

*Performing
Successfully on
the Waves of
Change*

*A
30-Year
History*

*Health Care
REIT, Inc.
2000
Annual
Report*





*ur experience
in the health care industry
allows us to adapt to change, and
to take advantage of
the opportunities that
change creates.*

The 70s



1970

The Company was organized by Bruce G. Thompson and Frederic D. Wolfe.

1971

The Company began operations under the name Health Care Fund and became a public company.

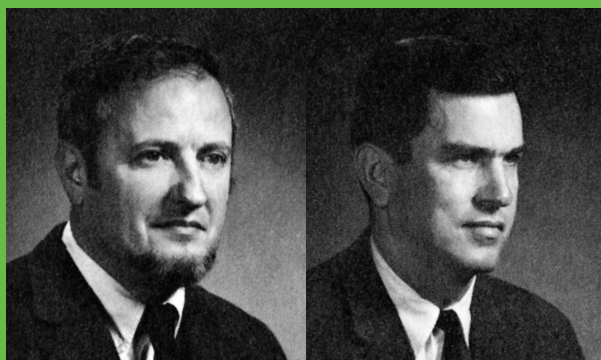
1978

The Company's shares were listed on the NASDAQ under the symbol "HCFDS."

■ *Bruce G. Thompson and Frederic D. Wolfe, founders of the Company, were pioneers both in the long-term care industry and the REIT sector.*

■ *In 1971, the year the Company began operations, there were 34 REITs and the Company was the only health care REIT.*

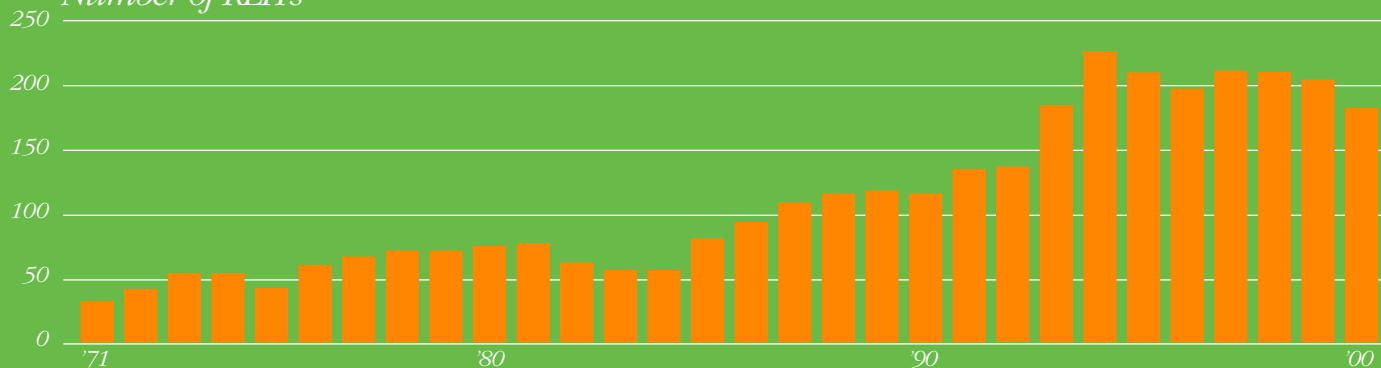
■ *Investment in long-term care focused on the development of skilled nursing facilities.*



Bruce G. Thompson

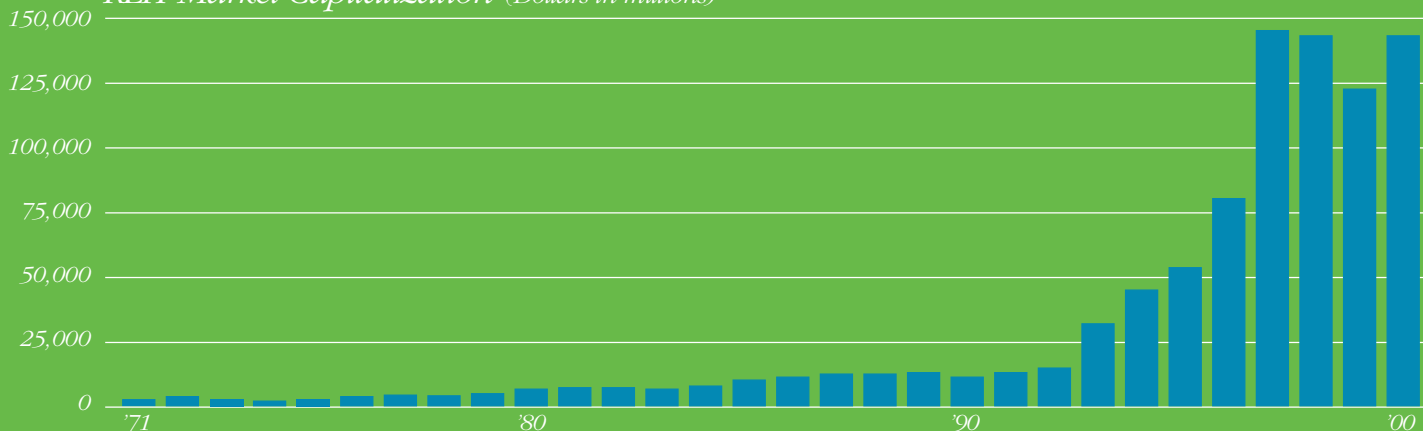
Frederic D. Wolfe

Number of REITs



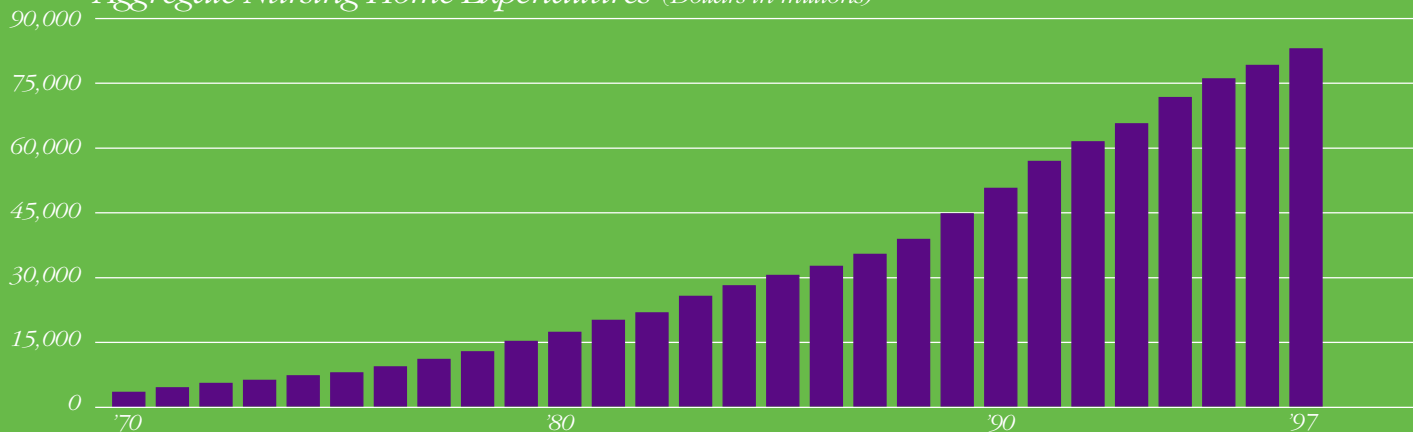
Source: NAREIT

REIT Market Capitalization (Dollars in millions)



Source: NAREIT

Aggregate Nursing Home Expenditures (Dollars in millions)



Source: Health Care Financing Administration, Office of the Actuary

The 80s



1984

On February 23, 1984, the Company's shares were listed on the American Stock Exchange and traded under the symbol "HCN."

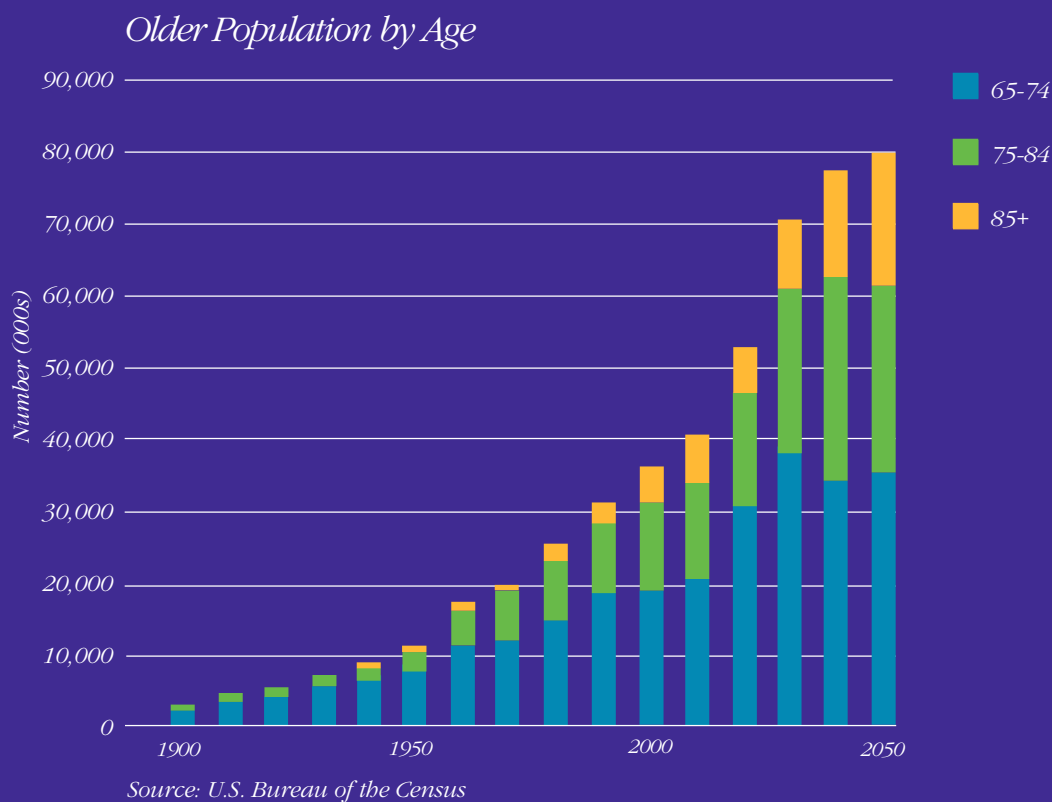
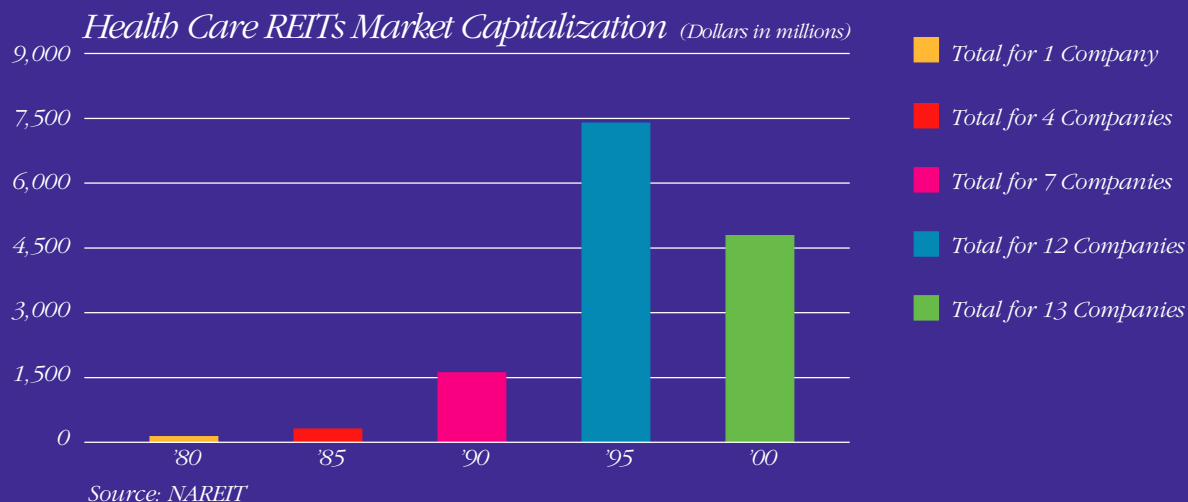
1985

In July 1985, the Company converted from a business trust to a Delaware corporation and changed its name to Health Care REIT, Inc.

1986

In March 1986, the Company relocated its corporate headquarters from Lima, Ohio to Toledo, Ohio.

- The health care REIT industry emerged to serve the growing elderly population.
- In the mid-1980s, the Company began business with third-party operators.
- Long-term care expanded to include retirement centers.



The 90s



1992

On December 17, 1992, the Company's shares of Common Stock were listed on the New York Stock Exchange.

1995

On December 1, 1995, the Company attained self-administered status after the merger of First Toledo Advisory Company and Health Care REIT, Inc.

1997

The Company unsecured its balance sheet and received an investment-grade rating.

1998

The Company's total assets exceeded \$1 billion.

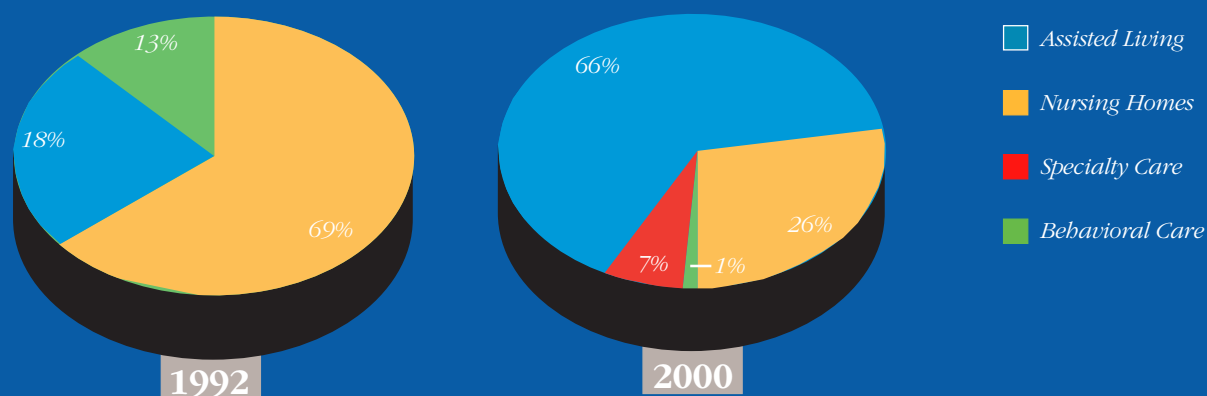
- The emergence of assisted living facilities.
- The Company put in place a new management team and attained self-administered status.
- In the 1990s, the Company experienced significant growth, with assets exceeding \$1 billion in 1998.

Growth of Assisted Living (From 1991 to 1999)

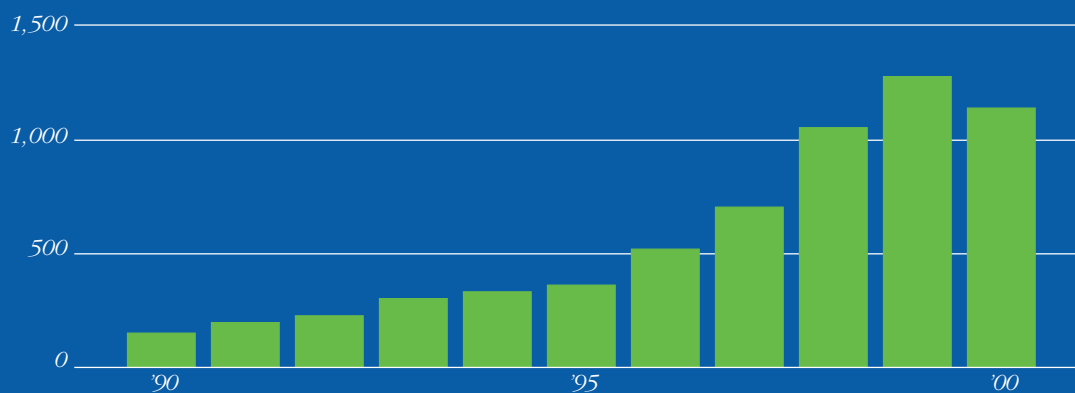
	1991		1999		Growth 1991-1999	
	Properties	Beds	Properties	Beds	Properties	Beds
Assisted Living	18,262	362,014	27,277	777,801	49.4%	114.8%

Source: National Health Provider & NIC

HCN Asset Mix



HCN Asset Growth (Dollars in millions)



Letter to Shareholders

George L. Chapman

*Chairman,
Chief Executive Officer &
President*



My last several letters focused on our efforts to reposition Health Care REIT, Inc. as a larger, equity REIT with a diverse, seasoned portfolio. Given the challenges facing all health care REITs due to problems within the long-term care sector, our goals in 2000 were to avoid major operator difficulties, complete a non-core asset disposition program to protect our liquidity, and continue the seasoning of our assisted living portfolio. Our success in achieving such goals and the improvement in the long-term care sector,

particularly in the nursing home sector, has given a boost to our stock price. Now we must communicate our success to investors, investment bankers, analysts and rating agencies to demonstrate why we deserve their support. Let me make our case to you referring not only to recent achievements, but also to the Company's philosophical and operational underpinnings developed over the last 30 years. Our history and experience have enabled the Company to perform successfully through the many phases of the long-term care and capital markets cycles.

8

The 1970s

Health Care REIT, Inc. was formed in 1970 as the first dedicated health care REIT. The Company was formed as a "captive" REIT for a company that later became Health Care and Retirement Corporation of America ("HCR") (now Manor Care), one of the premier long-term care operators in the United States. The founders of the Company were also key officers of HCR. From inception, Health Care REIT's management team has had first hand, day-to-day involvement in operating as well as investing in long-term care.

The Company witnessed the turbulent '70s in which numerous over-leveraged, mortgage REITs were forced into bankruptcy, generally as a result of excessive borrowing. It also faced a period in which questions were raised relating to the quality of nursing care and the safety of the facilities as a result of well-publicized tragedies and operator problems. These concerns gave rise to the comprehensive federal and state regulation of nursing homes. While the Company and its founders, Bruce G. Thompson and Frederic D. Wolfe, are viewed as pioneers both in the long-

Letter to Shareholders

term care industry and the innovative REIT niche, the tough environment of the 1970s reinforced the Company's conservatism in underwriting and portfolio management that are the Company's hallmarks.

The 1980s

The 1980s provided some new challenges for the Company. Our sister operating company, HCR, went public in 1981, but was later purchased by a subsidiary of Owens-Illinois, Inc. in 1984. Since most of the Company's investments to that date were related to HCR, the Company had to reorganize its approach and staffing in order to find new investment opportunities with other operators.

The mid-80s saw the rise of several new health care REITs. While all were initially "captive" REITs for health care operators, they had a stated goal of diversifying as soon as practicable. Moreover, two of the leading REITs went public with internal management structures that they claimed were superior to external advisory structures, such as that existing at Health Care REIT. These able new competitors represented one more challenge for Health Care REIT at a time it was seeking to fill the void created by the purchase of HCR.

In the 1980s, we faced selected overbuilding of nursing homes. We also had to replace a few underperforming operators. The overbuilding occurred in states that had abolished "certificate of need" legislation. Leases were terminated due to poor operator focus, largely caused by overly aggressive company growth. Overbuilding in real estate takes place from time to time as we have recently observed in the assisted living arena. Moreover, although we would always desire good operator performance, the reality is that some operators underperform and must be replaced. Our success over the years in mitigating these risks is evidenced by our minimal loan loss experience of approximately 17 basis points against average invested assets. We also proactively address risk of loss by maintaining a loan loss allowance believed adequate to absorb any potential losses.

The early to mid-80s also saw the rise of a variety of new senior housing projects. Some were in the form of continuing care retirement centers that provided a continuum of care from



Letter to Shareholders

early-stage retirement housing through skilled nursing. Substantially all of these communities were nonprofit with a required “buy-in” by the residents. Most of the new senior housing projects were retirement centers that provided meals and housekeeping, but provided no medical care or assistance with activities of daily living. Many of these experiments in senior housing failed, largely as a result of difficulty in attracting the “younger” seniors from 65-75 years old. Another problem that developed, even for the successful retirement center projects, related to the lack of assistance for seniors as they aged in place.

Health Care REIT entered the senior housing sector in 1983, investing in or providing credit support for four retirement centers in Toledo, Ohio; Naperville, Illinois; Rockford, Illinois; and Santa Fe, New Mexico. Principals of Health Care REIT were equity investors in these early ventures and, in some cases, affiliates actually operated the facilities. All faced some of the same challenges discussed above. Yet, with attentive operators and the repositioning of the facilities over time to provide additional assistance to residents, these projects became successful investments both for the operators and Health Care REIT.

These experiments in senior living demonstrated the need for a product that bridged the gap between traditional retirement centers and higher acuity platforms such as skilled nursing homes. The resulting product, assisted living, addressed the need of seniors for assistance with activities of daily living and the availability of health care services. As operators began to develop these new facilities in the '90s, Health Care REIT became one of the earliest supporters for this necessary product. Our experience both in investing and operations makes us uniquely qualified to evaluate and appreciate this opportunity.

The 1990s

Let's look at the last decade and review what we did more recently to position the Company for continued success. Structural changes in the long-term care industry and certain organizational changes were also instrumental to this process. The post-acute nursing home strategy, dramatic Medicare reimbursement changes and the emergence of assisted living all contributed to the industry backdrop in the 1990s. After carefully reviewing industry trends, we decided to preserve

Letter to Shareholders

our historical commitment to long-term care, but to focus our investment strategy on providing capital for emerging assisted living operators.

Beginning in 1990, the core of the succession management group was put in place, growing a highly regarded team dedicated to the professional management of all aspects of the business. In turn, Management designed and developed systems that permit us to measure virtually all aspects of our business. Since 1970, portfolio underwriting and monitoring have been a hallmark of Health Care REIT. The new systems permit us to apply the same rigorous standards more effectively over a larger and growing portfolio.

The Company restructured in 1995 to eliminate its external advisory structure in favor of a standard corporate structure. This change more efficiently and transparently aligned Management's interests with those of the shareholders.

In 1997, we unsecured our balance sheet and began the process of pursuing investment-grade ratings. We have investment-grade ratings from Standard & Poor's and Fitch and a rating a notch below from Moody's. Moving the ratings toward our BBB goal has been frustrated in large part by the difficulties in the underlying long-term care sector. However, we have effectively addressed liquidity and portfolio seasoning issues. Each quarter our position becomes stronger as measured against the stated criteria of the rating agencies. Hopefully, improvement of operator fundamentals in the long-term care sector will continue and create a more positive environment within which we can advance our cause.

As these steps were being taken, new Board members with substantial public company and capital markets experience were recruited. Bruce Thompson, Dick Unverferth and Pier Borra remain on the Board providing their invaluable insight regarding long-term care. Several qualified directors joined us in the following years:

- | | | |
|-------------|--------------|--|
| 1994 | Sharon Oster | <i>Professor of Economics, Entrepreneurship and Management,
Yale University School of Management</i> |
| 1996 | Bill Ballard | <i>A founder of Humana; Director-United Health Group</i> |
| 1997 | Jeff Donahue | <i>Executive Vice President and CFO of The Rouse Company, a
real estate investment trust</i> |

Letter to Shareholders

- 1999** Peter Grua *President of HLM Management Company, Inc.,
a registered investment company with small cap and venture
focus; former health care analyst*
- 1999** Scott Trumbull *Executive Vice President of Owens-Illinois, Inc.*

All are important additions to the Board and contributors to our success. We also continue to benefit from the counsel of retired directors, who remain interested and involved.

2000

The year 2000 was one dedicated to conservatism. We maintained leverage at conservative levels throughout the year, standing at 39% debt to total book capitalization at December 31, 2000, to produce a strong 3.5 to 1.0 interest coverage. Both reflect the successful execution of a non-core asset disposition program that substantially met our \$200 million asset sale goal by March 31, 2001. Our success in these capital-starved markets is attributable to identifying the liquidity crunch early and initiating our disposition program 18-24 months ago. The extension of the Company's bank line of credit to March 2003 completed the process of preserving liquidity. The Company is positioned to continue its progress toward BBB investment-grade ratings.

On another front, the Company substantially completed the process of seasoning our portfolio. We chose the correct investment strategy in 1994 by allocating investments primarily to assisted living instead of nursing homes. The resulting challenge was to take these new, purpose-built assisted living facilities through construction and fill-up to stabilization. At year end, stabilized properties stood at approximately 70% of the portfolio and are on track to reach 80% by June 30, 2001. During 2000, \$193 million of our portfolio properties completed the seasoning process with \$130 million occurring in the second half of 2000. Approximately \$100-125 million should stabilize by June 30, 2001. When that occurs, this management team will have overseen the construction and fill-up of over \$500 million of assisted living assets.

Another portfolio goal was to attain equity REIT status by reaching 75% owned properties. Ironically, as a result of our successful disposition program, we only reached 71% by year end; however, we expect to become an equity REIT by the end of the first quarter 2001. By owning

and leasing these facilities to operators under long-term operating leases, the average life of the portfolio lengthens with depreciation permitting us to lower our funds from operations (“FFO”) payout ratio and retain more internally generated capital. When equity REIT status is reached, the Company will be added to the “radar screens” of institutional investors who, by charter or practice, invest only in equity REITs.

We avoided major operator problems due, in part, to our decision seven years ago to limit investments in nursing homes whose purchase prices had been fueled by unsustainable Medicare reimbursement. Yet, we also actively monitored our portfolio and moved a number of facilities to new operators. It would be wonderful if all facilities and management groups met our performance expectations; however, constant vigilance is required. By identifying a problem at the earliest possible time through our proprietary, state-of-the-art systems, many problems are addressed constructively with a better resolution for both parties.

There will be other operators who wish or need to refocus their operations after growing too quickly. We regret the need to face these situations. In most cases, growth is spurred by the desire to appeal to investors who push for growth to support greater returns. Operators focused on unrealistic and unsustainable growth requirements at the expense of facility operations have been quite harmful to the sector’s reputation. Fortunately, the facilities can be transferred to a regionally focused operator who can make the facility successful. Assisted living facilities will remain as viable, important, demand-driven components of the health care delivery system. Operators who focus on operations, rather than listening to the siren song of Wall Street, will emerge as successful companies.

Management Perspective

Health Care REIT has demonstrated its ability to take the appropriate action in both good and bad times and execute its game plan as advertised. We have already discussed our success in addressing liquidity and portfolio seasoning issues during these last two years. But, let me remind you of our game plan and execution during better times. In the middle 1990s, we developed relationship financing programs with successful operators that permitted us to develop

Letter to Shareholders

very predictable investment backlogs. These programs resulted in new investments of nearly \$1.2 billion in the period 1996 through 1999 — effectively only three and a half years since the credit crunch shut down investments halfway through 1999. These investments permitted us to move toward equity REIT status, lengthen the average life of our portfolio and reach a critical size level to attract capital. Our balanced commitment both to debtholders and shareholders was demonstrated through conservative leverage levels and high interest coverages on one hand and excellent total shareholder returns on the other. For the same four-year period, our average FFO growth was approximately 10.7%.

Today our investment program is stalled because permanent capital is not available at reasonable costs. This is disappointing because attractive investment opportunities are readily available. We have reviewed between \$130 and \$150 million of such investments. Today they serve as solid investments for redeployment of disposition proceeds. We intend to stick to our conservative leverage posture and to be quite careful about running up our line of credit until reasonably priced permanent capital becomes available. However, good investment opportunities await smart capital.

We are encouraged by evidence suggesting that reasonably priced capital may soon be available. Health Care REIT has substantially concluded its repositioning at a propitious time when the long-term care sector is clearly strengthening. The economy has entered a slowdown, which we believe favors REITs as defensive investment vehicles. Health care REITs that invest in long-term care should be particularly attractive as demand for these services is quite inelastic and arguably recession-proof.

When capital becomes available, we will invest judiciously based upon our 30 years of experience. We believe there are certain essential elements to long-term care investment:

- 1.** *Diversify by operator and location;*
- 2.** *Monitor constantly and take action early and decisively when operator problems surface and remain unresolved;*
- 3.** *Adopt the appropriate management and investment approach based upon relative risk and reward within the long-term care cycle; and,*

Letter to Shareholders

- 4.** *Never forget that the long-term care sector is not simply real estate — the operator is clearly the driver of value.*

These are simple lessons that come from 30 years of investing in long-term care.

Generally, the sector has been a predictable safe investment haven driven by the compelling demographic forces. The cycles have not been frequent or certainly as extreme as the recent one; however, we are always on our guard for possible overbuilding or operator underperformance. From our experience, the emergence from cycle troughs creates opportunity that rewards the hard-core investors who persevere through the tough times. At that point, marginal operators and transient financiers are gone, underlying asset values become compelling and a relatively smaller number of investors remain to satisfy the sector capital needs. We saw this latest down cycle coming, worked hard to avoid operator problems and positioned the Company to reap the reward. At this time, we believe investing in a pool of reasonably priced, diversified long-term care assets, underwritten and monitored by the management team at your Company, constitutes an attractive investment opportunity. We believe that our efforts during this most recent cycle and over our 30-year history justify more favorable attention from the capital markets.

We appreciate your patience and continued support.



George L. Chapman

Chairman, Chief Executive Officer & President

Health Care REIT, Inc. Corporate Profile

Health Care REIT, Inc. (the “Company”) is a self-administered real estate investment trust that invests in health care facilities; primarily nursing homes and assisted living facilities. The Company also invests in specialty care facilities. As of December 31, 2000, nursing homes and assisted living facilities comprised approximately 96% of the investment portfolio. Founded in 1970, the Company was the first real estate investment trust to invest exclusively in health care facilities.

As of December 31, 2000, the Company had \$1.1 billion of gross real estate investments in 205 facilities located in 34 states and managed by 38 different operators. The portfolio included 150 assisted living facilities, 47 nursing homes, six specialty care facilities, and two behavioral care facilities. At that date, the Company had approximately \$15 to \$20 million in unfunded commitments.

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Financial Highlights

The following selected financial data for the five years ended December 31, 2000, are derived from the audited consolidated financial statements of the Company.

	2000	Year ended December 31,			
		(In thousands, except per share data)			
		1999	1998	1997	1996
Operating Data					
Revenues	\$ 136,954	\$ 129,307	\$ 97,992	\$ 73,308	\$ 54,402
Expenses:					
Interest expense	34,622	26,916	18,030	15,365	14,635
Provision for depreciation	22,706	17,885	10,254	5,287	2,427
General and administrative and other expenses (1)	9,570	8,868	7,399	6,178	5,856
Loss on investment	2,000				808
Total expenses	68,898	53,669	35,683	26,830	23,726
Net income	68,056	75,638	62,309	46,478	30,676
Preferred stock dividends	13,490	12,814	4,160		
Net income available to common shareholders	\$ 54,566	\$ 62,824	\$ 58,149	\$ 46,478	\$ 30,676

Other Data

Average number of common shares outstanding:

Basic	28,418	28,128	25,579	21,594	14,093
Diluted	28,643	28,384	25,954	21,929	14,150

Per Share

Net income available to common shareholders:

Basic	\$ 1.92	\$ 2.23	\$ 2.27	\$ 2.15	\$ 2.18
Diluted	1.91	2.21	2.24	2.12	2.17
Cash distributions per common share	2.335	2.27	2.19	2.11	2.08

	2000	1999	December 31,		
			(In thousands)		
			1998	1997	1996
Balance Sheet Data					
Real estate investments, net	\$ 1,121,419	\$ 1,241,722	\$ 1,047,511	\$ 716,193	\$ 512,894
Total assets	1,156,904	1,271,171	1,073,424	734,327	519,831
Total debt	439,752	538,842	418,979	249,070	184,395
Total liabilities	458,297	564,175	439,665	264,403	194,295
Total shareholders' equity	698,607	706,996	633,759	469,924	325,536

(1) General and administrative and other expenses include loan expense, provision for loan losses, and other operating expenses.

Facility Locations

2000

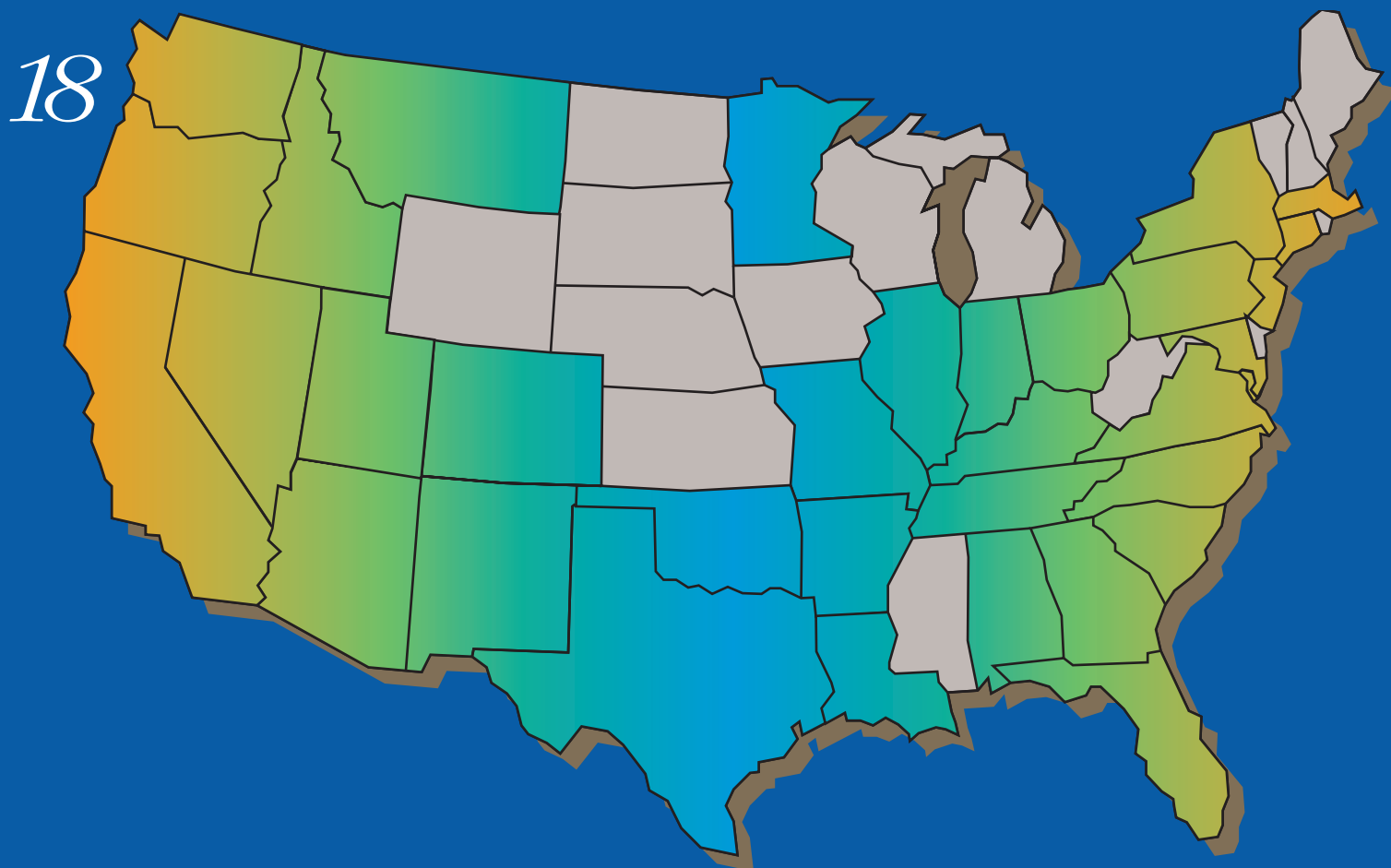
150 *Assisted Living Facilities*

47 *Nursing Homes*

6 *Specialty Care Facilities*

2 *Behavioral Care Facilities*

205 *Total Number of Facilities*



Portfolio Review

The following table summarizes certain information about Health Care REIT, Inc.'s portfolio as of December 31, 2000:

Real Estate Owned:

				Gross Amount at Which Carried at Close of Period			
	Number of Facilities	Year(s) Built	Year(s) Acquired	Land	Building & Improvements	Total	Accumulated Depreciation
Nursing Homes:							
Arizona	1	1995	1998	\$ 180	\$ 3,988	\$ 4,168	\$ 341
California	1	1968	1998	1,460	3,880	5,340	321
Colorado	1	1989	1998	370	6,051	6,421	506
Florida	7	1984	1998	4,022	50,718	54,740	3,000
Idaho	3	1985-1996	1998	2,010	20,662	22,672	1,599
Illinois	2	1964-1973	1998	1,010	11,446	12,456	596
Kentucky	1	1967	1993	130	4,870	5,000	878
Massachusetts	12	1961-1982	1995-1997	6,972	87,695	94,667	5,090
Ohio	2	1972-1983	1989-1998	786	8,778	9,564	1,155
Oklahoma	1	1958	1998	470	5,673	6,143	407
Oregon	1	1982	1998	300	5,316	5,616	429
Pennsylvania	3	1959-1982	1993	669	17,567	18,236	2,375
Texas	1	1978	1993	663	12,588	13,251	2,713
Construction in Progress							
	36			19,042	239,232	258,274	19,410
Assisted Living Facilities:							
Arizona	3	1998-2000	1998-2000	1,510	15,554	17,064	328
California	2	2000	2000	450	10,315	10,765	77
Connecticut	1	1998	1998	660	9,652	10,312	729
Florida	18	1988-1999	1996-1999	8,198	68,376	76,574	5,132
Georgia	2	1999	1999	3,166	24,541	27,707	1,232
Indiana	9	1999	1999	1,951	34,875	36,826	1,648
Louisiana	1	2000	2000	1,100	10,036	11,136	306
Maryland	1	1999	1999	1,320	13,641	14,961	825
Massachusetts	1	1998	1998	810	10,500	11,310	757
Minnesota	1	1999	1999	322	6,345	6,667	313
Montana	2	1998-2000	1998-2000	910	7,239	8,149	199
Nevada	3	1998-2000	1998-2000	2,086	26,129	28,215	1,205
New Jersey	2	1993-2000	1996-2000	4,597	23,627	28,224	1,685
New Mexico	1	1996	1997	233	5,355	5,588	481
New York	1	1996	1996	400	10,528	10,928	918
North Carolina	9	1986-2000	1997-2000	7,269	52,681	59,950	3,158
Ohio	7	1985-2000	1997-2000	3,512	31,647	35,159	2,305
Oklahoma	16	1995-2000	1995-2000	1,923	24,351	26,274	2,914
Oregon	2	1999	1999	1,077	8,757	9,834	409
Pennsylvania	4	1989-2000	1996-2000	1,951	17,199	19,150	753
South Carolina	5	1992-1999	1999	2,072	18,912	20,984	610
Tennessee	4	1998-1999	1998-1999	1,521	12,461	13,982	532
Texas	21	1984-1998	1992-1998	6,839	83,231	90,070	6,795
Washington	1	1999	1999	1,400	5,476	6,876	247
Construction in Progress	3					11,976	
	120			55,277	531,428	598,681	33,558
Total Real Estate	156			\$74,319	\$770,660	\$856,955	\$52,968

Mortgage and Construction Loans Receivable:

	Number of Facilities	Interest Rate	Maturity Dates	Periodic Payment Terms	Face Amount	Carrying Value
Nursing Homes:						
Florida	1	11.41%	2015	Monthly Principal & Interest	\$ 5,410	\$ 5,241
Massachusetts	2	10.00% to 11.41%	2004-2017	Monthly Principal & Interest	8,383	7,731
Missouri	1	11.49%	2009	Monthly Principal & Interest	7,072	6,847
Oklahoma	1	9.68%	2006	Monthly Interest Only	12,204	12,204
Pennsylvania	1	14.61%	2008	Monthly Principal & Interest	7,400	7,174
Texas	6	10.78%	2007	Monthly Principal & Interest	12,198	7,860
	12				52,667	47,057
Assisted Living Facilities:						
Alabama	2	9.50%	2002	Monthly Interest Only	10,498	10,498
Arizona	1	15.00%	2005	Monthly Interest Only	5,000	2,503
California	3	9.00% to 12.17%	2003-2020	Monthly Principal & Interest	17,243	14,663
Colorado	1	9.50%	2002	Monthly Interest Only	3,890	3,890
Connecticut	1	12.17%	2010	Monthly Interest Only	2,000	781
Florida	1	12.17%	2001	Monthly Interest Only	1,779	1,779
Georgia	2	9.50%	2002	Monthly Interest Only	9,913	9,913
Illinois	1	12.00%	2009	Monthly Interest Only	1,563	1,237
Indiana	1	12.17%	2008	Monthly Interest Only	1,000	140
Louisiana	1	9.50%	2002	Monthly Interest Only	6,587	6,468
Maryland	4	12.17%	2006	Monthly Interest Only	834	834
New Mexico	1	9.50%	2002	Monthly Interest Only	2,500	2,448
New York	5	9.94% to 12.15%	2016-2018	Monthly Principal & Interest	52,185	49,924
North Carolina	2	12.17%	2017-2019	Monthly Principal & Interest	3,555	936
Ohio	2	14.19%	2015	Monthly Interest Only	2,557	1,080
Pennsylvania	2	14.19%	2015	Monthly Interest Only	1,397	1,396
Tennessee	2	14.19%	2015	Monthly Interest Only	1,500	1,500
Texas	6	9.50% to 11.19%	2002-2016	Monthly Principal & Interest	23,552	23,338
Utah	1	10.60%	2019	Monthly Interest Only	8,440	7,764
Washington	1	8.72%	2007	Monthly Interest Only	1,925	1,925
	38				157,918	143,017
Specialty Care Facilities:						
Arkansas	1	12.20%	2012	Monthly Principal & Interest	29,000	28,646
California	2	12.83% to 13.17%	2015-2016	Monthly Principal & Interest	32,500	31,328
Minnesota	1	12.50%	2001	Monthly Principal & Interest	904	99
Texas	1	11.07%	2010	Monthly Principal & Interest	13,750	13,371
Washington, D.C.	1	12.98%	2015	Monthly Principal & Interest	9,950	9,474
	6				86,104	82,918
Behavioral Care Facilities:						
Florida	2	10.50%	2001		10,780	7,609
Total Mortgage Loans	58				\$307,469	\$280,601
OTHER REAL ESTATE INVESTMENTS (1)						\$ 54,637

(1) Includes working capital loans, subdebt investments and credit enhancements.

Management's Discussion and Analysis

Liquidity and Capital Resources

At December 31, 2000, the Company's net real estate investments totaled approximately \$1,121,419,000, which included 150 assisted living facilities, 47 nursing facilities, six specialty care facilities and two behavioral care facilities. Depending upon the availability and cost of external capital, the Company anticipates making additional investments in health care related facilities. New investments are funded from temporary borrowings under the Company's line of credit arrangements, internally generated cash and the proceeds derived from asset sales. Permanent financing for future investments, which replaces funds drawn under the line of credit arrangements, is expected to be provided through a combination of private and public offerings of debt and equity securities, and the assumption of secured debt. The Company believes its liquidity and various sources of available capital are sufficient to fund operations, meet debt service and dividend requirements, and finance future investments.

During 2000, the underperformance of publicly owned nursing home and assisted living companies, combined with the much publicized shift in equity funds flow from income-oriented investments to high-growth opportunities, impaired the stock valuations in the health care REIT sector. The availability of external capital is limited and expensive, constraining new investment activity and earnings growth. The Company believes the restrictive capital environment will continue until the prospects for the long-term care industry improve.

In October 1999, the Company announced a \$200 million asset divestiture program. The limited asset dispositions were intended to strengthen the Company's portfolio and generate liquidity, enhancing the Company's balance sheet. During 2000, the Company received \$173 million as a result of the asset disposition program. Included in these dispositions were \$107 million of real property and \$66 million of mortgage loans, which generated \$1.7 million in gains and prepayment fees. These dispositions, along with cash flow from operations, provided the Company with the funds to pay \$35 million of maturing senior note obligations, reduce the outstanding balances under the revolving line of credit arrangements from \$177.5 million to \$119.9 million, and fund additional investments.

During 2000, the Company invested \$18,113,000 in real property, provided permanent mortgage and loan financings of \$5,199,000, made construction advances of \$33,957,000 and funded \$15,523,000 of subdebt investments. As of December 31, 2000, the Company had approximately \$14,663,000 in unfunded commitments.

During 2000, eight of the above-mentioned construction projects completed the construction phase of the Company's investment process and were converted to permanent real property investments, with an aggregate investment of \$61,840,000, and three construction loans converted to permanent mortgage loans with an aggregate investment balance of \$10,690,000.

As of December 31, 2000, the Company had shareholders' equity of \$698,607,000 and a total outstanding debt balance of \$439,752,000, which represents a debt to total capitalization ratio of .39 to 1.00.

As of December 31, 2000, the Company had an unsecured revolving line of credit expiring March 31, 2001, in the amount of \$175,000,000 bearing interest at the lender's prime rate or LIBOR plus 1.0%. In addition, the Company had an unsecured revolving line of credit in the amount of \$25,000,000 bearing interest at the lender's prime rate expiring April 30, 2001.

In January 2001, the Company extended its primary revolving line of credit through March 31, 2003. Under the terms of the extension, the total commitment was reduced from \$175 million to \$150 million and the effective interest rate was adjusted to the lender's prime rate or LIBOR plus 1.50%.

Management's Discussion and Analysis

As of December 31, 2000, the Company has effective shelf registrations on file with the Securities and Exchange Commission under which the Company may issue up to \$380,319,000 of securities including debt, convertible debt, common and preferred stock. Depending upon market conditions, the Company anticipates issuing securities under such shelf registrations to invest in additional health care facilities and to repay borrowings under the Company's line of credit arrangements.

Results of Operations December 31, 2000 vs. December 31, 1999

Revenues were comprised of the following:

	Year ended		Change	
	Dec. 31, 2000	Dec. 31, 1999	\$	%
(in thousands)				
Rental income	\$ 88,312	\$ 72,700	\$15,612	21%
Interest income	41,064	48,076	(7,012)	-15%
Commitment fees and other income	5,837	6,263	(426)	-7%
Prepayment fees	57	1,565	(1,508)	-96%
Totals	\$135,270	\$128,604	\$ 6,666	5%

The Company generated increased rental income as a result of the completion of real property construction projects for which the Company began receiving rent and the purchase of properties previously financed by the Company. This offsets a reduction in interest income due to the repayment of mortgage loans and the purchase of properties previously financed by the Company.

Expenses were comprised of the following:

	Year ended		Change	
	Dec. 31, 2000	Dec. 31, 1999	\$	%
(in thousands)				
Interest expense	\$ 34,622	\$ 26,916	\$ 7,706	29%
Provision for depreciation	22,706	17,885	4,821	27%
Loss on investment	2,000		2,000	n/a
General and admin. expenses	7,405	7,359	46	1%
Loan expense	1,165	909	256	28%
Provision for losses	1,000	600	400	67%
Totals	\$ 68,898	\$ 53,669	\$15,229	28%

The increase in interest expense from 1999 to 2000 was due to higher average interest rates on the Company's line of credit and secured debt and a reduction in the amount of capitalized interest offsetting interest expense.

The Company capitalizes certain interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company's cost of financing. The Company's interest expense is reduced by the amount capitalized. Capitalized interest for the year ended December 31, 2000, totaled \$3,079,000, as compared with \$8,578,000 for the same period in 1999.

Management's Discussion and Analysis

The provision for depreciation increased as a result of additional investment in properties owned directly by the Company.

In 2000, the Company restructured its investments with Summerville Health Care. As part of the restructuring agreement, Summerville agreed to permit the Company to re-lease 10 of its 11 facilities to new operators and repaid substantially all of the Company's subdebt investment. As part of Summerville's recapitalization, the Company's \$2 million non-yielding preferred stock investment was substantially diluted. Accordingly, the Company wrote off its investment in 2000, resulting in a \$2 million charge.

Other items:	Year ended		Change	
	Dec. 31, 2000	Dec. 31, 1999	\$	%
(in thousands)				
Other items:				
Gain on sales of properties	\$ 1,684	\$ 703	\$ 981	140%
Preferred dividends	13,490	12,814	676	5%

As a result of the various factors mentioned above, net income available to common shareholders was \$54,566,000, or \$1.91 per diluted share, for 2000 as compared with \$62,824,000, or \$2.21 per diluted share, for 1999.

Results of Operations December 31, 1999 vs. December 31, 1998

Revenues for the year ended December 31, 1999, were \$129,307,000 compared with \$97,992,000 for the year ended December 31, 1998, an increase of \$31,315,000 or 32%. Revenue growth resulted primarily from increased operating rent income of \$30,747,000, from additional real estate investments made during the past 12 to 15 months.

Expenses for the year ended December 31, 1999, totaled \$53,669,000, an increase of \$17,986,000 from expenses of \$35,683,000 for the year ended December 31, 1998. The increase in total expenses for the year ended December 31, 1999, was primarily related to an increase in interest expense, additional expense associated with the provision for depreciation, and an increase in general and administrative expenses.

Interest expense for the year ended December 31, 1999, was \$26,916,000 compared with \$18,030,000 for the year ended December 31, 1998. The increase in interest expense during 1999 was primarily due to the issuance in March 1999 of the Senior Unsecured Notes due 2006, the addition of \$60,000,000 borrowed under the Secured Credit Facility and higher average borrowings under the unsecured lines of credit during 1999, which were offset by the amount of capitalized interest recorded in 1999.

The Company capitalizes certain interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company's cost of financing. The Company's interest expense is reduced by the amount capitalized. Capitalized interest for the year ended December 31, 1999, totaled \$8,578,000, as compared with \$7,740,000 for the same period in 1998.

The provision for depreciation for the year ended December 31, 1999, totaled \$17,885,000, an increase of \$7,631,000 over the year ended 1998 as a result of additional real property investments.

Management's Discussion and Analysis

General and administrative expenses for the year ended December 31, 1999, totaled \$7,359,000, as compared with \$6,114,000 for the year ended December 31, 1998. The expenses for the year ended December 31, 1999, were 5.69% of revenues, as compared with 6.24% for the year ended December 31, 1998.

Dividend payments associated with the Company's outstanding preferred stock for the year ended December 31, 1999, totaled \$12,814,000, as compared with \$4,160,000 for 1998.

As a result of the various factors mentioned above, net income available for common shareholders for the year ended December 31, 1999, was \$62,824,000, or \$2.21 per share, as compared with \$58,149,000, or \$2.24 per share, for the year ended December 31, 1998.

Impact of Inflation

During the past three years, inflation has not significantly affected the earnings of the Company because of the moderate inflation rate. Additionally, earnings of the Company are primarily long-term investments with fixed interest rates. These investments are mainly financed with a combination of equity, senior notes and borrowings under the revolving lines of credit. During inflationary periods, which generally are accompanied by rising interest rates, the Company's ability to grow may be adversely affected because the yield on new investments may increase at a slower rate than new borrowing costs. Presuming the current inflation rate remains moderate and long-term interest rates do not increase significantly, the Company believes that inflation will not impact the availability of equity and debt financing.

Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to various market risks, including the potential loss arising from adverse changes in interest rates. The Company seeks to mitigate the effects of fluctuations in interest rates by matching the term of new investments with new long-term fixed rate borrowings to the extent possible. The following section is presented to provide a discussion of the risks associated with potential fluctuations in interest rates.

The Company historically borrows on its revolving lines of credit to make acquisitions or to finance the construction of health care facilities. Then, as market conditions dictate, the Company will issue equity or long-term fixed rate debt to repay the borrowings under the revolving lines of credit.

A change in interest rates will not affect future earnings or cash flow on our fixed rate debt. Interest rate changes, however, will affect the fair value of such debt. A 1% increase in interest rates would result in a decrease in fair value of the Company's Senior Unsecured Notes by approximately \$9 million at December 31, 2000. Changes in the interest rate environment upon maturity of this fixed rate debt could have an affect on the future cash flows and earnings of the Company, depending on whether the debt is replaced with other fixed rate debt, with variable rate debt, with equity or by the sale of assets.

A change in interest rates will not affect the fair value of the Company's variable rate debt, including its unsecured and secured revolving credit arrangements. A 1% increase in interest rates related to this variable rate debt, and assuming no change in the outstanding balance at year-end, would result in increased annual interest expense of approximately \$1,839,000.

The Company is subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. The majority of the Company's borrowings were completed pursuant to indentures or contractual agreements which limit the amount of indebtedness the Company may incur. Accordingly, in the event that the Company is unable to raise additional equity or borrow money because of these limitations, the Company's ability to acquire additional properties may be limited.

Management's Discussion and Analysis

At December 31, 2000, the Company's variable interest rate debt exceeded its variable interest rate assets, presenting an exposure to rising interest rates. The Company may or may not elect to use financial derivative instruments to hedge variable interest rate exposure. Such decisions are principally based on the Company's policy to match its variable rate investments with comparable borrowings, but is also based on the general trend in interest rates at the applicable dates and the Company's perception of future volatility of interest rates.

Potential Risks from Bankruptcies

The Company is exposed to the risk that its operators may not be able to meet the rent and interest payments due the Company, which may result in an operator bankruptcy or insolvency. Although the Company's operating lease agreements and loans provide the Company the right to terminate an investment, evict an operator, demand immediate repayment, and other remedies, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. An operator in bankruptcy may be able to restrict the Company's ability to collect unpaid rent or interest, and collect interest during the bankruptcy proceeding.

The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator licensed to manage the facility. In addition, the Company may be required to fund certain expenses (e.g., real estate taxes and maintenance) to retain control of a property. In some instances the Company may take possession of a property, which may expose the Company to successor liabilities. Should such events occur, the Company's revenue and operating cash flow may be adversely affected.

Other Information

This document and supporting schedules may contain "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements (which can be identified by the use of forward-looking terminology such as "may," "will," "expect," "should" or comparable terms or the negative thereof), involve known and unknown risks and uncertainties, which may cause the Company's actual results in the future to differ materially from expected results. These risks and uncertainties include, among others, competition in the financing of health care facilities, the availability and cost of capital, the ability of the Company's lessees and borrowers to make payments under their leases and loans, the ability of the Company to attract new operators for certain facilities, the amount of any additional investments, and regulatory and other changes in the health care sector, as described in the Company's filings with the Securities and Exchange Commission.

Report of Independent Auditors

Shareholders and Directors Health Care REIT, Inc.

We have audited the accompanying consolidated balance sheets of Health Care REIT, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Health Care REIT, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP
Toledo, Ohio
January 12, 2001

Consolidated Balance Sheets

(In thousands)	December 31	
	2000	1999
Assets		
Real estate investments:		
Real property owned		
Land	\$ 74,319	\$ 73,234
Buildings & improvements	770,660	730,337
Construction in progress	11,976	58,954
	856,955	862,525
Less accumulated depreciation	(52,968)	(35,746)
Total real property owned	803,987	826,779
Loans receivable		
Real property loans	301,321	401,019
Subdebt investments	21,972	19,511
	1,127,280	1,247,309
Less allowance for loan losses	(5,861)	(5,587)
Net real estate investments	1,121,419	1,241,722
Other assets:		
Equity investments	5,450	6,713
Deferred loan expenses	2,939	3,311
Cash and cash equivalents	2,844	2,129
Receivables and other assets	24,252	17,296
	35,485	29,449
Total assets	\$ 1,156,904	\$ 1,271,171
Liabilities and shareholders' equity		
Liabilities:		
Borrowings under line of credit arrangements	\$ 119,900	\$ 177,500
Senior unsecured notes	255,000	290,000
Secured debt	64,852	71,342
Accrued expenses and other liabilities	18,545	25,333
Total liabilities	458,297	564,175
Shareholders' equity:		
Preferred Stock, \$1.00 par value:		
Authorized - 10,000,000 shares		
Issued and outstanding – 6,000,000 shares in 2000 and 1999		
at liquidation preference	150,000	150,000
Common Stock, \$1.00 par value:		
Authorized - 75,000,000 shares		
Issued and outstanding – 28,806,151		
shares in 2000 and 28,532,419 shares in 1999	28,806	28,532
Capital in excess of par value	528,138	524,204
Undistributed/(overdistributed) net income	(3,388)	8,883
Accumulated other comprehensive income	(744)	593
Unamortized restricted stock	(4,205)	(5,216)
Total shareholders' equity	\$ 698,607	\$ 706,996
Total liabilities and shareholders' equity	\$ 1,156,904	\$ 1,271,171

See accompanying notes

Consolidated Statements of Income

(In thousands, except per share data)	Year ended December 31		
	2000	1999	1998
Revenues:			
Rental income	\$ 88,312	\$ 72,700	\$ 41,953
Interest income	41,064	48,076	48,488
Commitment fees and other income	5,837	6,263	5,914
Prepayment fees	57	1,565	588
	135,270	128,604	96,943
Expenses:			
Interest expense	34,622	26,916	18,030
Provision for depreciation	22,706	17,885	10,254
Loss on investment	2,000		
General and administrative	7,405	7,359	6,114
Loan expense	1,165	909	685
Provision for loan losses	1,000	600	600
	68,898	53,669	35,683
Income before gain on sale of properties	66,372	74,935	61,260
Gains on sale of properties	1,684	703	1,049
Net Income	68,056	75,638	62,309
Preferred stock dividends	13,490	12,814	4,160
Net income available to common shareholders	\$ 54,566	\$ 62,824	\$ 58,149
Average number of common shares outstanding:			
Basic	28,418	28,128	25,579
Diluted	28,643	28,384	25,954
Net income available to common shareholders per share:			
Basic	\$ 1.92	\$ 2.23	\$ 2.27
Diluted	\$ 1.91	\$ 2.21	\$ 2.24

See accompanying notes

Consolidated Statements of Shareholders' Equity

(In thousands, except per share data)	Preferred Stock	Common Stock	Capital in Excess of Par Value	Undistributed/ (Overdistributed) Net Income	Accumulated Other Comprehensive Income	Unamortized Restricted Stock	Total
Balances at January 1, 1998	\$	\$ 24,341	\$ 435,603	\$ 8,841	\$ 4,671	\$ (3,532)	\$ 469,924
Comprehensive income:							
Net income				62,309			62,309
Other comprehensive income:							
Unrealized loss on marketable securities					(565)		(565)
Foreign currency translation adjustment					(124)		(124)
Total comprehensive income							61,620
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans		440	9,986			(1,658)	8,768
Amortization of restricted stock grants						601	601
Proceeds from sale of common stock, net of expenses of \$4,599		3,459	77,893				81,352
Net proceeds from sale of preferred stock	75,000		(2,790)				72,210
Cash dividends:							
Common stock — \$2.19 per share				(56,556)			(56,556)
Preferred stock — \$1.39 per share				(4,160)			(4,160)
Balances at December 31, 1998	75,000	28,240	520,692	10,434	3,982	(4,589)	633,759
Comprehensive income:							
Net income				75,638			75,638
Other comprehensive income:							
Unrealized loss on marketable securities					(3,242)		(3,242)
Foreign currency translation adjustment					(147)		(147)
Total comprehensive income							72,249
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans		292	5,967			(1,707)	4,552
Amortization of restricted stock grants						1,080	1,080
Net proceeds from sale of preferred stock	75,000		(2,455)				72,545
Cash dividends:							
Common stock — \$2.27 per share				(64,375)			(64,375)
Preferred stock, Series B — \$2.22 per share				(6,656)			(6,656)
Preferred stock, Series C — \$2.19 per share				(6,158)			(6,158)
Balances at December 31, 1999	150,000	28,532	524,204	8,883	593	(5,216)	706,996
Comprehensive income:							
Net income				68,056			68,056
Other comprehensive income:							
Unrealized loss on marketable securities					(733)		(733)
Foreign currency translation adjustment					(604)		(604)
Total comprehensive income							66,719
Proceeds from issuance of common stock from dividend reinvestment and stock incentive plans, net of forfeitures		274	3,934			(79)	4,129
Amortization of restricted stock grants						1,090	1,090
Net proceeds from sale of preferred stock							
Cash dividends:							
Common stock — \$2.335 per share				(66,837)			(66,837)
Preferred stock, Series B — \$2.219 per share				(6,656)			(6,656)
Preferred stock, Series C — \$2.27 per share				(6,834)			(6,834)
Balances at December 31, 2000	\$150,000	\$ 28,806	\$ 528,138	\$ (3,388)	\$ (744)	\$ (4,205)	\$698,607

See accompanying notes

Consolidated Statements of Cash Flows

(In thousands)	Year ended December 31		
	2000	1999	1998
Operating activities			
Net income	\$ 68,056	\$ 75,638	\$ 62,309
Adjustments to reconcile net income to net cash provided from operating activities:			
Provision for depreciation	22,961	18,106	10,348
Amortization	2,255	1,998	1,306
Provision for losses	1,000	600	600
Loss on investment	2,000		
Loan and commitment fees earned less than (greater than) cash received	(1,960)	(399)	1,222
Direct financing lease income less than cash received		65	292
Rental income in excess of cash received	(6,732)	(6,692)	(3,047)
Interest income less than (greater than) cash received	(318)	378	(380)
Increase (decrease) in accrued expenses and other liabilities	(4,827)	5,045	4,133
Decrease (increase) in receivables and other assets	264	1,394	(1,037)
Net cash provided from operating activities	82,699	96,133	75,746
Investing activities			
Investment in real property	(46,449)	(215,491)	(270,015)
Investment in loans receivable	(34,631)	(56,089)	(105,282)
Other investments, net of payments	(1,828)	(2,024)	(20,965)
Principal collected on loans	70,567	42,731	38,629
Proceeds from sale of properties	107,182	18,112	11,378
Other	(742)	(444)	(328)
Net cash provided by (used in) investing activities	94,099	(213,205)	(346,583)
Financing activities			
Net increase (decrease) under line of credit arrangements	(57,600)	5,950	93,150
Borrowings under senior notes		50,000	100,000
Proceeds from issuance of Secured Debt		64,000	
Principal payments on other long-term obligations	(41,491)	(87)	(23,241)
Net proceeds from the issuance of Common Stock	4,129	4,552	90,120
Net proceeds from the issuance of Preferred Stock		72,545	72,210
Increase in deferred loan expense	(794)	(1,839)	(798)
Cash distributions to shareholders	(80,327)	(77,189)	(60,716)
Net cash provided from (used by) financing activities	(176,083)	117,932	270,725
Increase (decrease) in cash and cash equivalents	715	860	(112)
Cash and cash equivalents at beginning of year	2,129	1,269	1,381
Cash and cash equivalents at end of year	\$ 2,844	\$ 2,129	\$ 1,269
Supplemental Cash Flow Information-interest paid	\$ 39,638	\$ 32,826	\$ 23,714

See accompanying notes

Accounting Policies and Related Matters

Industry The Company is a self-administered real estate investment trust that invests primarily in long-term care facilities, which include nursing homes and assisted living facilities. The Company also invests in specialty care facilities.

Principles of Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after the elimination of all significant intercompany accounts and transactions.

Use of Estimates The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Loans Receivable Loans receivable consist of long-term mortgage loans, construction-period loans maturing in two years or less, working capital loans and subdebt investments. Interest income on loans is recognized as earned based upon the principal amount outstanding. The mortgage, construction and working capital loans are primarily collateralized by a first mortgage on or assignment of partnership interest in the related facilities, which consist of nursing homes, assisted living facilities, behavioral care facilities, and specialty care hospitals. Subdebt investments represent debt instruments to operators of facilities that have been financed by the Company. These obligations are generally secured by the operator's leasehold rights and corporate guaranties.

Real Property Investments Substantially all of the properties owned by the Company are leased under operating leases and are recorded at cost. These properties are depreciated on a straight-line basis over their estimated useful lives. The carrying value of long-lived assets is reviewed quarterly on a property by property basis to determine if facts and circumstances suggest that the assets may be impaired or that the depreciable life may need to be changed. The Company considers external factors relating to each asset. If these external factors and the projected undiscounted cash flows of the asset over the remaining amortization period indicate that the asset will not be recoverable, the carrying value will be adjusted to the estimated fair value. The leases generally extend for a minimum 10-year period and provide for payment of all taxes, insurance and maintenance by the lessees. In general, operating lease income includes base rent payments plus fixed annual rent increases, which are recognized on a straight-line basis over the minimum lease period. This income is greater than the amount of cash received during the first half of the lease term.

Capitalization of Construction Period Interest The Company capitalizes interest costs associated with funds used to finance the construction of properties owned directly by the Company. The amount capitalized is based upon the borrowings outstanding during the construction period using the rate of interest which approximates the Company's cost of financing.

The Company capitalized interest costs of \$3,079,000, \$8,578,000, and \$7,740,000, during 2000, 1999 and 1998, respectively, related to construction of real property owned by the Company. The Company's interest expense reflected in the statement of income has been reduced by the amounts capitalized.

Allowance for Loan Losses The allowance for loan losses is maintained at a level believed adequate to absorb potential losses in the Company's loans receivable. The determination of the allowance is based on a quarterly evaluation of these loans, including general economic conditions and estimated collectibility of loan payments.

Deferred Loan Expenses Deferred loan expenses are costs incurred by the Company in connection with the issuance of short-term and long-term debt. The Company amortizes these costs over the term of the debt using the straight-line method, which approximates the interest yield method.

Cash and Cash Equivalents Cash and cash equivalents consist of all highly liquid investments with an original maturity of three months or less.

Equity Investments Management determines the appropriate classification of an equity investment at the time of acquisition and reevaluates such designation as of each balance sheet date. Equity investments included the common stock of a corporation, valued at historical cost, and ownership representing a 31% interest in Atlantic Healthcare Finance L.P., a property investment group that specializes in the financing, through sale and leaseback transactions, of nursing homes located in the United Kingdom and continental Europe. The ownership interest is accounted for under the equity method.

Marketable Securities Marketable securities available for sale are stated at market value with unrealized gains and losses reported in a separate component of shareholders' equity. Marketable securities reflect the market value of the common stock of two publicly owned corporations, which were obtained by the Company at no cost.

Loan and Commitment Fees Loan and commitment fees are earned by the Company for its agreement to provide direct and standby financing to, and credit enhancement for, owners of health care facilities. The Company amortizes loan and commitment fees over the initial fixed term of the lease, the mortgage or the construction period related to such investments.

Federal Income Tax No provision has been made for federal income taxes since the Company has elected to be treated as a real estate investment trust under the applicable provisions of the Internal Revenue Code, and the Company believes that it has met the requirements for qualification as such for each taxable year. See Note 10.

Net Income Per Share Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Comprehensive Income Comprehensive income includes unrealized gains or losses on the Company's marketable securities and foreign currency translation adjustments. These items are included as a component of shareholders' equity.

New Accounting Standard In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which is effective January 1, 2001. Under the Statement, all financial instruments meeting the definition of a derivative will be carried at fair value. The Company currently has no derivative instruments nor has engaged in any hedging activities that would require a change in accounting.

Reclassifications Certain amounts in the 1999 financial statements have been reclassified to conform to the 2000 presentation. These reclassifications had no effect on net income, total assets, or shareholders' equity.

Loans Receivable

The following is a summary of loans receivable (in thousands):

	December 31	
	2000	1999
Mortgage loans	\$ 275,312	\$ 374,390
Construction loans	4,052	9,908
Working capital	20,720	15,221
Mortgage loans to related parties	1,237	1,500
Subdebt investments	21,972	19,511
TOTALS	\$ 323,293	\$ 420,530

Loans to related parties (an entity whose ownership includes one Company director) included above are at rates comparable to other third-party borrowers equal to or greater than the Company's net interest cost on borrowings to support such loans. The amount of interest income and loan and commitment fees from related parties amounted to \$152,000, \$914,000, and \$1,160,000 for 2000, 1999 and 1998, respectively.

The following is a summary of mortgage loans at December 31, 2000 (in thousands):

Final Payment Due	Number of Loans	Payment Terms	Principal Amount at Inception	Carrying Amount
2001	4	Monthly payments from \$17,302 to \$45,278, including interest from 10.50% to 12.50%	\$ 13,462	\$ 9,486
2002	12	Monthly payments from \$19,380 to \$49,973, including interest at 9.50%	52,130	51,986
2003	1	Monthly payment at \$27,884, including interest at 9.00%	3,718	3,718
2004	1	Monthly payment at \$29,755, including interest at 10.00%	4,108	3,571
2006	5	Monthly payments from \$4,534 to \$96,412, including interest from 9.68% to 12.42%	18,179	15,671
2007	5	Monthly payments from \$3,592 to \$75,517, including interest from 8.72% to 12.17%	20,653	13,548
2008	2	Monthly payments from \$1,429 to \$92,028, including interest from 12.17% to 14.61%	8,400	7,313
2009	2	Monthly payments from \$13,680 to \$71,669, including interest from 11.49% to 12.00%	8,635	8,084
2010	3	Monthly payments from \$5,579 to \$135,335, including interest from 11.07% to 12.17%	20,025	18,313
2012	1	Monthly payment at \$309,651, including interest at 12.20%	29,000	28,646
2015	8	Monthly payments from \$1,195 to \$124,679, including interest from 9.13% to 14.19%	29,532	28,242
2016	4	Monthly payments from \$9,827 to \$125,212, including interest from 10.96% to 14.19%	26,590	24,550
2017	4	Monthly payments from \$3,033 to \$239,153, including interest from 11.43% to 14.19%	33,188	31,124
2018	1	Monthly payment at \$189,746, including interest at 9.94%	21,000	20,595
2019	2	Monthly payments from \$35,683 to \$48,408, including interest from 10.52% to 10.60%	8,864	8,741
2020	1	Monthly payment at \$28,345, including interest at 10.62%	2,975	2,961
TOTALS			\$ 300,459	\$ 276,549

Notes to Consolidated Financial Statements

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Real Estate Investments

The following table summarizes certain information about the Company's real estate properties as of December 31, 2000 (in thousands):

	Number of Facilities	Land	Building & Improvements	Total Investment	Accumulated Depreciation
Nursing Homes:					
Arizona	1	\$ 180	\$ 3,988	\$ 4,168	\$ 341
California	1	1,460	3,880	5,340	321
Colorado	1	370	6,051	6,421	506
Florida	7	4,022	50,718	54,740	3,000
Idaho	3	2,010	20,662	22,672	1,599
Illinois	2	1,010	11,446	12,456	596
Kentucky	1	130	4,870	5,000	878
Massachusetts	12	6,972	87,695	94,667	5,090
Ohio	2	786	8,778	9,564	1,155
Oklahoma	1	470	5,673	6,143	407
Oregon	1	300	5,316	5,616	429
Pennsylvania	3	669	17,567	18,236	2,375
Texas	1	663	12,588	13,251	2,713
	36	19,042	239,232	258,274	19,410
Assisted Living Facilities:					
Arizona	3	1,510	15,554	17,064	328
California	2	450	10,315	10,765	77
Connecticut	1	660	9,652	10,312	729
Florida	18	8,198	68,376	76,574	5,132
Georgia	2	3,166	24,541	27,707	1,232
Indiana	9	1,951	34,875	36,826	1,648
Louisiana	1	1,100	10,036	11,136	306
Maryland	1	1,320	13,641	14,961	825
Massachusetts	1	810	10,500	11,310	757
Minnesota	1	322	6,345	6,667	313
Montana	2	910	7,239	8,149	199
Nevada	3	2,086	26,129	28,215	1,205
New Jersey	2	4,597	23,627	28,224	1,685
New Mexico	1	233	5,355	5,588	481
New York	1	400	10,528	10,928	918
North Carolina	9	7,269	52,681	59,950	3,158
Ohio	7	3,512	31,647	35,159	2,305
Oklahoma	16	1,923	24,351	26,274	2,914
Oregon	2	1,077	8,757	9,834	409
Pennsylvania	4	1,951	17,199	19,150	753
South Carolina	5	2,072	18,912	20,984	610
Tennessee	4	1,521	12,461	13,982	532
Texas	21	6,839	83,231	90,070	6,795
Washington	1	1,400	5,476	6,876	247
Construction in Progress	3			11,976	
	120	55,277	531,428	598,681	33,558
Total Real Estate	156	\$74,319	\$ 770,660	\$ 856,955	\$ 52,968

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Real Estate Investments (continued)

At December 31, 2000, future minimum lease payments receivable under operating leases are as follows (in thousands):

2001	\$ 83,237
2002	85,223
2003	85,975
2004	86,918
2005	88,717
Thereafter	516,905
TOTAL	\$ 946,975

The Company converted \$60,648,000, \$16,309,000, and \$73,430,000 of mortgage loans into operating lease properties in 2000, 1999 and 1998, respectively. This noncash activity is appropriately not reflected in the accompanying statements of cash flows.

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Concentration of Risk

As of December 31, 2000, long-term care facilities, which include nursing homes and assisted living facilities, comprised 92% (93% at December 31, 1999) of the Company's real estate investments and were located in 34 states. Investments in assisted living facilities comprised 66% (70% at December 31, 1999) of the Company's real estate investments. The Company's investments with the three largest operators totaled approximately 27% (28% at December 31, 1999). No single operator has a real estate investment balance, which exceeds 11% (14% at December 31, 1999) of total real estate investments, including credit enhancements.

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Allowance for Loan Losses

The following is a summary of the allowance for loan losses (in thousands):

	2000	1999	1998
Balance at beginning of year	\$ 5,587	\$ 4,987	\$ 4,387
Provision for loan losses	1,000	600	600
Charge-offs	(726)		
Balance at end of year	\$ 5,861	\$ 5,587	\$ 4,987

In addition, the Company recorded a \$2,000,000 loss during 2000 related to an investment in the preferred stock of a private corporation that became substantially diluted as a result of a recapitalization of that corporation.

6

Borrowings Under Line of Credit Arrangements and Related Items

The Company has an unsecured credit arrangement with a consortium of 10 banks providing for a revolving line of credit ("revolving credit") in the amount of \$175,000,000, which expires on March 31, 2001. The agreement specifies that borrowings under the revolving credit are subject to interest payable in periods no longer than three months on either the agent bank's base rate of interest or 1.0% over LIBOR interest rate (based at the Company's option). The effective interest rate at December 31, 2000, was 7.97%. In addition, the Company pays a commitment fee ranging from an annual rate of 0.20% to 0.375% and an annual agent's fee of \$50,000. Principal is due upon expiration of the agreement. In January 2001, the Company extended the revolving credit through March 31, 2003. Under the terms of the

Notes to Consolidated Financial Statements

extension, the total commitment was reduced from \$175,000,000 to \$150,000,000 and the effective interest rate was adjusted to the agent bank's base rate or 1.5% over LIBOR. The Company has another unsecured line of credit with a bank for a total of \$25,000,000, which expires April 30, 2001. Borrowings under this line of credit are subject to interest at the bank's prime rate of interest (9.5% at December 31, 2000) and are due on demand.

The following information relates to aggregate borrowings under the line of credit arrangements (in thousands, except percentages):

	Year ended December 31		
	2000	1999	1998
Balance outstanding at December 31	\$119,900	\$177,500	\$171,550
Maximum amount outstanding at any month end	185,000	180,950	171,550
Average amount outstanding (total of daily principal balances divided by days in year)	140,981	153,318	103,739
Weighted average interest rate (actual interest expense divided by average borrowings outstanding)	7.77%	6.61%	6.90%



Senior Notes and Other Long-Term Obligations

The Company has \$255,000,000 of Unsecured Senior Notes with interest ranging from 7.06% to 8.34%.

The Company has one mortgage note payable, collateralized by a health care facility with an interest rate at 12%.

The Company has one secured note collateralized by one health care facility with interest at 2% over LIBOR (8.62% at December 31, 2000).

The Company has a \$60,000,000 secured line of credit, collateralized by 14 health care facilities, with interest at 2% over LIBOR (8.62% at December 31, 2000).

The carrying values of the health care properties securing the mortgages and secured debt totaled \$139,481,000 at December 31, 2000.

At December 31, 2000, the annual principal payments on these long-term obligations are as follows (in thousands):

	Senior Notes	Secured Line of Credit	Secured Note	Mortgages
2001	\$ 10,000	\$ 0	\$ 0	\$ 67
2002	20,000	0	0	75
2003	35,000	0	0	84
2004	40,000	60,000	4,000	133
2005	0	0	0	493
2006	50,000	0	0	0
2007	0	0	0	0
2008	100,000	0	0	0
Thereafter	0	0	0	0
TOTALS	\$ 255,000	\$ 60,000	\$ 4,000	\$ 852

Stock Incentive Plans and Retirement Arrangements

The Company's 1995 Stock Incentive Plan authorized up to 2,200,000 shares of Common Stock to be issued at the discretion of the Board of Directors. The 1995 Plan replaced the 1985 Incentive Stock Option Plan. The options granted under the 1985 Plan continue to vest through 2005 and expire 10 years from the date of grant. Officers and key salaried employees of the Company are eligible to participate in the 1995 Plan. The 1995 Plan allows for the issuance of stock options, restricted stock grants and Dividend Equivalency Rights. In addition, during 1997, the Company adopted a Stock Plan for Non-Employee Directors, which authorizes up to 240,000 shares to be issued.

The following summarizes the activity in the Plans for the years ended December 31 (shares in thousands):

	2000		1999		1998	
	Shares	Average Exercise Price	Shares	Average Exercise Price	Shares	Average Exercise Price
<u>Stock Options</u>						
Options at beginning of year	1,813	\$ 21.62	1,418	\$ 22.06	1,126	\$ 21.56
Options granted	507	16.79	410	20.17	362	23.00
Options exercised			(6)	21.81	(63)	18.57
Options terminated	(367)	21.76	(9)	23.90	(7)	24.90
	1,953	\$ 20.34	1,813	\$ 21.62	1,418	\$ 22.06
At end of year:						
Options exercisable	949	\$ 21.32	733	\$ 21.17	466	\$ 20.83
Weighted average fair value of options granted during the year		\$.63		\$ 2.11		\$ 1.98

The stock options generally vest over a five-year period and expire 10 years from the date of grant. Options at December 31, 2000, had exercise prices ranging from \$16.38 to \$27.38 per share and a weighted average contractual life of 7.5 years.

The Company issued 77,250, 86,250, and 74,100 restricted shares during 2000, 1999 and 1998, respectively, including 8,000, 9,000, and 2,250 shares for directors in 2000, 1999 and 1998, respectively. Vesting periods range from six months for directors to five years for officers and key salaried employees. Expense, which is recognized as the shares vest based on the market value at the date of the award, totaled \$1,090,000, \$1,080,000, and \$601,000, in 2000, 1999 and 1998, respectively.

The following table summarizes information about stock options outstanding at December 31, 2000 (shares in thousands):

Options Outstanding				Options Exercisable	
Range of Per Share Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Number Exercisable	Weighted Average Exercise Price
\$16-\$20	1,164	\$18.14	8.2	444	\$18.66
\$20-\$25	639	23.01	6.4	402	23.03
\$25-\$30	150	26.08	7.2	103	26.06
	1,953	\$20.34	7.5	949	\$21.32

The Company has elected to follow APB Opinion No. 25, *Accounting for Stock Issued to Employees* in accounting for its employee stock options as permitted under FASB Statement No. 123 (“FASB 123”), *Accounting for Stock-Based Compensation*, and, accordingly, recognizes no compensation expense for the stock option grants when the market price on the underlying stock on the date of grant equals the exercise price of the Company’s employee stock option.

Pro forma information has been determined as if the Company had accounted for its employee stock options and restricted shares under the fair value method. The pro forma disclosures are not likely to be representative of the effects on reported net income for future years because they do not take into consideration stock-based incentives granted prior to 1995. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following range of assumptions: risk-free interest rates from 5.10% to 7.60%, dividend yields of 8% to 12%, expected lives of seven years, and expected volatility of .18% to .244%. Had compensation cost for the stock-based compensation plans been determined in accordance with FASB 123, net income would have been reduced by \$267,000, \$621,000, and \$393,000, in 2000, 1999 and 1998, respectively, and net income per common share would have been lower by \$.01, \$.02, and \$.02, in 2000, 1999 and 1998, respectively.

The Company has a 401-(k) Profit Sharing Plan covering all eligible employees. Under the Plan, eligible employees may make contributions, and the Company may make a profit sharing contribution. Company contributions to this Plan totaled \$171,000, \$144,000, and \$120,000, in 2000, 1999 and 1998, respectively.

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Preferred Stock

In January 1999, the Company sold 3,000,000 shares of Series C Cumulative Convertible Preferred Stock. These shares have a liquidation value of \$25.00 per share and will pay dividends equivalent to the greater of (i) the annual dividend rate of \$2.25 per share (a quarterly dividend rate of \$0.5625 per share); or (ii) the quarterly dividend then payable per common share on an as converted basis. The preferred shares are convertible into common stock at a conversion price of \$25.625 per share. The Company has the right to redeem the preferred shares after five years.

In May 1998, the Company sold 3,000,000 shares of 8.875% Series B Cumulative Redeemable Non-Voting Preferred Stock with a liquidation preference of \$25.00 per share. Dividends are payable quarterly in arrears. On and after May 1, 2003, the Preferred Stock may be redeemed for cash at the option of the Company, in whole or in part, at \$25.00 per share, plus accrued and unpaid dividends thereon to the redemption date.

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Distributions

To qualify as a real estate investment trust for federal income tax purposes, 95% of taxable income (not including capital gains) must be distributed to shareholders. Real estate investment trusts that do not distribute a certain amount of current year taxable income in the current year are also subject to a 4% federal excise tax. The Company had no excise tax expense for the years ended December 31, 2000 and 1999, and \$315,000 of excise tax expense for the year ended December 31, 1998. The principal reasons

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Distributions (continued)

for the difference between undistributed net income for federal income tax purposes and financial statement purposes are the recognition of straight-line rent for reporting purposes and the provision for losses for reporting purposes versus bad debt expense for tax purposes. Cash distributions paid to shareholders, for federal income tax purposes, are as follows:

	Year ended December 31		
	2000	1999	1998
Per Share:			
Ordinary income	\$ 2.330	\$ 2.217	\$ 2.142
Capital gains	.005	.053	.048
TOTALS	\$ 2.335	\$ 2.270	\$ 2.190

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Commitments and Contingencies

At December 31, 2000, the Company had outstanding commitments to provide financing for facilities in the approximate amount of \$14,663,000 for ongoing construction activity expected over the next 12 to 15 months. The above commitments are generally on similar terms as existing financings of a like nature with rates of return to the Company based upon current market rates at the time of the commitment.

The Company has agreements to purchase two health care facilities, or the loans with respect thereto, in the event that the present owners default upon their obligations. In consideration for these agreements, the Company receives and recognizes fees annually related to these agreements. Although the terms of these agreements vary, the purchase prices are equal to the amount of the outstanding obligations financing the facility. These agreements expire through the year 2005. In addition, the Company has an outstanding letter of credit relating to one construction project. At December 31, 2000, obligations under these agreements for which the Company was contingently liable aggregated approximately \$11,945,000.

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Shareholder Rights Plan

Under the terms of a Shareholder Rights Plan approved by the Board of Directors in July 1994, a Preferred Share Right ("Right") is attached to and automatically trades with each outstanding share of Common Stock.

The Rights, which are redeemable, will become exercisable only in the event that any person or group becomes a holder of 15% or more of the Common Stock, or commences a tender or exchange offer, which, if consummated, would result in that person or group owning at least 15% of the Common Stock. Once the Rights become exercisable, they entitle all other shareholders to purchase one one-thousandth of a share of a new series of junior participating preferred stock for an exercise price of \$48.00. The Rights will expire on August 5, 2004, unless exchanged earlier or redeemed earlier by the Company for \$.01 per Right at any time before public disclosure that a 15% position has been acquired.

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Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	2000	1999	1998
Numerator for basic and diluted earnings per share – income available to common shareholders	\$ 54,566	\$ 62,824	\$ 58,149
Denominator for basic earnings per share – weighted average shares	28,418	28,128	25,579
Effect of dilutive securities:			
Employee stock options		15	174
Nonvested restricted shares	225	241	201
Dilutive potential common shares	225	256	375
Denominator for diluted earnings per share – adjusted weighted average shares	28,643	28,384	25,954
Basic earnings per share	\$ 1.92	\$ 2.23	\$ 2.27
Diluted earnings per share	\$ 1.91	\$ 2.21	\$ 2.24

The diluted earnings per share calculation excludes the dilutive effect of 1,954,000, 1,813,000, and 179,000 options for 2000, 1999 and 1998, respectively, because the exercise price was greater than the average market price. The Series C Cumulative Convertible Preferred Stock was not included in this calculation as the effect of the conversion was anti-dilutive.

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Disclosure about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Mortgage Loans The fair value of all mortgage loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Subdebt Investments The carrying amount is a reasonable estimate of fair value based on the interest rates received, which approximates current market rates.

Cash and Cash Equivalents The carrying amount approximates fair value because of the short maturity of these financial instruments.

Marketable Securities Marketable securities are recorded at their fair market value.

Borrowings Under Line of Credit Arrangements and Secured Debt The carrying amount of the line of credit and secured debt approximates fair value because the borrowings are interest rate adjustable.

Senior Unsecured Notes and Industrial Development Bonds The fair value of the senior unsecured notes payable was estimated by discounting the future cash flow using the current borrowing rate available to the Company for similar debt.

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Disclosure about Fair Value of Financial Instruments (continued)

Mortgage Notes Payable Mortgage notes payable is a reasonable estimate of fair value.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2000 and 1999, are as follows (in thousands):

	December 31, 2000		December 31, 1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Mortgage loans	\$ 301,321	\$ 308,016	\$ 401,019	\$ 407,711
Subdebt investments	21,972	21,972	19,511	19,511
Cash and cash equivalents	2,844	2,844	2,129	2,129
Marketable securities	130	130	863	863
Financial Liabilities:				
Borrowings under line of credit arrangements	119,900	119,900	177,500	177,500
Senior unsecured notes	255,000	234,987	290,000	257,679
Secured debt	64,000	64,000	64,000	64,000
Mortgage notes payable	852	852	7,342	7,342

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Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations of the Company for the years ended December 31, 2000 and 1999 (in thousands, except per share data):

	Year ended December 31, 2000			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 34,828	\$ 33,927	\$ 33,351	\$ 33,164
Net Income Available to Common Shareholders	14,758	14,587	13,786	11,435
Net Income Available to Common Shareholders Per Share:				
Basic	.52	.52	.48	.40
Diluted	.52	.51	.48	.40
	Year ended December 31, 1999			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	\$ 28,164	\$ 32,469	\$ 34,160	\$ 33,811
Net Income Available to Common Shareholders	16,219	15,787	16,195	14,623
Net Income Available to Common Shareholders Per Share:				
Basic	.58	.56	.57	.52
Diluted	.57	.56	.57	.51

Market and Dividend Information

The following table sets forth, for the periods indicated, the high and low prices of the Company's Common Stock on the New York Stock Exchange, as reported on the Composite Tape and dividends paid per share. There were 4,944 shareholders of record as of December 31, 2000.

Sales Price			
2000	High	Low	Dividends Paid
First Quarter	\$17.4375	\$14.7500	\$0.580
Second Quarter	16.7500	13.8125	0.585
Third Quarter	19.2500	16.1875	0.585
Fourth Quarter	18.2500	15.9400	0.585

Sales Price			
1999	High	Low	Dividends Paid
First Quarter	\$26.6250	\$21.1875	\$0.560
Second Quarter	25.6250	20.7500	0.565
Third Quarter	23.8750	19.3125	0.570
Fourth Quarter	20.0000	14.6875	0.575

Income Tax Information

2000 Dividend Report Dates					
	Feb. 21	May 22	Aug. 21	Nov. 20	Total
Ordinary Income	\$ 0.580	\$ 0.585	\$ 0.585	\$ 0.580	\$ 2.330
Short-Term Capital Gain	0.000	0.000	0.000	0.000	0.000
Mid-Term Capital Gain	0.000	0.000	0.000	0.000	0.000
Long-Term Capital Gain/(Loss)	0.000	0.000	0.000	0.000	0.000
Unrecaptured Sec. 1250 Gain	0.000	0.000	0.000	0.005	0.005
Return of Capital	0.000	0.000	0.000	0.000	0.000
Total	\$ 0.580	\$ 0.585	\$ 0.585	\$ 0.585	\$ 2.335
Foreign Tax Credit	0.000	0.000	0.000	0.000	0.000
Tax Exempt Interest	0.000	0.000	0.000	0.000	0.000

Board of Directors

William C. Ballard, Jr.

4, 5, 6

*Of Counsel
Greenebaum Doll &
McDonald PLLC
Louisville, Kentucky*

Pier C. Borra

3, 4, 6

*Chairman, President and
Chief Executive Officer
CORA Health Services, Inc.
Lima, Ohio*

George L. Chapman

2, 4, 5, 6

*Chairman, Chief Executive
Officer and President
Health Care REIT, Inc.
Toledo, Ohio*

Jeffrey H. Donahue

3, 4, 6

*Executive Vice President and
Chief Financial Officer
The Rouse Company
Columbia, Maryland*

Peter J. Grua

4, 5, 6

*Principal and President
HLM Management Company, Inc.
Boston, Massachusetts*

Sharon M. Oster

1, 4, 6

*Professor of Economics,
Entrepreneurship and
Management
Yale University School of
Management
New Haven, Connecticut*

Bruce G. Thompson

2, 4, 6

*President
First Toledo Corporation
Toledo, Ohio*

R. Scott Trumbull

1, 4, 6

*Executive Vice President
Owens-Illinois, Inc.
Toledo, Ohio*

Richard A. Unverferth

1, 2, 3, 4, 5, 6

*Chairman
Unverferth Manufacturing
Company, Inc.
H.C.F., Inc.
Kalida, Ohio*

Committees:

1. Audit Committee
2. Executive Committee
3. Compensation Committee

4. Investment Committee
5. Nominating Committee
6. Planning Committee

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Shareholder Information

Officers**George L. Chapman**

*Chairman, Chief Executive
Officer and President*

Raymond W. Braun

*Executive Vice President,
Chief Financial Officer and
Chief Operating Officer*

Michael A. Crabtree

Treasurer and Controller

Erin C. Ibele

*Vice President and
Corporate Secretary*

Charles J. Herman, Jr.

Vice President, Operations

J. Michael Stephen

Vice President, Marketing

General Offices

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419/247-2826 Fax
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Shumaker, Loop & Kendrick, LLP
Toledo, Ohio

Independent Auditors

Ernst & Young LLP
Toledo, Ohio

Transfer Agent

Mellon Investor Services LLC
85 Challenger Road
Overpeck Centre
Ridgefield Park, New Jersey 07660
888/216-7206
www.mellon-investor.com

**Dividend Reinvestment
Administrator**

Mellon Bank, N.A.
85 Challenger Road
Overpeck Centre
Ridgefield Park, New Jersey 07660
888/216-7206
www.mellon-investor.com

Form 10-K

The Company's Form 10-K Annual Report, filed with the Securities and Exchange Commission, is available at no charge upon written request to the Corporate Secretary.

Exchange Listing

New York Stock Exchange
Trading Symbol: HCN

Member

National Association of Real Estate
Investment Trusts, Inc.



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