

Sabra Health Care REIT, Inc.
Form 10-K
March 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-34950

SABRA HEALTH CARE REIT, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State of Incorporation)
18500 Von Karman Avenue, Suite 550
Irvine, CA 92612
(888) 393-8248
(Address, zip code and telephone number of Registrant)

27-2560479
(I.R.S. Employer Identification No.)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

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post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$623.0 million
As of March 4, 2013, there were 37,326,287 shares of the Registrant's \$0.01 par value Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the registrant's 2013 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2012, are incorporated by reference in Part III herein.

SABRA HEALTH CARE REIT, INC. AND SUBSIDIARIES

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References throughout this document to “Sabra,” “we,” “our,” “ours” and “us” refer to Sabra Health Care REIT, Inc. and its direct and indirect consolidated subsidiaries and not any other person.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K (this “10-K”) contain “forward-looking” information as that term is defined by the Private Securities Litigation Reform Act of 1995 and the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. Examples of forward-looking statements include all statements regarding our expected future financial position, results of operations, cash flows, liquidity, financing plans, business strategy, budgets, the expected amounts and timing of dividends and other distributions, projected expenses and capital expenditures, competitive position, growth opportunities, potential acquisitions, plans and objectives for future operations, and compliance with and changes in governmental regulations. You can identify some of the forward-looking statements by the use of forward-looking words such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend,” “should,” “may” and other similar expressions, although not all forward-looking statements contain these identifying words.

Our actual results may differ materially from those projected or contemplated by our forward-looking statements as a result of various factors, including among others, the following:

- our dependence on Genesis HealthCare LLC, the parent of Sun Healthcare Group, Inc., until we are able to further diversify our portfolio;
- our dependence on the operating success of our tenants;
- changes in general economic conditions and volatility in financial and credit markets;
 - the dependence of our tenants on reimbursement from governmental and other third-party payors;
- the significant amount of and our ability to service our indebtedness;
- covenants in our debt agreements that may restrict our ability to make acquisitions, incur additional indebtedness and refinance indebtedness on favorable terms;
- increases in market interest rates;
- our ability to raise capital through equity financings;
- the relatively illiquid nature of real estate investments;
- competitive conditions in our industry;
- the loss of key management personnel or other employees;
- the impact of litigation and rising insurance costs on the business of our tenants;
- uninsured or underinsured losses affecting our properties and the possibility of environmental compliance costs and liabilities;
- our ability to maintain our status as a real estate investment trust (“REIT”); and
- compliance with REIT requirements and certain tax matters related to our status as a REIT.

We urge you to carefully consider these risks and review the additional disclosures we make concerning risks and other factors that may materially affect the outcome of our forward-looking statements and our future business and operating results, including those made in Item 1A, “Risk Factors” in this 10-K, as such risk factors may be amended, supplemented or superseded from time to time by other reports we file with the Securities and Exchange Commission (“SEC”), including subsequent Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. We caution you that any forward-looking statements made in this 10-K are not guarantees of future performance, events or results, and you should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. We do not intend, and we undertake no obligation, to update any forward-looking information to reflect events or circumstances after the date of this 10-K or to reflect the occurrence of unanticipated events, unless required by law to do so.

GENESIS HEALTHCARE LLC AND SUN HEALTHCARE GROUP, INC. INFORMATION

This 10-K includes information regarding Genesis HealthCare LLC (“Genesis”), and Sun Healthcare Group, Inc. (formerly known as SHG Services, Inc.; “Sun”), a subsidiary of Genesis effective December 1, 2012. Prior to December 1, 2012, Sun was subject to the reporting requirements of the SEC and was required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information.

Genesis is not subject to SEC reporting requirements. The information related to Genesis and Sun provided in this 10-K has been provided by Genesis and Sun or derived from Sun's historical public filings. We have not independently verified this information. We have no reason to believe that such information is inaccurate in any material respect. We are providing this data for informational purposes only. Sun's historical filings with the SEC can be found at www.sec.gov.

PART I

ITEM 1. BUSINESS

Overview

We were incorporated on May 10, 2010 as a wholly owned subsidiary of Sun Healthcare Group, Inc. (“Old Sun”), a provider of nursing, rehabilitative and related specialty healthcare services principally to the senior population in the United States. Pursuant to a restructuring plan by Old Sun, Old Sun restructured its business by separating its real estate assets and its operating assets into two separate publicly traded companies, Sabra and SHG Services Inc. (which was then renamed “Sun Healthcare Group, Inc.” or “Sun”). In order to effect the restructuring, Old Sun distributed to its stockholders on a pro rata basis all of the outstanding shares of common stock of Sun (this distribution is referred to as the “Separation”), together with an additional cash distribution. Immediately following the Separation, Old Sun merged with and into Sabra, with Sabra surviving the merger and Old Sun stockholders receiving shares of Sabra common stock in exchange for their shares of Old Sun common stock (this merger is referred to as the “REIT Conversion Merger”). The Separation and REIT Conversion Merger were completed on November 15, 2010, which we refer to as the Separation Date.

Following the restructuring of Old Sun’s business and the completion of the Separation and REIT Conversion Merger, we began operating as a self-administered, self-managed REIT that, directly or indirectly, owns and invests in real estate serving the healthcare industry.

Effective December 1, 2012, Sun was acquired by Genesis HealthCare LLC (“Genesis”). In connection with this transaction, we obtained a parent guaranty from Genesis which replaced the then-existing Sun guaranty of the lease obligations of its subsidiaries that are tenants under our lease agreements. Additionally, we amended our master lease agreements with Sun to fix the annual rent escalators at 2.5% and to include cross-default provisions with Genesis’s term loan.

As of December 31, 2012, our investment portfolio consisted of 119 real estate properties held for investment (consisting of (i) 96 skilled nursing/post-acute facilities, (ii) 22 senior housing facilities, and (iii) one acute care hospital), one asset held for sale and two mortgage loan investments. As of December 31, 2012, our real estate properties held for investment had a total of 12,382 licensed beds, or units, spread across 27 states. As of December 31, 2012, all of our real estate properties were leased under triple-net operating leases with expirations ranging from eight to 22 years.

We expect to continue to grow our portfolio primarily through the acquisition of senior housing and memory care facilities and with a secondary focus on acquiring skilled nursing facilities. We have and will continue to opportunistically originate financing secured directly or indirectly by healthcare facilities. We also expect to continue to work with operators to identify strategic development opportunities. These opportunities may involve replacing or renovating facilities in our portfolio that may have become less competitive and new development opportunities that present attractive risk-adjusted returns. In addition to pursuing acquisitions with triple-net leases, we expect to continue to pursue other forms of investment, including investments in senior housing through RIDEA-compliant structures, mezzanine and secured debt investments, and joint ventures for senior housing, memory care and skilled nursing assets.

As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector. We employ a disciplined, opportunistic approach in our healthcare real estate investment strategy by investing in assets that provide attractive opportunities for dividend growth and appreciation of asset values, while maintaining balance sheet strength and liquidity, thereby creating long-term stockholder value. We elected to be treated as a REIT with the filing of our U.S. federal income tax return for the taxable year beginning January 1, 2011. We believe that we have been organized and have operated, and we intend to continue to operate, in a manner to qualify as a REIT. We operate through an umbrella partnership (commonly referred to as an UPREIT) structure in which substantially all of our properties and assets are held by Sabra Health Care Limited Partnership, a Delaware limited partnership (the “Operating Partnership”), in which we and our wholly owned subsidiaries are currently the only partners, or by subsidiaries of the Operating Partnership.

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Our principal executive offices are located at 18500 Von Karman Avenue, Suite 550, Irvine, CA 92612, and our telephone number is (888) 393-8248. We maintain a website at www.sabrahealth.com. Sabra Health Care REIT, Inc. files reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We will make such filings available free of charge on our website as soon as reasonably practicable after such information has been filed or furnished with the SEC.

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Our Industry

We operate as a REIT that holds investments in income-producing healthcare facilities, principally long-term care facilities, located in the United States. We invest primarily in the United States nursing home industry and other senior housing segments such as assisted living and independent living facilities. According to the American Health Care Association, as of December 2012, the nursing home industry was comprised of approximately 15,700 facilities with approximately 1.7 million Medicare certified beds in the United States. The nursing home industry is highly fragmented.

The primary growth drivers for the long-term care industry are expected to be the aging of the population and increased life expectancies. According to the United States Census Bureau, the number of Americans aged 65 or older is projected to increase from approximately 39.2 million in 2011 to approximately 54.8 million by 2020, representing a compounded annual growth rate of 3.8%. In addition to positive demographic trends, we expect demand for services provided by skilled nursing facilities to continue increasing due to the impact of cost containment measures adopted by the federal government that encourage patient treatment in more cost-effective settings, such as skilled nursing facilities. As a result, high acuity patients that previously would have been treated in long-term acute care hospitals and inpatient rehabilitation facilities are increasingly being treated in skilled nursing facilities. According to the Centers for Medicare & Medicaid Services, or CMS, nursing home expenditures are projected to grow from approximately \$155 billion in 2012 to approximately \$255 billion in 2021, representing a compounded annual growth rate of 5.7%. We believe that these trends will support an increasing demand for long-term care services, which in turn will support an increasing demand for our properties.

Portfolio of Healthcare Properties

We have a geographically diverse portfolio of healthcare properties in the United States that offer a range of services including skilled nursing, assisted and independent living, mental health and acute care. Of our 119 properties held for investment as of December 31, 2012, we owned fee title to 113 properties and title under long-term ground leases for six properties.

Our portfolio consisted of the following types of healthcare facilities as of December 31, 2012:

Skilled Nursing/Post-Acute Facilities

- Skilled nursing facilities. Skilled nursing facilities provide services that include daily nursing, therapeutic rehabilitation, social services, housekeeping, nutrition and administrative services for individuals requiring certain assistance for activities in daily living. A typical skilled nursing facility includes mostly one and two bed units, each equipped with a private or shared bathroom and community dining facilities.
- Mental health facilities. Mental health facilities provide a range of inpatient and outpatient behavioral health services for adults and children through specialized treatment programs.

Senior Housing

- Assisted living facilities. Assisted living facilities provide services that include minimal assistance for activities in daily living and permit residents to maintain some of their privacy and independence as they do not require constant supervision and assistance. Services bundled within one regular monthly fee usually include three meals per day in a central dining room, daily housekeeping, laundry, medical reminders and 24-hour availability of assistance with the activities of daily living, such as eating, dressing and bathing. Professional nursing and healthcare services are usually available at the facility on call or at regularly scheduled times. Assisted living facilities typically are comprised of one and two bedroom suites equipped with private bathrooms and efficiency kitchens.
- Independent living facilities. Independent living facilities are age-restricted multi-family properties with central dining facilities that provide services that include security, housekeeping, nutrition and limited laundry services. Our independent living facilities are designed specifically for independent seniors who are able to live on their own, but desire the security and conveniences of community living. Independent living facilities typically offer several services covered under a regular monthly fee.
- Continuing care retirement community. Continuing care retirement communities, or CCRCs, provide, as a continuum of care, the services described above for independent living facilities, assisted living facilities and skilled nursing facilities in an integrated campus, under long-term contracts with the residents.

•Acute Care Hospital

•Acute care hospitals provide inpatient medical care and other related services for surgery, acute medical conditions or injuries (usually for a short-term illness or condition).

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The following tables display the distribution of our licensed beds/units and the geographic concentration of our real estate held for investment by property type, investment and rental income as of or for the year ended December 31, 2012 (dollars in thousands):

Distribution of Licensed Beds/Units ⁽¹⁾

State	Total Number of Properties	Bed Type			Total	% of Total	%
		Skilled Nursing/Post-Acute	Assisted Living	Acute Care Hospital			
Connecticut	13	1,770	49	—	1,819	14.7	%
New Hampshire	16	1,470	203	—	1,673	13.5	
Kentucky	15	1,020	128	—	1,148	9.3	
Ohio	8	897	—	—	897	7.2	
Texas	8	720	34	70	824	6.7	
Florida	5	660	—	—	660	5.3	
Michigan	10	—	571	—	571	4.6	
Montana	4	538	—	—	538	4.3	
Delaware	4	500	—	—	500	4.0	
Colorado	3	362	48	—	410	3.3	
Other (17 states)	33	2,889	453	—	3,342	27.1	
	119	10,826	1,486	70	12,382	100.0	%
% of Total beds/units		87.4	% 12.0	% 0.6	% 100.0	%	

“Licensed Beds” refer to the number of beds for which a license has been issued, which may vary in some instances ⁽¹⁾ from licensed beds available for use, which is used in the computation of occupancy percentage. Available beds aggregated 11,861 as of December 31, 2012.

Geographic Concentration — Property Type

State	Skilled Nursing/Post-Acute	Assisted Living	Acute Care Hospital	Total	% of Total	%
New Hampshire	14	2	—	16	13.4	%
Kentucky	13	2	—	15	12.6	
Connecticut	12	1	—	13	10.9	
Michigan	—	10	—	10	8.4	
Ohio	8	—	—	8	6.7	
Texas	6	1	1	8	6.7	
Florida	5	—	—	5	4.2	
Oklahoma	3	1	—	4	3.4	
Delaware	4	—	—	4	3.4	
Montana	4	—	—	4	3.4	
Other (17 states)	27	5	—	32	26.9	
Total	96	22	1	119	100.0	%

Geographic Concentration — Investment

State	Total Number of Properties	Skilled Nursing/Post-Acute	Assisted Living	Acute Care Hospital	Total	% of Total	
Connecticut	13	\$ 143,992	\$ 7,999	\$—	\$ 151,991	15.9	%
Texas	8	65,795	1,396	61,640	128,831	13.5	
Delaware	4	95,780	—	—	95,780	10.0	
New Hampshire	16	76,992	12,792	—	89,784	9.4	
Michigan	10	—	73,968	—	73,968	7.7	
Kentucky	15	59,350	10,489	—	69,839	7.3	
Colorado	3	28,852	15,702	—	44,554	4.7	
Montana	4	42,729	—	—	42,729	4.5	
Ohio	8	42,612	—	—	42,612	4.5	
Florida	5	30,748	—	—	30,748	3.2	
Other (17 states)	33	159,660	25,864	—	185,524	19.3	
Total	119	\$ 746,510	\$ 148,210	\$ 61,640	\$ 956,360	100.0	%
% of Total properties		78.1	% 15.5	% 6.4	% 100.0	%	

(1) Represents the undepreciated book value of our real estate held for investment as of December 31, 2012.

Geographic Concentration — Rental Income

	Total Number of Properties	Skilled Nursing/Post-Acute	Senior Housing	Acute Care Hospital	Total	% of Total	
New Hampshire	16	\$ 12,074	\$ 1,360	\$—	\$ 13,434	13.2	%
Connecticut	13	12,854	298	—	13,152	12.9	
Kentucky	15	10,075	509	—	10,584	10.4	
Delaware	4	10,578	—	—	10,578	10.4	
Texas	8	3,320	8	6,593	9,921	9.8	
Florida	5	7,947	—	—	7,947	7.8	
Ohio	8	5,304	—	—	5,304	5.2	
Montana	4	5,283	—	—	5,283	5.2	
Colorado	3	3,353	412	—	3,765	3.7	
Idaho	3	2,922	—	—	2,922	2.9	
Other (17 states)	40	15,323	3,529	—	18,852	18.5	
Total	119	\$ 89,033	\$ 6,116	\$ 6,593	\$ 101,742	100.0	%
% of Total properties		87.5	% 6.0	% 6.5	% 100.0	%	

Significant Tenant Overview

As of December 31, 2012, 85 of our 119 properties held for investment and our one asset held for sale were operated by subsidiaries of Genesis, the parent company of Sun. These properties are leased to subsidiaries of Genesis pursuant to triple-net leases that are guaranteed by Genesis. Genesis is a privately held healthcare services company, serving principally the senior population through its various subsidiaries. As of December 31, 2012, Genesis and its subsidiaries, operated or managed 382 skilled nursing centers, 36 assisted or independent living centers and 8 mental health centers across 30 states. Genesis also provides rehabilitation therapy services to over 1,500 affiliated and

non-affiliated centers in 44 states.

Our lease agreements with subsidiaries of Genesis provide for an initial term of between 10 and 15 years with no purchase options. At the sole option of Genesis, these lease agreements may be extended for up to two five-year renewal terms beyond the initial term and, if elected, the renewal will be effective for all of the leased property then subject to the applicable lease agreement. Amounts due under these lease agreements are fixed (except for an annual rent escalator described below), and there is no contingent rental income based upon the revenues, net income or other measures which may be derived by subsidiaries of Genesis from our properties. Under our original lease agreements with subsidiaries of Sun, the annual rent escalator was equal to the product of (a) the lesser of the percentage change in the Consumer Price Index (but not less than zero) or 2.5%, and (b) the prior year's rent. Effective December 1, 2012 with the acquisition of Sun by Genesis, these lease

agreements were amended to fix the annual rent escalators at 2.5%. During the year ended December 31, 2012, we recognized \$72.8 million of rent under these lease agreements.

Because we currently lease the majority of our properties to Genesis and Genesis is a significant source of our rental revenues, Genesis's financial condition and ability and willingness to satisfy its obligations under its lease agreements with us and its willingness to renew those leases upon expiration of the initial base terms thereof will significantly impact our revenues and our ability to service our indebtedness and to make distributions to our stockholders. There can be no assurance that Genesis will have sufficient assets, income and access to financing to enable it to satisfy its obligations under its lease agreements with us, and any inability or unwillingness on its part to do so would have a material adverse effect on our business, financial condition, results of operations and liquidity, on our ability to service our indebtedness and other obligations and on our ability to make distributions to our stockholders, as required for us to qualify, and maintain our status, as a REIT. We also cannot assure you that Genesis will elect to renew its lease agreements with us upon expiration of the initial base terms or any renewal terms thereof or, if such leases are not renewed, that we can reposition the affected properties on the same or better terms. See "Risk Factors—Risks Relating to Our Business—We are dependent on Genesis until we substantially diversify our portfolio, and an event that has a material adverse effect on Genesis's business, financial position or results of operations would have a material adverse effect on our business, financial position or results of operations."

Investment and Financing Strategy

We intend to invest in additional healthcare properties as suitable opportunities arise and adequate sources of financing are available. In making investments in healthcare properties, our investment objectives are to increase cash flow, provide quarterly cash distributions, maximize the value of our properties and acquire properties with cash flow growth potential. To date, we have generally structured our acquisitions with triple-net leases; however, we have used and will continue to use other forms of investment, including investments in senior housing through RIDEA-compliant structures, mezzanine and secured debt investments, and joint ventures for senior housing, memory care and skilled nursing assets.

We expect that future investments in properties, including any improvements or renovations of current or newly-acquired properties, will depend on and will be financed, in whole or in part, by our existing cash, borrowings available to us pursuant to our Amended Secured Revolving Credit Facility (as defined below), future borrowings or the proceeds from issuances of common stock, preferred stock, debt or other securities. In addition, we expect to seek financing from U.S. government agencies, including through Fannie Mae and the U.S. Department of Housing and Urban Development ("HUD"), in appropriate circumstances in connection with acquisitions and refinancings of existing mortgage loans.

Competitive Strengths

We believe the following competitive strengths will contribute significantly to our success:

Geographically Diverse and Stable Property Portfolio

Our portfolio of 119 properties held for investment as of December 31, 2012, comprising 12,382 licensed beds, is broadly diversified by location across 27 states. The properties in any one state did not account for more than 15% of our total licensed beds as of December 31, 2012, and the properties in any one state did not account for more than 14%, 16% and 19%, respectively, of our total rental revenue during the years ended December 31, 2012 and 2011 and the period from the Separation Date through December 31, 2010. Our geographic diversification will limit the effect of a decline in any one regional market on our overall performance. The annual weighted average occupancy percentages of our properties remained stable at between 88.3% and 91.2% over the last five years.

Long-Term, Triple-Net Lease Structure

All of our real estate properties are leased under triple-net operating leases with expirations ranging from eight to 22 years, pursuant to which the tenants are responsible for all facility maintenance, insurance required in connection with the leased properties and the business conducted on the leased properties, taxes levied on or with respect to the leased properties and all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties. As of December 31, 2012, the leases had a weighted-average remaining term of 11 years. We retain substantially all of the risks and benefits of ownership of the real estate assets leased to tenants. As of December 31, 2012, the lease agreements with subsidiaries of Genesis are guaranteed by Genesis, and as a result, we

did not require a security deposit from any of Genesis's subsidiaries. For our properties that are leased to tenants other than Genesis's subsidiaries, we have in certain instances obtained security deposits.

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Strong Relationships with Operators

The members of our management team have developed an extensive network of relationships with qualified local, regional and national operators of skilled nursing and senior housing facilities across the United States. This extensive network has been built by our management team through over 20 years of operating experience, involvement in industry trade organizations and the development of banking relationships and investor relations within the skilled nursing and senior housing industries. We work collaboratively with our operators to help them achieve their growth and business objectives. We believe these strong relationships with operators help us to source investment opportunities.

Ability to Identify Talented Operators

As a result of our management team's operating experience, network of relationships and industry insight, we have been able and expect to continue to be able to identify qualified local, regional and national operators. We seek operators who possess local market knowledge, demonstrate hands-on management, have proven track records and emphasize patient care. We believe our management team's experience gives us a key competitive advantage in objectively evaluating an operator's financial position, emphasis on care and operating efficiency.

Significant Experience in Proactive Asset Management

The members of our management team have significant experience developing systems to collect and evaluate data relating to the underlying operational and financial success of healthcare companies and healthcare-related real estate assets. We are able to utilize this experience and expertise to provide our operators, when requested, with significant assistance in the areas of marketing, development, facility expansion and strategic planning. We actively monitor the operating results of our tenants and, when requested, will work closely with our operators to identify and capitalize on opportunities to improve the operations of our facilities and the overall financial and operating strength of our operators.

Experienced Management Team

Our management team has extensive healthcare and real estate experience. Richard K. Matros, Chairman, President and Chief Executive Officer of Sabra, has more than 20 years of experience in the acquisition, development and disposition of skilled nursing facilities and other healthcare facilities, including nine years at Old Sun. Harold W. Andrews, Jr., Executive Vice President, Chief Financial Officer and Secretary of Sabra, is a finance professional with more than 10 years of experience in both the provision of healthcare services and healthcare real estate. Talya Nevo-Hacohen, Executive Vice President, Chief Investment Officer and Treasurer of Sabra, is a real estate finance executive with more than 20 years of experience in real estate finance, acquisition and development, including three years of experience managing and implementing the capital markets strategy of an S&P 500 healthcare REIT. Through years of public company experience, our management team also has extensive experience accessing both debt and equity capital markets to fund growth and maintain a flexible capital structure.

Flexible UPREIT Structure

We operate through an umbrella partnership, commonly referred to as an UPREIT structure, in which substantially all of our properties and assets are held by the Operating Partnership or by subsidiaries of the Operating Partnership. Conducting business through the Operating Partnership allows us flexibility in the manner in which we acquire properties. In particular, an UPREIT structure enables us to acquire additional properties from sellers in exchange for limited partnership units, which may provide property owners the opportunity to defer the tax consequences that would otherwise arise from a sale of their real properties and other assets to us. As a result, this structure allows us to acquire assets more efficiently and may allow us to acquire assets that the owner would otherwise be unwilling to sell because of tax considerations.

Business Strategies

We pursue business strategies focused on opportunistic acquisitions and property diversification where such acquisitions meet our investing and financing strategy. We also intend to further develop our relationships with tenants and healthcare providers with a goal to progressively expand the mixture of tenants managing and operating our properties.

The key components of our business strategies include:

Diversify Asset Portfolio

We expect to continue to grow our portfolio primarily through the acquisition of senior housing and memory care facilities with a secondary focus on acquiring skilled nursing facilities. We have and will continue to opportunistically originate financing secured directly or indirectly by healthcare facilities. We also expect to consider acquiring independent living and continuing care retirement community facilities and hospitals. As we acquire additional properties and expand our portfolio, we expect to further diversify by tenant, asset class and geography within the healthcare sector.

Maintain Balance Sheet Strength and Liquidity

We seek to maintain a capital structure that provides the resources and flexibility to support the growth of our business. As of December 31, 2012, we had approximately \$126.2 million in liquidity, consisting of unrestricted cash and cash equivalents of \$17.1 million and available borrowings under our Amended Secured Revolving Credit Facility of \$109.1 million. We intend to maintain a mix of credit facility debt, mortgage debt and unsecured term debt which, together with our anticipated ability to complete future equity financings, we expect will fund the growth of our operations. Further, we expect to opportunistically seek access to U.S. government agency financing, including through Fannie Mae and HUD, in appropriate circumstances in connection with acquisitions and refinancings of existing mortgage loans.

Develop New Tenant Relationships

We seek to cultivate our relationships with tenants and healthcare providers in order to expand the mix of tenants operating our properties and, in doing so, to reduce our dependence on any single tenant or operator. We expect to continue to develop new tenant relationships as part of our overall strategy to acquire new properties and further diversify our overall portfolio of healthcare properties.

Capital Source to Underserved Operators

We believe that there is a significant opportunity to be a capital source to healthcare operators through the acquisition and leasing of healthcare properties that are consistent with our investment and financing strategy, but that, due to size and other considerations, are not a focus for larger healthcare REITs. We utilize our management team's operating experience, network of relationships and industry insight to identify financially strong and growing operators in need of capital funding for future growth. In appropriate circumstances, we may negotiate with operators to acquire individual healthcare properties from those operators and then lease those properties back to the operators pursuant to long-term triple-net leases.

Strategic Capital Improvements

We intend to continue to support operators by providing capital to them for a variety of purposes, including for capital expenditures and facility modernization. We expect to structure these investments as either lease amendments that produce additional rents or as loans that are repaid by operators during the applicable lease term.

Pursue Strategic Development Opportunities

We intend to work with our operators to identify strategic development opportunities. These opportunities may involve replacing or renovating facilities in our portfolio that may have become less competitive. We also intend to identify new development opportunities that present attractive risk-adjusted returns and, in addition to pursuing acquisitions with triple-net leases, pursue other forms of investment, including investments in senior housing through RIDEA-compliant structures, mezzanine and secured debt investments, and joint ventures for senior housing, memory care and skilled nursing assets.

Our Employees

As of December 31, 2012, we employed eight full-time employees (including our executive officers), none of whom is subject to a collective bargaining agreement.

Competition

We compete for real property investments with other REITs, investment companies, private equity and hedge fund investors, sove