nine months of activity. So, you've got one quarter to go. So, I think that's one important data point.

Jeff Theiler - *Green Street Advisors - Analyst*

Okay.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

You've also seen month, sequential month over month over month the Company outperformed the previous month. So that's doing well. I think things are going along pretty well there and Paul, I don't know if you would add.

Paul Gallagher - *HCP Inc - EVP & CIO*

Yes, just as a reminder, when you look at the portfolio, there's still significant cash flow after the payment of HCP's rent and CapEx. It's over $120 million. So there's still quite a bit of cushion there.

Jeff Theiler - *Green Street Advisors - Analyst*

Okay, and then I guess we got that, the market basket increase in skilled nursing rates last week. How are you feeling about that?

Is that making you more comfortable with rate environment or do you think this is a little pause as they see how the operators are adjusting to the bigger cuts that they put through last year? How are you thinking about rates going forward?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Well, I think that result was completely expected. So I don't think there was any news there. I think, as I've said previously, I think pause is an interesting word to use for the next, I guess, 12 to 18 months. But over the longer term, the country has a mismatch of entitlement commitments with funding.

So I don't think anything's going to happen between now and the end of the year on that topic, but I think there's some reason to think that with a new congress seated, maybe come March you could see a couple things that would be helpful for the country and helpful for healthcare costs in this country and indirectly helpful for the post acute space.

So I think -- but I think you're going to have to work and wrestle with this. I think my guess is that corporate America will end up driving a lot of the change here, given that some of these decisions are the type of decisions that our congressmen and congresswomen don't like to confront.

So I think in a scenario where corporate America does for healthcare what it did for pension reform in the '90s, which is to move America to a defined contribution setup for healthcare coverage as opposed to a defined benefit.

I think that's increasingly becoming likely and I think in that scenario, low cost provider wins and in general, the skilled nursing post acute space is absolutely in that bucket and in particular, HCR Manor Care does an extraordinarily good job for a comparable senior that's got a variety of afflictions versus the alternative sites that senior might be treated in.

So we feel very, very good and I think this, these external shocks to the system will continue to drive M&A activity and we think the best, highest quality, most efficient operators in that scenario are going to do very, very well.

Jeff Theiler - *Green Street Advisors - Analyst*

Okay, thank you.

Operator

Our next question comes from James Milam of Sandler O'Neill.

James Milam - *Sandler O'Neill - Analyst*

Jay, you talked a little bit about credit ratings and how you categorize your balance sheet as a weak A-minus credit. I'm just curious how conversations with the rating agencies are going, if you're having any, and when you think they might get on board with that view.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Well, those are confidential discussions, so we would never comment on that. I think this isn't a discussion about the rating agencies. It's really a question of where it shows where our debt trades in the market. I think it's pretty straightforward.

I think we've been able to achieve, particularly the last couple of debt transactions which benefit obviously from the steps that came in that and others took earlier in the year on the balance sheet.

We've been able to realize weak single-A pricing on our debt securities. So that's not really some speculation. That is what it is and those debts, those bonds are very liquid. They trade every day, so that's specifically what I was referring to, James.

James Milam - *Sandler O'Neill - Analyst*

Yes, I understand that. I just -- there are some benefits to having higher, higher ratings. I was just curious if that's a priority for you guys or not, I guess, to push those higher with the agencies.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

I think the priority is to have the strongest possible balance sheet and increasingly what you've seen Tim and Matt do is put a spotlight on how strong that balance sheet is on pages 6 and 7 in our supplemental.

I think the markets are very efficient and, quite frankly, for the sell side equity analysts on the call, don't take this the wrong way, but I've always been of a view that the fixed income investors have a little sharper pencils than the equity folks and I think they have figured out and I think they have attached an appropriate trading valuation for our debt security.

So where that shakes out for the agencies, that's for them to discuss. I mean, those are institutions that have their own internal processes and we very much respect them, but I think our balance sheet is our balance sheet and those metrics are our metrics and we put them out there in the supplemental for any and all to view.

James Milam - *Sandler O'Neill - Analyst*

Okay, I got it. I guess for the record, maybe I should shift from pen to pencil then as I'm taking notes. Just kidding, guys.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

We love you guys. Actually, James, the expanded credit metrics that we have in our supplemental have been in direct response to our fixed income investors request. So, we continue to provide them as much transparency as possible.

James Milam - *Sandler O'Neill - Analyst*

And that does help us, too, so we appreciate it. My second question, the operating portfolio, just curious, obviously you gave us some good color in answer to some questions already. But was there anything that drove the expenses a little higher this quarter in particular that may burn off or is that kind of a going forward run rate at least the way things stand right now?

Paul Gallagher - *HCP Inc - EVP & CIO*

Yes, from that quarter over quarter, there was about $500,000 of expenses that should have been in the first quarter that really didn't get picked up until early in the second quarter.

James Milam - *Sandler O'Neill - Analyst*

On the last quarter's call, you sounded -- you had a fairly cautious tone regarding the macro environment. It doesn't sound like that's changed much, but I'm just curious if you feel like there are any changes either with tax code or anything else that may drive greater opportunities for you guys as we go into year end or on the contrary, maybe could be a potential risk for you.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Yes, well, actually, let's review the bidding, because on the last call I think I identified about a half dozen or so issues that I suggested were kind of acting to damp transaction volumes. One was Europe. I don't think that's changed a whole lot since we last spoke.

Although we do believe, and now you can see the results, that from time to time, very attractive investment opportunities will present themselves, which is, by the way, a sound bite for all of these issues. We tend to migrate to where there's concern and issues, because often times if you're underwriting is solid, you can exploit those opportunities for the benefit of the shareholders.

So Europe's still there. That hasn't changed a whole lot. Fiscal eclipse is, I guess, three months closer to likely occurring. I don't think the economy or related to that, unemployment have gotten a whole lot better any time in the past three or four months.

I think housing, depending on which survey you look at, is -- seems to have bottomed, but it's kind of bumping along the bottom. The election will obviously drive an awful lot of what I suggested could be manifest itself in a grand bargain, maybe as early as the first quarter of 2013.

And you still have sequestration. So, the one issue that's come off the table was the supreme court decision and I think almost immediately, as I had predicted, you saw that as a catalyst for M&A activity. You saw WellPoint and Amerigroup's merger. You've seen Genesis and Sun and my guess is you'll see others. So that's the 30,000-foot view, James, as to how I would answer that.

That said, things are looking increasingly attractive for our ability to make accretive transactions, for some of the reasons we've talked about and quite frankly, some other reasons. I think you'll see us, in terms of announced transaction volumes, I think you'll see us build through 2012 and early 2013, which is about as far out as our forward pipeline goes.

Sequential quarter over quarter increases in announced transaction volume. So, second quarter was up from the first quarter. Third quarter is going to be up from the second quarter. I suspect the fourth quarter will be up from the third quarter and I think the key word that I referenced on our call last time was that we had very high quality dialogue across our five by five model.

And if you look at the deals that we've just announced today, you've got four different property types, Medical Office, Post Acute, Life Science, and Senior Housing, and you've got three different product types, downREITs, the mez debt and the real estate.

So I think you're really seeing the benefit of our business model here sourcing very attractive opportunities. And again, no promises, but my guess is you're going to continue to see acceleration on this front in the near term for HCP.

James Milam - *Sandler O'Neill - Analyst*

Great. Thank you very much.

Operator

Our next question comes from Quinton Falelli of Citi.

Quinton Falelli - *Citigroup - Analyst*

Jay, just in terms of the $100 million of additional debt investment, can you just give us a little more flavor as to what that might be, what kind of yields it might be, what the underlying assets are likely to be, and whether it's in the US or offshore?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Yes, that's a commitment, that's one of the many pleasures, as we've experienced the last 48 hours, of having earnings call on the last day of the month, which often times for accounting reasons and other reasons, is a good time to close transactions. So you'll see that the debt investment and attractive from an HCP shareholder standpoint, double-digit, high yielding debt investment in post acute skilled space in the states would be how I would handicap how that comes out.

Quinton Falelli - *Citigroup - Analyst*

Did you say in the US or offshore?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

I think I said in the US.

Quinton Falelli - *Citigroup - Analyst*

And then just in terms of the Boyer Company now manage a chunk of your Medical Office building have been an active developer. Is there anything else in their development pipeline that might be an opportunity for you guys in the future?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Yes, let me just -- I mean, this is -- I want to say this is the ninth or tenth transaction we've done with that family going back, I think, about a decade at this point. And you mentioned Medical Office, Quinton, but they have also -- they developed and manage our entire Life Science portfolio, which doesn't get the credit that our Bay Area in San Diego Life Science portfolios get.

But they manage -- they develop and manage the Life Science portfolio that we have in the Salt Lake City, Utah area. So we've been -- that's a long-standing, a very good relationship. We like the alignment that the downREIT structure brings us. They have been very, very good partners and they have got a very fine organization.

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And as you might imagine, with a very fine organization, they continue to develop high quality opportunities and hopefully we'll continue to maintain that relationship going forward.

Michael Bilerman - *Citigroup - Analyst*

Jay, it's Michael Bilerman speaking. Just a question in terms of making sure I got the pipeline down correctly. You talked in your opening comments about having a significant pipeline as of the last call across the five by five model and you said it accelerated further and then you talked about all of the deals that have come about more recently.

Are we -- I guess is the pipeline post those deals bigger than it was relative to the last quarter or did you effectively just close some of those significant transactions?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Yes, Michael, I think you misquoted me. I never used the word pipeline in our last call. I talked about significant dialogue across our five by five model. I think you've seen some of the results of that significant dialogue that we've talked about today. I suspect, as I've just indicated in response to a prior question, you'll continue to see results of that significant dialogue. But I've never talked about nor quantified the pipeline.

Michael Bilerman - *Citigroup - Analyst*

Right. Maybe I've confused dialogue with pipeline. I guess from a capital perspective, obviously, you took advantage of the markets being able to equitize and have capacity to do transactions and clearly with the cash balance you have on the balance sheet post the term loan, as well as an untapped line, you certainly have a lot of capacity to do transactions.

I guess how much would you fill up in real estate and loans prior to injecting more equity and how should we think about, just from a debt perspective, is it $1 billion of real estate loans that you effectively from this point forward can fund before feeling the need that you want to put more equity on the balance sheet?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Again, we don't -- everything we do from a balance sheet standpoint is with an eye towards our long-term target leverage ratio, which to review, is 40 parts debt, 60 parts equity. So, seeing what we saw in the dialogue that we had off of our five by five model earlier this year, we obviously were very proactive in taking out some high coupon debt, high coupon preferreds and with equity.

And then now you're starting to see us build back or slightly below that 40/60 today, build back, but build back at 3.15% coupon for 10 years, 1.81% coupon for four years, just trying to see us extract value from those balance sheet maneuvers we did earlier this year. But we don't -- anything we would do would be in the context of 40/60 debt to equity long-term target ratio, Michael.

Michael Bilerman - *Citigroup - Analyst*

And how about just from a debt to EBITDA perspective?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Well, I think that kind of falls out much like the fixed charge coverage ratio. You're starting to see very, good, which is why you really, I guess, for the third or fourth time I would encourage folks to look at pages 6 and 7 of our supplemental.

But take a look at the debt to EBITDA and take a look at the fixed charge coverage ratios, which I think is more representative. Take a look at them on a run rate of just the current quarter and you can begin to see why the fixed income investors have begun to kind of recalibrate, if you will, the valuations for our fixed income securities.

Michael Bilerman - *Citigroup - Analyst*

And then just you talked about next year's $900 million of debt rolling between the $550 million of bonds and another $370 million of mortgage debt. How quickly, just given the rate environment today and where spreads are and how attractive the recent financings for you have been, would you prefund any of that? Is any of that earlier '13 versus later '13? Would you sort of warehouse capital, more capital today for that?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

No, I think -- and again, just to calibrate this, you're seeing what's going on with our same-property performance. You've heard us talk about used to be 3.5%, but now you can see it's 4% same prop performance, levered 40/60, gets you the 6.5% FAD per share with growth with no external acquisitions. If you didn't layer in -- pick an improvement in terms of that 5.9% on that debt that you just referenced that matures next year.

I don't know if it's 300 basis points or 200 basis points or something in the middle, but you do the math on that you layer that into what we've already got kind of contractual with the FAD growth and you can start -- you continue to grow the dividend, reduce the payout ratio and be clipping coupons here until the cows come home.

So I think that's going to be there for us. Again, I don't think, to Ross' earlier question, I don't think this is some momentary drop in cost of capital. I think the macro trends that have brought all of this together are going to stay with us for a while. Barclays just last week made a call on the 10-year touching 1.2% before the end of the year.

So, if you look at the maturities, Michael, on that debt that you referenced, most of that is back-end loaded and I suspect given the other opportunities we have, most notably the accretive deal dialogue we've got going on, my guess is we'll deploy our capital to take advantage of those and then wait for the maturing debt opportunities, which are back-end loaded in '13, to present themselves, much like we did earlier this year with the debt, the debt issuance, the debt retirements we made.

Michael Bilerman - *Citigroup - Analyst*

Okay. Thank you.) Operator Our next question comes from [Ned Lako] of Macquarie.

Ned Lako - *Macquarie Research Equities - Analyst*

Just had a quick one on HCR Manor Care on the OpCo investment. How does that actually -- how does the accounting work for that in that it seems like you guys are booking some income. Seems like the investment was marked up in the quarter and so I'm just trying to understand what are the drivers of that on the income statement and balance sheet?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

I think the way we account for that is in the equity method for the investment. And it causes a recharacterization of part of our rent that we get from the leases, because we have a 10% interest in the OpCo.

Ned Lako - *Macquarie Research Equities - Analyst*

So, I mean, it was only a slight pickup, but it did -- the investment did get -- the value of that did go up in the quarter. Is that, does that somehow mean that in the quarter there was actual income that you guys were sort of booking from that investment?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Yes, yes, we have continual income from that investment and there haven't been distributions.

Paul Gallagher - *HCP Inc - EVP & CIO*

But we haven't marked up--

Jay Flaherty - *HCP Inc - Chairnan & CEO*

We don't mark up the investment (inaudible). We carry it at our basis and then as the investment makes -- as OpCo makes money, the investment increases.

Ned Lako - *Macquarie Research Equities - Analyst*

So to the extent that the investment balance is increasing in a quarter, it means that you're actually collecting income, you're not changing the way you're accounting for the investment on the balance sheet?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Yes, it's not a mark-to-market investment like you would of a security, like a stock. I think that's where you're going.

Ned Lako - *Macquarie Research Equities - Analyst*

And then just one other quick question on hospitals, Jay, just sort of interesting to hear your opinion on whether you think some of the consolidation of operators there is going to create some more real estate opportunities, investment opportunities over the next year.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Absolutely, just like you're going to see operator consolidation in hospitals, you'll see operator consolidation in post acute skilled, you'll see operator consolidation, quite possibly, in Senior Housing. So that's, that's the next -- we're moving into the maturing of the healthcare services sector in the country.

And when that happens, you get all sorts of consolidation and we feel we are very well positioned in large part because of the quality of the operating partners we have in our portfolio. And there in turn likelihood that they will be the consolidators as opposed to the consolidatees to do well in this next period of what we expect will be very, very active transaction volumes.

Ned Lako - *Macquarie Research Equities - Analyst*

Okay. That's all I had. Thanks.

Operator

Our next question comes from Rob Mains of Stifel Nicolaus.

Rob Mains - *Stifel Nicolaus - Analyst*

Just a couple boring numbers questions. First, Paul, to beat the RIDEA thing to death, you explained that you're doing some repositioning. There's also some expense migration between the two quarters. If I do that and I still see a little bit of a drop in NOI, that would be explained by the repositioning that you're doing primarily?

Paul Gallagher - *HCP Inc - EVP & CIO*

Yes.

Rob Mains - *Stifel Nicolaus - Analyst*

Okay. And then, Tim, the $7 million GOPL reserve, was that addition to reserve or release of prior period reserves?

Tim Schoen - *HCP Inc - EVP & CFO*

No, that was on our insurance recovery, the $7 million insurance recovery, that's actually a recovery. I misspoke. It's an insurance -- it's a $0.02 insurance recovery. I should know you would catch that, Rob.

Rob Mains - *Stifel Nicolaus - Analyst*

So the way I should look at that is that without that G&A would have been $21.5 million or whatever?

Tim Schoen - *HCP Inc - EVP & CFO*

Right. That would be -- yes, our G&A run rate at $20 million is a good run rate, $19 million, $20 million a quart.

Rob Mains - *Stifel Nicolaus - Analyst*

And then last question, on the MOB transactions, this is an asset class that you've been pretty quiet in for a while. And it seems that you're getting some pretty attractive cap rates on that. Should I look at this as being kind of one-off deals or is there -- do you sense kind of a loosening of that market where we've been seeing a lot of stuff in the 6s?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Rob, I think we like to talk about the deals that we do and so we think that those are really -- I mean, those are, with the exception of quite possibly the Metcalf deal with HCA back in '03, which augured the arrival of Mr. Gallagher to the company, those are the two highest quality MOB portfolios.

In terms of age, I think that that Boyer portfolio is like average age is 8 years old and you got a lot of, not just on campus, but big boy and big girl hospital systems, leading market share systems, and Scottsdale Medical, Paul and I have spent an awful lot of time over there in the last couple months with Tom Klaritch and our MOB colleagues and that's just a wonderful portfolio.

So I think these are -- we're probably more excited -- not probably, we are more excited about the quality of that real estate and the quality of those hospital systems than we are the economics and oh, by the way, the economics are pretty darn good.

Rob Mains - *Stifel Nicolaus - Analyst*

But I shouldn't read into this that there is -- suddenly you're seeing a lot of similar quality type opportunities out there? We've always been waiting for the MOB assets to kind of get shaken loose, but I assume that this isn't a harbinger necessarily?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

I guess time will tell. We've got, as I said, I don't know if I mentioned to you before, but we've got very active dialogue across our five by five model and the MOB property type is absolutely represented in that dialogue.

Rob Mains - *Stifel Nicolaus - Analyst*

Okay. Fair enough. Thank you.

Operator

Our next question comes from Tayo Okusanya of Jefferies.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Jay, quick question. You guys have a lot of really good stuff going on in regards to raising same-store NOI growth. You have all these accretive acquisitions that are hitting the numbers.

You got the $0.02 pickup from the insurance recovery and I guess with all of that suddenly in the pot, I'm just a little bit surprised that guidance didn't come up more. Is there something I'm missing on the negative side that's offsetting some of that stuff?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

No. I mean, I think if you take a look at our portfolio, the vast majority of it is contractual. So, while we love the fact that we're exceeding our budgets and you're seeing that manifest itself in consecutive quarter over quarter increases in same-property performance, we don't have a lot of the portfolio exposed to variability.

So I think that's one thing. I think we've got very attractive organic growth rate and we've got the ability to supplement that with accretive external acquisitions. But I don't know, Tim, if you want to add anything.

Tim Schoen - *HCP Inc - EVP & CFO*

Yes, Tayo, obviously we have partial year on those acquisitions. That's part of it, as well as the fact that we did end up raising capital at very attractive rates and on very attractive terms in advance of these acquisitions, so that's some of it. Obviously, I did mention several small items that went the other way for $0.01.

Tayo Okusanya - *Jefferies & Co. - Analyst*

That's right.

Tim Schoen - *HCP Inc - EVP & CFO*

So, I think that probably covers it for you.

Tayo Okusanya - *Jefferies & Co. - Analyst*

And then just, again, I know the RIDEA thing we'd kind of talked about that a little bit, but again, the repositioning that's happening, was that primarily in the assisted living side, because that's where you saw the biggest drop in occupancy?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Well, no. The business opportunity set that Brookdale and ourselves identified was one of largely an independent living portfolio and to bring that into the Brookdale family with their ancillary revenue capabilities and to take advantage of our attractive cost of capital and reposition that portfolio. So that's, Paul will expand on that here, but that's the opportunity (Multiple speakers).

Paul Gallagher - *HCP Inc - EVP & CIO*

Yes, Tayo, on that assisted living piece, that's three assets. And when you take into account Brookdale's new methodology, what we had in the first quarter supplemental, the 91.6% occupancy would come down to 82.8%.

That's primarily because there's a lot of memory care in there and double occupancy. Based on the way they are counting it, it has an impact. Now, if you look at where it's actually coming in at, it's up 70 basis points this particular quarter versus the first quarter, utilizing the new methodology.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Got it.

Paul Gallagher - *HCP Inc - EVP & CIO*

And that's just more occupancy methodology. Doesn't have anything to do with impacting income or anything of that nature.

Tayo Okusanya - *Jefferies & Co. - Analyst*

So if I just take a look at the total for the RIDEA assets the total occupancy in 1Q '12 under the new methodology, what would that number be versus the 86.5% for this quarter?

Paul Gallagher - *HCP Inc - EVP & CIO*

For which assets?

Tayo Okusanya - *Jefferies & Co. - Analyst*

For the RIDEA portfolio.

Paul Gallagher - *HCP Inc - EVP & CIO*

I think I said 86.9% in the transcript.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Okay.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Apples to apples.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Yes, I just wanted to get that number. Okay, great. Thank you very much.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Sure. Congrats on a good quarter. Lot of good stuff going on. Thanks, Tayo.

Operator

(Operator Instructions) Our next question comes from Todd Stender of Wells Fargo.

Todd Stender - *Wells Fargo Securities - Analyst*

How do you feel about how much you've allocated so far to the Four Seasons deal? Are there other opportunities within the capital stack that you would either take advantage of, just to insulate your current investment or potentially just get a bigger seat at the table on an eventual outcome?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Yes, good, good question, Todd. Well, first off, it was very important from, for that very question, that we be at least 75% of that senior unsecured tranche, Todd, which is where we are, actually a little bit over that.

We thought long and hard about the larger play there, that might have morphed into a larger investment, but would have taken us into the more senior spot in the capital stack and we evaluated that risk return, but at that point in the capital stack, it's much less about risk and much more about return.

And felt we negotiated a good outcome for our shareholders with sticking at the unsecured. But those are decisions and those are layers at the capital stack that Paul and his team are well traveled in, both from an HCA standpoint, from an HCR standpoint, from a Genesis standpoint, and a lot of the lessons and experiences that we took from those three prior transactions were on full display in this one.

So, I think the answer to -- I think the bottom line is that 75% of that senior unsecured tranche, we feel very good about what that gets us. I think to have gone more senior would have been accretive, but not nearly as accretive as what we've got. And if you look south of us, where you've got 40% of the acquisition value in equity, we feel very comfortable there.

I think in, and this is why I think it's hypothetical that this will end up resulting in us actually owning the real estate unless there's a REIT play. But you might just remind, were we to end up, were all that equity to hypothetically go away, what would the economics be that we would own that real estate at, Paul?

Paul Gallagher - *HCP Inc - EVP & CIO*

The EBITDA yield to last dollar, if you will, was 18%.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Which is why we think it's highly unlikely we find ourselves in that scenario, but we're ready to find ourselves in that scenario. That you could argue would be an even more attractive outcome than the one we think was struck with both the investment we made and then the corresponding four-year debt placement to lock in that 1100-basis point spread.

Todd Stender - *Wells Fargo Securities - Analyst*

And just with regard to the two MOB portfolios that you have under contract, how much do you think, if any, the supreme court ruling influenced the sellers in bringing those to market?

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Zero.

Todd Stender - *Wells Fargo Securities - Analyst*

And then just to kind of finish up, Jay, you gave very good color on the memory care segment, the HCR Manor Care portfolio. What's the occupancy, would you say, in that standalone portfolio? It is probably one segment of the Senior Housing business that we hear most about, where there's a pretty good imbalance between demand and supply. Is there anything that you can break out, just to kind of--

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Jay Flaherty - *HCP Inc - Chairnan & CEO*

Yes, we are going -- you should assume that that's kind of mid-80s. There's -- because of the increasing incidence of that affliction, you're starting to see some significant ramping up of occupancy for that Arden Court portfolio and expansion of margins and things like that. We think this is a very attractive piece, albeit small, of the Senior Housing space.

We think we've got a very meaningful amount of critical mass in the standalone piece and over the course of the next 12 to 15 months, you may see us shine a little brighter light and potentially invest some additional capital into this space, if the demand that we suspect is coming, in fact turns out to be true.

Todd Stender - *Wells Fargo Securities - Analyst*

Okay. Thank you.

Operator

I would now like to turn the call back to Jay Flaherty, Chairman and CEO.

Jay Flaherty - *HCP Inc - Chairnan & CEO*

Okay, everyone. Thank you for your time. Enjoy the rest of your summer. Stay cool. Go US at the Olympics and we'll see you in the fall. Take care.

Operator

Thank you. This concludes today's conference call. You may now disconnect.