MEDICAL PROPERTIES TRUST INC
Form 10-K
March 01, 2019

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, 2018

or

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

For the transition period from to

Commission file number 001-32559

Medical Properties Trust, Inc.

MPT Operating Partnership, L.P.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	20-0191742
Delaware	20-0242069
(State or Other Jurisdiction of	(IRS Employer
Incorporation or Organization)	Identification No.)
1000 Urban Center Drive, Suite 501	35242

Birmingham, AL
(Address of Principal Executive Offices) (Zip Code)
(205) 969-3755

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share of	New York Stock Exchange

Medical Properties Trust, Inc.
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.

Medical Properties Trust, Inc. Yes No MPT Operating Partnership, L.P. 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.

Medical Properties Trust, Inc. Yes No MPT Operating Partnership, L.P. 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.

Medical Properties Trust, Inc. Yes No MPT Operating Partnership, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Medical Properties Trust, Inc. Yes No MPT Operating Partnership, L.P. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. .

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

Medical Properties Trust, Inc.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

MPT Operating Partnership, L.P.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in 12b-2 of the Act).

Medical Properties Trust, Inc. Yes No MPT Operating Partnership, L.P. Yes No

As of June 30, 2018, the aggregate market value of the 362,344,450 shares of common stock, par value $0.001 per share ("Common Stock"), held by non-affiliates of the registrant was $5,087,316,078 based upon the last reported sale price of $14.04 on the New York Stock Exchange on that date. For purposes of the foregoing calculation only, all directors and executive officers of the registrant have been deemed affiliates.

As of February 22, 2019, 381,077,933 shares of Medical Properties Trust, Inc. Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2019 are incorporated by reference into Items 10 through 14 of Part III, of this Annual Report on Form 10-K.

TABLE OF CONTENTS

EXPLANATORY NOTE

This report combines the Annual Reports on Form 10-K for the year ended December 31, 2018, of Medical Properties Trust, Inc., a Maryland corporation, and MPT Operating Partnership, L.P., a Delaware limited partnership, through which Medical Properties Trust, Inc. conducts substantially all of its operations. Unless otherwise indicated or unless the context requires otherwise, all references in this report to "we," "us," "our," "our company," "Medical Properties," "MPT," "the Company" refer to Medical Properties Trust, Inc. together with its consolidated subsidiaries, including MPT Operating Partnership, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to "our operating partnership" or "the operating partnership" refer to MPT Operating Partnership, L.P. together with its consolidated subsidiaries.

CAUTIONARY LANGUAGE REGARDING FORWARD LOOKING STATEMENTS

We make forward-looking statements in this Annual Report on Form 10-K that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, are forward-looking by their nature:

- our business strategy;
- our projected operating results;
- our ability to acquire, develop, and/or manage additional facilities in the United States ("U.S."), Europe, or other foreign locations (such as Australia);
- availability of suitable facilities to acquire or develop;
- our ability to enter into, and the terms of, our prospective leases and loans;
- our ability to raise additional funds through offerings of debt and equity securities, joint venture arrangements, and/or property disposals;
- our ability to obtain future financing arrangements;
- estimates relating to, and our ability to pay, future distributions;
- our ability to service our debt and comply with all of our debt covenants;
- our ability to compete in the marketplace;
- lease rates and interest rates;
- market trends;
- projected capital expenditures; and
- the impact of technology on our facilities, operations and business.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our common stock and other securities, along with, among others, the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in this Annual Report on Form 10-K, including those set forth under the sections captioned "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business;"
- the political, economic, business, real estate, and other market conditions of the U.S. (both national and local), Europe (in particular Germany, the United Kingdom, Spain and Italy), and other foreign jurisdictions;
- the competitive environment in which we operate;
- the execution of our business plan;
- financing risks;
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the risk that a condition to closing under the agreements governing any or all of our outstanding transactions that have not closed as of the date hereof (including the Healthscope Ltd. ("Healthscope") transaction described in Note 13 to Item 8 of this Annual Report on Form 10-K) may not be satisfied;

- the possibility that the anticipated benefits from any or all of the transactions we enter into will take longer to realize than expected or will not be realized at all;
- acquisition and development risks;
- potential environmental contingencies and other liabilities;
- other factors affecting the real estate industry generally or the healthcare real estate industry in particular;
- our ability to maintain our status as a real estate investment trust, or REIT, for U.S. federal and state income tax purposes;
- our ability to attract and retain qualified personnel;
- changes in foreign currency exchange rates;
- changes in tax laws in the U.S., Europe or any other foreign jurisdictions;
- healthcare and other regulatory requirements of the U.S. (both federal and state), Europe (in particular Germany, the United Kingdom, Spain and Italy), and other foreign countries; and
- U.S. national and local economic conditions, as well as conditions in Europe, Australia and any other foreign jurisdictions where we own or will own healthcare facilities, which may have a negative effect on the following, among other things:
- the financial condition of our tenants, our lenders, or institutions that hold our cash balances, which may expose us to increased risks of default by these parties;
- our ability to obtain equity or debt financing on attractive terms or at all, which may adversely impact our ability to pursue acquisition and development opportunities, refinance existing debt and our future interest expense; and
- the value of our real estate assets, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.

When we use the words “believe,” “expect,” “may,” “potential,” “anticipate,” “estimate,” “plan,” “will,” “could,” “intend” or s expressions, we are identifying forward-looking statements. You should not place undue reliance on these forward-looking statements. Except as required by law, we disclaim any obligation to update such statements or to publicly announce the result of any revisions to any of the forward-looking statements contained in this Annual Report on Form 10-K to reflect future events or developments.

PART I

ITEM 1. Business

Overview

We are a self-advised real estate investment trust ("REIT") focused on investing in and owning net-leased healthcare facilities across the U.S. and selectively in foreign jurisdictions. We have operated as a REIT since April 6, 2004, and accordingly, elected REIT status upon the filing of our calendar year 2004 federal income tax return. Medical Properties Trust, Inc. was incorporated under Maryland law on August 27, 2003, and MPT Operating Partnership, L.P. was formed under Delaware law on September 10, 2003. We conduct substantially all of our business through MPT Operating Partnership, L.P. We acquire and develop healthcare facilities and lease the facilities to healthcare operating companies under long-term net leases, which require the tenant to bear most of the costs associated with the property. We also make mortgage loans to healthcare operators collateralized by their real estate assets. In addition, we selectively make loans to certain of our operators through our taxable REIT subsidiaries ("TRS"), the proceeds of which are typically used for acquisition and working capital purposes. Finally, from time to time, we acquire a profits or other equity interest in our tenants that gives us a right to share in such tenants' profits and losses.

Our investments in healthcare real estate, including mortgage and other loans, as well as any equity investments in our tenants are considered a single reportable segment as further discussed in Note 1 of Item 8 in Part II of this Annual Report on Form 10-K. All of our investments are currently located in the U.S. and Europe.

At December 31, 2018 and 2017, our total assets were made up of the following (dollars in thousands):

	2018		2017	
Real estate owned (gross)	$5,868,340	66.4 %	$6,595,252	73.1 %
Mortgage loans	1,213,322	13.7 %	1,778,316	19.7 %
Other loans	373,198	4.2 %	150,209	1.7 %
Construction in progress	84,172	1.0 %	47,695	0.5 %
Other	1,304,611	14.7 %	448,816	5.0 %
Total(1)(2)	$8,843,643	100.0%	$9,020,288	100.0%

(1) Includes $2.3 billion and $1.8 billion of healthcare real estate owned and other assets in Europe in 2018 and 2017, respectively.

(2) At December 31, 2018, our total gross assets were $9.7 billion, which represents total assets plus accumulated depreciation and amortization adjusted for all binding real estate commitments and unfunded amounts on development deals and commenced capital improvement projects at December 31, 2018 – see section titled "Non-GAAP Financial Measures" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K.

Revenue by property type:

The following is our revenue by property type for the year ended December 31 (dollars in thousands):

	2018		2017		2016	
General Acute Care Hospitals	$596,426	76.0 %	$488,764	69.4 %	$344,523	63.7 %
Inpatient Rehabilitation Hospitals	158,193	20.2 %	173,149	24.6 %	149,964	27.7 %
Long-Term Acute Care Hospitals	29,903	3.8 %	42,832	6.0 %	46,650	8.6 %

Total revenues(1)(2)	$784,522	100.0%	$704,745	100.0%	$541,137	100.0%

(1) Includes $113.5 million, $127.6 million and $101.6 million in revenue (primarily from rehabilitation facilities) from the healthcare real estate assets in Europe in 2018, 2017 and 2016, respectively.

(2) For 2018, our adjusted revenues were $816.9 million, which adjusts actual total revenues to include our pro rata portion of similar revenues in our joint venture arrangements. See section titled “Non-GAAP Financial Measures” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Annual Report on Form 10-K.

See “Overview” in Item 7 of this Annual Report on Form 10-K for details of transaction activity for 2018, 2017 and 2016. More information is available at www.medicalpropertiestrust.com.

Portfolio of Properties

As of February 22, 2019, our portfolio consisted of 276 properties: 255 facilities are leased to 29 tenants, three are under development, 10 are in the form of mortgage loans to four operators, and eight properties are not currently leased to a tenant, including six Adeptus Health, Inc. ("Adeptus Health") transition properties, as discussed in Note 3 to Item 8 of this Annual Report on Form 10-K. Of the 276 properties, 80 facilities are owned by way of joint venture arrangements in which we hold a 50% ownership interest. Our facilities consist of 160 general acute care hospitals, 102 inpatient rehabilitation hospitals, and 14 long-term acute care hospitals ("LTACHs").

At February 22, 2019, no single property accounted for more than 3.7% of our total gross assets.

Outlook and Strategy

Our strategy is to lease the facilities that we acquire or develop to experienced healthcare operators pursuant to long-term net leases. Alternatively, we have structured certain of our investments as long-term, interest-only mortgage loans to healthcare operators, and we may make similar investments in the future. Our mortgage loans are structured such that we obtain similar economic returns as our net leases. In addition, we have obtained and will continue to obtain profits or other interests in certain of our tenants' operations in order to enhance our overall return. The market for healthcare real estate is extensive and includes real estate owned by a variety of healthcare operators. We focus on acquiring and developing those net-leased facilities that are specifically designed to reflect the latest trends in healthcare delivery methods and that focus on the most critical components of healthcare. We typically invest in facilities that have the highest intensity of care including:

- General acute care — provides inpatient care for the treatment of acute conditions and manifestations of chronic conditions. This type of facility also provides ambulatory care through hospital outpatient departments and emergency rooms.
- Inpatient rehabilitation — provides rehabilitation to patients with various neurological, musculoskeletal orthopedic and other medical conditions following stabilization of their acute medical issues.
- LTACHs — a specialty-care hospital designed for patients with serious medical problems that require intense, special treatment for an extended period of time, sometimes requiring a hospital stay averaging in excess of three weeks.

Diversification

A fundamental component of our business plan is the continued diversification of our tenant relationships, the types of hospitals we own and the geographic areas in which we invest. From a tenant relationship perspective, see section titled “Significant Tenants” below for detail. See sections titled “Revenue by Property Type” and “Portfolio of Properties” above for information on the diversification of our hospital types. From a geographical perspective, we have investments across the U.S. and in Europe. See below for investment and revenue concentration in the U.S. and our global concentration at December 31, 2018(1):

(1) On January 31, 2019, we announced the entering into definitive agreements to acquire 11 Australian hospitals from Healthscope for an aggregate purchase price of approximately $860 million. Pro forma for this transaction, our concentration in gross assets would be 77.2% and 22.8% for U.S. and International, respectively.

We continue to believe that Europe represents an attractive market in which to invest, particularly in Germany. Germany is an attractive investment opportunity for us given its strong macroeconomic position and healthcare environment. Germany’s Gross Domestic Product (“GDP”), which is approximately $3.7 trillion according to World Bank 2017 data, has been relatively more stable than other countries in the European Union due to Germany’s stable business practices and monetary policy. In addition to cultural influences, government policies emphasizing sound public finance and a significant presence of small and medium-sized enterprises (which employ 70% of the employment base) have also contributed to Germany’s strong and sustainable economic position. The above factors have contributed to an unemployment rate in Germany of 3.3% as of December 2018, which is significantly less than the 7.9% unemployment rate in the European Union as of December 2018, according to Eurostat.

Underwriting/Asset Management

Our revenue is derived from rents we earn pursuant to the lease agreements with our tenants, from interest income from loans to our tenants and other facility owners and from profits or equity interests in certain of our tenants’ operations. Our tenants operate in the healthcare industry, generally providing medical, surgical and rehabilitative care to patients. The capacity of our tenants to pay our rents and interest is dependent upon their ability to conduct their operations at profitable levels. We believe that the business

environment of the industry segments in which our tenants operate is generally positive for efficient operators. However, our tenants' operations are subject to economic, regulatory and market conditions that may affect their profitability, which could impact our results. Accordingly, we monitor certain key performance indicators that we believe provides us with early indications of conditions that could affect the level of risk in our portfolio.

Key factors that we consider in underwriting prospective tenants and in our ongoing monitoring of our tenants' (and guarantors') performance include the following:

- the scope and breadth of clinical services and programs, including utilization trends (both inpatient and outpatient) by service type;
- the size and composition of medical staff and physician leadership at our facilities, including specialty, tenure and number of procedures performed and/or referrals;
- an evaluation of our operator's administrative team, as applicable, including background and tenure within the healthcare industry;
- facility operating performance measured by current, historical and prospective operating margins (measured by a tenant's earnings before interest, taxes, depreciation, amortization, management fees and facility rent) of each tenant and at each facility;
- the ratio of our tenants' operating earnings to facility rent and to other fixed costs, including debt costs;
- changes in revenue sources of our tenants, including the relative mix of public payors (including Medicare, Medicaid/MediCal, and managed care in the U.S. as well as equivalent payors in Germany, the United Kingdom, Italy, and Spain) and private payors (including commercial insurance and private pay patients);
- trends in tenants' cash collections, including comparison to recorded net patient service revenues;
- tenants' free cash flow;
- the potential impact of healthcare legislation and other regulations (including changes in reimbursement) on our tenants' profitability and liquidity;
- the potential impact of any legal, regulatory or compliance proceedings with our tenants;
- an ongoing assessment of the operating environment of our tenants including demographics, competition, market position, status of compliance, accreditation, quality performance and health outcomes as measured by The Centers for Medicare and Medicaid Services ("CMS"), Joint Commission, and other governmental bodies; and
- the level of investment in the hospital infrastructure and health IT systems.

Healthcare Industry

The delivery of healthcare services, whether in the U.S. or elsewhere, requires real estate and, as a consequence, healthcare providers depend on real estate to maintain and grow their businesses. We believe that the healthcare real estate market provides investment opportunities due to the:

- compelling demographics driving the demand for healthcare services;
- specialized nature of healthcare real estate investing; and
- consolidation of the fragmented healthcare real estate sector.

United States

Healthcare is the single largest industry in the U.S. based on GDP. According to the National Health Expenditures report dated July 2017 by the CMS: (i) national health expenditures were projected to grow 5.3% in 2018; (ii) the average compound annual growth rate for national health expenditures, over the projection period of 2017 through 2026, is anticipated to be 5.5%; and (iii) the healthcare industry is projected to represent 19.7% of U.S. GDP by 2026.

Germany

The healthcare industry is also the single largest industry in Germany. Behind only the U.S., Netherlands and France, Germany's healthcare expenditures represent approximately 11.1% of its total GDP according to the Organization for Economic Co-operation and Development's 2014 data.

8

The German rehabilitation market (which includes the majority of our facilities in Germany) serves a broader scope of treatment with over 1,233 rehabilitation facilities (compared to 1,165 in the U.S.) and 208.5 beds per 100,000 population (compared to 114.7 in the U.S.). Approximately 90% of the payments in the German healthcare system come from governmental sources. The largest payor category is the public pension fund system representing 39% of payments. Public health insurance and payments for government employees represent 46% of payments. The balance of the payments into the German rehabilitation market come from a variety of sources including private pay and private insurance. One particular focus area of investors in the German market is the healthcare industry because the German Social Code mandates universal access coverage and a high standard of care, thereby creating a robust healthcare dynamic in the country. Germany spends approximately 7.4% of health spending for inpatient facilities on prevention and rehabilitation facilities.

United Kingdom

Healthcare services in the United Kingdom are provided through the National Health Service ("NHS"). In 2016, the United Kingdom spent 9.8% of GDP on healthcare. The majority of this funding for the NHS comes from general taxation, and a smaller proportion from national insurance (a payroll tax). The NHS also receives income from copayments, people using NHS services as private patients, and some other minor sources. In 2015, 10.5% of the United Kingdom population had private voluntary health insurance provided mostly through employers. Private insurance offers more rapid and convenient access to care, especially for elective hospital procedures. It is estimated that four insurers account for 87.5% of the market, with small providers comprising the rest. The total private healthcare market is about £1.47 billion. Demand for private health insurance rose by 2.1% in 2015.

Publicly owned hospitals are organized either as NHS trusts, approximately 72 in number or as foundation trusts, approximately 150 in number. NHS trusts are accountable to the Department of Health while foundation trusts enjoy greater freedom from central control. An estimated 548 private hospitals are located in the United Kingdom and offer a range of treatments. Their charges to private patients are not regulated, and they receive no public subsidies. NHS use of private hospitals remains low with about 3.6% of NHS funding used for this purpose. The NHS budget is projected to grow 1.1% between 2015 and 2021.

Italy

The Italian national health service (Servizio Sanitario Nazionale) is regionally based and organized at the national, regional, and local levels. Under the Italian constitution, responsibility for healthcare is shared by the national government and the 19 regions and two autonomous provinces. The central government controls the distribution of tax revenue for publicly financed health care and defines a national statutory benefits package to be offered to all residents in every region — the "Essential Levels of Care." The 19 regions and two autonomous provinces have responsibility for the organization and delivery of health services through local health units.

Public financing accounted for 76% of total health spending in 2014, with total expenditure standing at 8.9% of GDP in 2016. The public system is financed primarily through a corporate tax (approximately 35.6% of the overall funding in 2012) pooled nationally and allocated back to regions, typically the source region, and a fixed proportion of national value-added tax revenue (approximately 47.3% of the total in 2012) collected by the central government and redistributed to regions unable to raise sufficient resources to provide the Essential Levels of Care.

In 2012, there were approximately 187,000 beds in public hospitals and 45,500 beds in private accredited hospitals. A diagnosis-related group-based prospective payment system operates across the country and accounts for most hospital revenue.

Private health insurance plays a limited role in the health system, accounting for roughly 1% of total spending in 2014. Approximately six million people are covered by some form of voluntary insurance which generally covers services excluded under the Essential Levels of Care, to offer a higher standard of comfort and privacy in hospital facilities,

and wider choice among public and private providers. Some private health insurance policies also cover copayments for privately provided services, or a daily rate of compensation during hospitalization. There are two types of private health insurance: corporate, where companies cover employees and sometimes their families; and non-corporate, with individuals buying insurance for themselves or their family.

Depending on the region, public funds are allocated by local health units to public and accredited private hospitals. Rates paid to hospitals include all hospital costs including those of physicians. Funding for health is defined by the July 2014 Pact for Health which defines funding between $143.4 billion and $151.3 billion annually for the years 2014 to 2016.

Spain

The Spanish health system was established by the General Health Law of 1986. This law carries out a mandate of the Spanish Constitution, which establishes the right of all citizens to protection of their health. The National Health System (Sistema Nacional de Salud, SNS) is the administrative device set up by the law. Spain spent approximately 9.0% of its GDP on health care in 2016.

Expenditures for private healthcare are 26.4% of total health expenditures and have been growing at a compounded annual growth rate of 1.7%. Approximately 80% of all Spanish patients use a combination of both private and public healthcare services.

In 2014, private hospitals comprised 55% of total Spanish hospitals. Specifically, private hospitals numbered 421 while public hospitals accounted for 343 of Spain's total number of hospitals.

Public expenditures on healthcare accounted for 5.9% of total public expenditures. They are projected to grow to 7.1% of total public expenditures by 2050. In 2015, public spending on healthcare reached €68 million, a significant increase from the €23 million spent in 1995.

Our Leases and Loans

The leases for our facilities are generally "net" leases with terms requiring the tenant to pay all ongoing operating and maintenance expenses of the facility, including property, casualty, general liability and other insurance coverages, utilities and other charges incurred in the operation of the facilities, as well as real estate and certain other taxes, ground lease rent (if any) and the costs of capital expenditures, repairs and maintenance (including any repairs mandated by regulatory requirements). Similarly, borrowers under our mortgage loan arrangements retain the responsibilities of ownership, including physical maintenance and improvements and all costs and expenses. Our leases and loans typically require our tenants to indemnify us for any past or future environmental liabilities. Our current leases and loans have a weighted average remaining initial lease or loan term of 12.7 years (see Item 2 for more information on remaining lease or loan terms) and most include renewal options at the election of our tenants. Based on current monthly revenue, more than 96% of our leases and loans provide for annual rent or interest escalations based on increases in the consumer price index ("CPI") and/or fixed minimum annual rent or interest escalations ranging from 0.5% to 3.0%. In some cases, our domestic leases and loans provide for escalations based on CPI subject to floors and/or ceilings.

RIDEA Investments

We have made, and may make in the future, investments in certain of our tenants in the form of equity investments, loans (with equity like returns), or profit interests. Some of these investments fall under a structure permitted by the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA"), which was signed into law under the Housing and Economic Recovery Act of 2008. Under the provisions of RIDEA, a REIT may lease "qualified health care properties" on an arm's length basis to a TRS if the property is operated on behalf of such subsidiary by a person who qualifies as an "eligible independent contractor." We view RIDEA as a structure primarily to be used on properties that present attractive valuation entry points. At December 31, 2018, our RIDEA investments totaled approximately $14.2 million.

Significant Tenants

At December 31, 2018, we had total assets of approximately $8.8 billion comprised of 275 healthcare properties (including 80 real estate facilities held in joint ventures) in 29 states, in Germany, the United Kingdom, Italy, and Spain. The properties are leased to or mortgaged by 29 different hospital operating companies. On a gross asset basis, as more fully described in the section titled "Non-GAAP Financial Measures" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K), our top five tenants were as follows (dollars in thousands):

Gross Assets by Operator

	As of December 31, 2018		As of December 31, 2017	
Operators	Total	Percentage of	Total	Percentage of

	Gross Assets	Total Gross Assets		Gross Assets	Total Gross Assets	
Steward	$3,823,625	39.5	%	$3,457,384	36.5	%
Prime	1,124,711	11.6	%	1,119,484	11.8	%
MEDIAN	1,075,504	11.1	%	1,229,325	13.0	%
LifePoint(1)	502,072	5.2	%	506,265	5.3	%
Ernest	500,397	5.2	%	629,161	6.6	%
Other operators	1,644,900	16.9	%	2,089,934	22.1	%
Other assets	1,012,962	10.5	%	444,659	4.7	%
Total(2)	$9,684,171	100.0	%	$9,476,212	100.0	%

(1) In 2018, LifePoint Health, Inc. (“LifePoint”) merged with RCCH Healthcare Partners (“RCCH”), who acquired Capella Healthcare, Inc. (“Capella”) in 2016. Any reference to either LifePoint, RCCH, or Capella represent the same entity.

(2) With the Australian acquisition discussed in Note 13 to Item 8 of this Annual Report on Form 10-K, we expect to further diversify our concentration metrics including by operator. For instance, our concentration in Steward Health Care System LLC (“Steward”) would decrease to 38% of pro forma gross assets.

Steward

Affiliates of Steward lease 41 facilities pursuant to one master lease agreement, which had an initial 15-year term (ending in October 2031) with three five-year extension options, plus annual inflation-based escalators. At December 31, 2018, these facilities had an average remaining initial lease term of 12.8 years. In addition to the master lease, we hold a mortgage loan on two facilities with terms and provisions that produce economic results in terms of day-to-day cash flows that are similar to those of our master lease agreement. The master lease agreement includes extension options that must include all or none of the master leased properties, cross default provisions for the leases, and a right of first refusal for the repurchase of the leased properties. The master loan agreement has independent extension options for each property and does not provide comparable cross default provisions. At December 31, 2018, we hold a 9.9% equity investment in Steward for $150 million.

Prime

Affiliates of Prime Healthcare Services, Inc. (“Prime”) lease 22 facilities pursuant to five master lease agreements. Four of the master leases have initial fixed terms of 10 years and contain two renewal options of five years each. The fifth master lease is for 15 years and contains three renewal options for five years each. Rent escalates each year based on the CPI increase, with a 2% minimum floor. At the end of the initial or any renewal term, Prime must exercise any available extension or purchase option with respect to all or none of the leased and mortgaged properties relative to each master lease. The master leases include repurchase options, including provisions establishing minimum repurchase prices equal to our total investment. At December 31, 2018, these facilities had an average remaining initial fixed term of 6 years. In addition to leases, we hold mortgage loans on three facilities owned by affiliates of Prime. The terms and provisions of these loans are generally equivalent to the terms and provisions of our Prime lease arrangements.

Median

Affiliates of Median Kliniken S.à r.l.(“MEDIAN”) lease 80 facilities (71 of which are owned by a joint venture arrangement – see Note 3 of Item 8 of this Annual Report on Form 10-K) pursuant to six master lease agreements. None of the master lease agreements have renewal or repurchase options. The annual escalators for three of the master leases provide for increases of the greater of 1% or 70% of the change in German CPI. The lease term for these master leases ends in November 2044 for three of the facilities, December 2042 for three of the facilities, and August 2045 for three of the facilities. The 71-facility joint venture arrangement portfolio is leased to MEDIAN pursuant to the three remaining master lease agreements. The annual escalator for one master lease, representing 15 facilities, provided for a fixed increase of 2% through 2017 and provides for additional fixed increases of 0.5% each year thereafter. In addition, at December 31, 2020 and every three years thereafter, rent will be increased, if needed, by the positive difference between 1.5% and 70% of the change in German CPI during the review period. This master lease had an approximate 27-year fixed term ending in November 2040. The annual escalators for the other two master leases that cover the remaining facilities in the joint venture arrangement provide for increases of the greater of 1% or 70% of the change in German CPI. The lease terms for these remaining leases end in December 2042 for 36 of the facilities and August 2043 for 20 of the facilities.

LifePoint

Affiliates of LifePoint lease seven facilities (five of which are leased pursuant to a master lease agreement). The master lease agreement had an initial fixed 13.5-year term with four five-year extension options, plus annual consumer price-indexed increases, limited to a 2% floor and a 4% ceiling. The extension options may be exercised with respect to any or all of the properties. At the end of the fixed term and during any exercised extension options, the lessee will have the right of first refusal to purchase the leased property. At December 31, 2018, these facilities had an average remaining initial fixed lease term of 10.2 years. In addition to the master lease, two facilities are leased pursuant to stand-alone leases with a weighted average remaining fixed term of 10.1 years. The terms and provisions

of these leases are generally equivalent to the terms and provisions of the master lease agreement.

Ernest

Affiliates of Ernest Health, Inc. (“Ernest”) lease 25 facilities pursuant to a master lease agreement and two stand-alone lease agreements. The original master lease agreement entered into in 2012, covering 19 properties, had a 20-year initial fixed term with three five-year extension options and provides for annual consumer price-indexed increases, limited to a 2% floor and 5% ceiling. At December 31, 2018, these facilities had a remaining initial fixed lease term of 13.2 years. This master lease includes purchase options that allow the lessee to purchase the leased property at an option price equal to the greater of fair market value of the lease property or the lease base increased by an amount equal to the annual rate of increase in the CPI on each adjustment date. All leases and loans are cross-defaulted, including the mortgage loans. In addition to the original master lease, Ernest affiliates lease two other properties pursuant to two separate stand-alone leases. At December 31, 2018, one facility (with a 15-year initial fixed term ending March 2033) had a remaining initial fixed lease term of 14.2 years and one facility (with a 20-year initial fixed term ending June 2035) had a remaining initial fixed lease term of 16.5 years. Each stand-alone lease has three five-year extension options and provides for annual consumer price-indexed increases, limited to a 2% floor and 4% ceiling. The mortgage loans mature in 2032, and the terms and provisions of these loans are generally equivalent to the terms and provisions of the original master lease agreement.

No other tenant accounted for more than 3.7% of our total gross assets at December 31, 2018.

Environmental Matters

Under various U.S. federal, state and local environmental laws and regulations and similar international laws, a current or previous owner, operator or tenant of real estate may be required to remediate hazardous or toxic substance releases or threats of releases. There may also be certain obligations and liabilities on property owners with respect to asbestos containing materials. Investigation, remediation and monitoring costs may be substantial. The confirmed presence of contamination or the failure to properly remediate contamination on a property may adversely affect our ability to sell or rent that property or to borrow funds using such property as collateral and may adversely impact our investment in that property. Generally, prior to completing any acquisition or closing any mortgage loan, we obtain Phase I environmental assessments (or similar studies outside the U.S.) in order to attempt to identify potential environmental concerns at the facilities. These assessments are carried out in accordance with an appropriate level of due diligence and generally include a physical site inspection, a review of relevant environmental and health agency database records, one or more interviews with appropriate site-related personnel, review of the property's chain of title and review of historic aerial photographs and other information on past uses of the property. We may also conduct limited subsurface investigations and test for substances of concern where the results of the Phase I environmental assessments or other information indicates possible contamination or where our consultants recommend such procedures. Upon closing and for the remainder of the lease or loan term, our transaction documents require our tenants to repair and remediate environmental issues at the applicable facility, and to comply in full with all environmental laws and regulations.

California Seismic Standards

Existing law, the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983 ("Alquist Act"), establishes, under the jurisdiction of the Office of Statewide Health Planning and Development ("OSHPD"), a program of seismic safety building standards for certain hospitals constructed on and after March 7, 1973. The law requires the California Building Standards Commission to adopt earthquake performance categories, seismic evaluation procedures, standards and timeframes for upgrading certain facilities, and seismic retrofit building standards. This legislation was adopted to avoid the loss of life and the disruption of operations and the provision of emergency medical services that may result from structural damage sustained to hospitals resulting from an earthquake. A violation of any provision of the act is a misdemeanor.

Under the Alquist Act and related rules and regulations, all general acute care hospital buildings in California are assigned a structural performance category ("SPC"). SPC ratings range from 1 to 5 with SPC-1 assigned to buildings that may be at risk of collapse during a strong earthquake and SPC 5 assigned to buildings reasonably capable of providing services to the public following a strong earthquake. State law requires all SPC-1 buildings to be removed from providing general acute care services by 2020 and all SPC-2 buildings to be removed from providing general acute care services by 2030, in each case unless the facility is seismically retrofit so that it is in substantial compliance with the seismic safety regulations and standards developed by OSHPD.

In 2017, the OSHPD adopted a new performance category that will allow hospitals to explore the possibilities of upgrading nonconforming buildings to a new performance level that is not as rigorous. Under SPC-4D, buildings undergoing a retrofit to this level can continue functioning indefinitely beyond 2030.

The recent California AB 2190 bill (effective January 1, 2019) requires OSHPD to grant an additional extension of time to an owner who is subject to the January 1, 2020, deadline if specified conditions are met. The bill authorizes the additional extension to be until July 1, 2022, if the compliance plan is based upon replacement or retrofit or up to 5 years if the compliance plan is for a rebuild.

Owners of general acute care hospital buildings that are classified as nonconforming must submit reports to OSHPD describing the status of each building in complying with the extension provisions, and to annually update OSHPD with any changes or adjustments.

As of December 31, 2018, we have 10 licensed hospitals in California totaling investments of approximately $507 million, which excludes investments of $15.8 million of medical office buildings not subject to OSHPD standards.

Exclusive of one hospital granted an OSHPD extension to 2020, all of our California hospitals are seismically compliant through 2030 as determined by OSHPD. For the one hospital granted an extension, we expect full compliance by the 2020 deadline unless an additional extension is sought under California AB 2190 to July 1, 2022.

It is noted that under our current agreements, our tenants are responsible for capital expenditures in connection with seismic laws. We do not expect California seismic standards to have a negative impact on our financial condition or cash flows. We also do not expect compliance with California seismic standards to materially impact the financial condition of our tenants.

Competition

We compete in acquiring and developing facilities with financial institutions, other lenders, real estate developers, healthcare operators, other REITs, other public and private real estate companies, and private real estate investors. Among the factors that may adversely affect our ability to compete are the following:

- we may have less knowledge than our competitors of certain markets in which we seek to invest in or develop facilities;
- some of our competitors may have greater financial and operational resources than we have;
    - some of our competitors may have lower costs of capital than we do;
    - our competitors or other entities may pursue a strategy similar to ours; and
- some of our competitors may have existing relationships with our potential customers.

To the extent that we experience vacancies in our facilities, we will also face competition in leasing those facilities to prospective tenants. The actual competition for tenants varies depending on the characteristics of each local market. Virtually all of our facilities operate in highly competitive environments, and patients and referral sources, including physicians, may change their preferences for healthcare facilities from time to time. The operators of our properties compete on a local and regional basis with operators of properties that provide comparable services. Operators compete for patients based on a number of factors including quality of care, reputation, physical appearance of a facility, location, services offered, physicians, staff, and price. We also face competition from other health care facilities for tenants, such as physicians and other health care providers that provide comparable facilities and services.

For additional information, see “Risk Factors” in Item 1A of this Annual Report on Form 10-K.

Insurance

Our leases and mortgage loans require our tenants to carry property, loss of income, general liability, professional liability, and other insurance coverages in order to protect our interests. We monitor the adequacy of such coverages on an ongoing basis. In addition, we maintain separate insurance that provides coverage for bodily injury and property damage to third parties arising from our ownership of the healthcare facilities that are leased to and occupied by our tenants, as well as contingent business interruption insurance. At December 31, 2018, we believe that the policy specifications and insured limits are appropriate given the relative risk of loss, the cost of the coverage, and standard industry practice.

Healthcare Regulatory Matters

The following discussion describes certain material federal healthcare laws and regulations that may affect our operations and those of our tenants. The discussion, however, does not address all applicable federal healthcare laws, and does not address state healthcare laws and regulations, except as otherwise indicated. These state laws and regulations, like the federal healthcare laws and regulations, could affect the operations of our tenants and, accordingly, our operations. In addition, in some instances we own a minority interest in our tenants’ operations and, in addition to the effect on our tenant’s ability to meet its financial obligations to us, our ownership and investment returns may also be negatively impacted by such laws and regulations. Moreover, the discussion relating to reimbursement for healthcare services addresses matters that are subject to frequent review and revision by Congress and the agencies responsible for administering federal payment programs. Consequently, predicting future reimbursement trends or changes, along with the potential impact to us, is inherently difficult and imprecise. Finally, though we have not included a discussion of applicable foreign laws or regulations, our tenants in the United Kingdom and Western Europe may be subject to similar laws and regulations governing the ownership or operation of healthcare facilities including, without limitation, laws governing patient care and safety, reimbursement, licensure, and data protection.

Ownership and operation of hospitals and other healthcare facilities are subject, directly and indirectly, to substantial U.S. federal, state, and local government healthcare laws, rules, and regulations. Our tenants' failure to comply with these laws and regulations could adversely affect their ability to meet their obligations to us. Physician investment in our facilities or in joint ventures to own real estate also will be subject to such laws and regulations. Although we are not a healthcare provider or in a position to influence the referral of patients or ordering of items and services reimbursable by the federal government, to the extent that a healthcare provider engages in transactions with our tenants, such as sublease or other financial arrangements, the Anti-Kickback Statute and the Stark Law (both discussed in this section) could be implicated. Our leases and mortgage loans require our tenants to comply with all applicable laws, including healthcare laws. We intend for all of our business activities and operations to conform in all material respects with all applicable laws, rules, and regulations, including healthcare laws, rules, and regulations.

Applicable Laws

Anti-Kickback Statute. The federal Anti-Kickback Statute (codified at 42 U.S.C. § 1320a-7b(b)) prohibits, among other things, the offer, payment, solicitation, or acceptance of remuneration, directly or indirectly, in return for referring an individual to a provider of items or services for which payment may be made in whole, or in part, under a federal healthcare program, including the Medicare or Medicaid programs. Violation of the Anti-Kickback Statute is a crime, punishable by fines of up to $100,000 per violation, ten years imprisonment, or both. Violations may also result in civil sanctions, including civil monetary penalties of up to $50,000 per violation, exclusion from participation in federal healthcare programs, including Medicare and Medicaid, and additional monetary penalties in amounts treble to the underlying remuneration. The Anti-Kickback Statute is an intent based statute, however, it has been broadly interpreted. As an example, courts have held that there is a violation of the Anti-Kickback Statute if just one purpose of an arrangement is to generate referrals despite the fact that there may be one or more other lawful purposes to the arrangement at issue.

The Office of Inspector General of the Department of Health and Human Services has issued “Safe Harbor Regulations” that describe practices that will not be considered violations of the Anti-Kickback Statute. Nonetheless, the fact that a particular arrangement does not meet safe harbor requirements does not also mean that the arrangement violates the Anti-Kickback Statute. Rather, the safe harbor regulations simply provide a guaranty that qualifying arrangements will not be prosecuted under the Anti-Kickback Statute. We intend to use commercially reasonable efforts to structure our arrangements involving facilities, so as to satisfy, or meet as closely as possible, all safe harbor conditions. We cannot assure you, however, that we will meet all the conditions for an applicable safe harbor.

Physician Self-Referral Statute (“Stark Law”). Any physicians investing in us or our subsidiary entities could also be subject to the Ethics in Patient Referrals Act of 1989, or the Stark Law (codified at 42 U.S.C. § 1395nn). Unless subject to an exception, the Stark Law prohibits a physician from making a referral to an “entity” furnishing “designated health services” (which would include, without limitation, certain inpatient and outpatient hospital services, clinical laboratory services, and radiology services) paid by Medicare or Medicaid if the physician or a member of his immediate family has a “financial relationship” with that entity. A reciprocal prohibition bars the entity from billing Medicare or Medicaid for any services furnished pursuant to a prohibited referral. Sanctions for violating the Stark Law include denial of payment, refunding amounts received for services provided pursuant to prohibited referrals, civil monetary penalties of up to $15,000 per prohibited service provided, and exclusion from the participation in federal healthcare programs. The statute also provides for a penalty of up to $100,000 for a circumvention scheme.

There are exceptions to the self-referral prohibition for many of the customary financial arrangements between physicians and providers, including, without limitation, employment contracts, rental of office space or equipment, personal services agreements and recruitment agreements. Unlike safe harbors under the Anti-Kickback Statute, the Stark Law imposes strict liability on the parties to an arrangement and an arrangement must comply with every requirement of a Stark Law exception or the arrangement is in violation of the Stark Law.

CMS has issued multiple phases of final regulations implementing the Stark Law and continues to make changes to these regulations. While these regulations help clarify the exceptions to the Stark Law, it is unclear how the government will interpret many of these exceptions for enforcement purposes. Although our lease and loan agreements require lessees and borrowers to comply with the Stark Law, and we intend for facilities to comply with the Stark Law, we cannot offer assurance that the arrangements entered into by us and our facilities will be found to be in compliance with the Stark Law, as it ultimately may be implemented or interpreted. In addition, changes to the Stark Law could require our tenants to restructure certain arrangements with physicians, which could impact the business of our tenants.

False Claims Act. The federal False Claims Act prohibits the making or presenting of any false claim for payment to the federal government; it is the civil equivalent to federal criminal provisions prohibiting the submission of false claims to federally funded programs. Additionally, qui tam, or whistleblower, provisions of the federal False Claims

Act allow private individuals to bring actions on behalf of the federal government alleging that the defendant has defrauded the federal government. Whistleblowers may collect a portion of the federal government's recovery — an incentive for private parties to bring such actions. A successful federal False Claims Act case may result in a penalty of three times the actual damages, plus additional civil penalties payable to the government, plus reimbursement of the fees of counsel for the whistleblower. Many states have enacted similar statutes preventing the presentation of a false claim to a state government, and we expect more to do so because the Social Security Act provides a financial incentive for states to enact statutes establishing state level liability.

The Civil Monetary Penalties Law. The Civil Monetary Penalties Law ("CMPL") is a comprehensive statute that covers an array of fraudulent and abusive activities and is very similar to the False Claims Act. Among other things, the CMPL law prohibits the knowing presentation of a claim for certain healthcare services that is false or fraudulent, the presentation of false or misleading information in connection with claims for payment, and other acts involving fraudulent conduct. Violation of the CMPL may result in penalties ranging from $20,000 to $100,000. Notably, such penalties apply to each instance of prohibited conduct, including, for example, each item or service not provided as claimed, and each provision of false information or each false record. In addition, violators of the CMPL may be penalized up to three times the amount unlawfully claimed and may be excluded from participation in federal health care programs.

Licensure. Our tenants and borrowers under mortgage loans are subject to extensive U.S. federal, state, and local licensure, certification, and inspection laws and regulations including, in some cases, certificate of need laws. Further, various licenses and permits are required to dispense narcotics, operate pharmacies, handle radioactive materials, and operate equipment. Failure to comply with any of these laws could result in loss of licensure, certification or accreditation, denial of reimbursement, imposition of fines, and suspension or decertification from federal and state healthcare programs.

EMTALA. Our tenants and borrowers under mortgage loans that provide emergency care are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). Regardless of an individual's ability to pay, this federal law requires such healthcare facilities to conduct an appropriate medical screening examination of every individual who presents to the hospital's emergency room for treatment and, if the individual is suffering from an emergency medical condition, to either stabilize the condition or make an appropriate transfer of the individual to a facility able to handle the condition. Liability for violations of EMTALA are severe and include, among other things, civil monetary penalties and exclusion from participation in the federal healthcare programs. Our lease and mortgage loan agreements require our tenants to comply with EMTALA, and we believe our tenants conduct business in substantial compliance with EMTALA.

Reimbursement Pressures. Healthcare facility operating margins continue to face significant pressure due to the deterioration in pricing flexibility and payor mix, a shift toward alternative payment models, increases in operating expenses that exceed increases in payments under the Medicare program, reductions in levels of Medicaid funding due to state budget shortfalls, and other similar cost pressures on our tenants. More specifically, certain facilities and departments such as LTACHs and HOPDs face reimbursement pressures because of legislative and regulatory restrictions and limitations on reimbursement. We cannot predict how and to what extent these or other initiatives will impact the business of our tenants or whether our business will be adversely impacted.

Healthcare Reform. Generally, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the "Reform Law") provides for expanded health insurance coverage through tax subsidies and federal health insurance programs, individual and employer mandates for health insurance coverage, and health insurance exchanges. The Reform Law also includes various cost containment initiatives, including quality control and payment system refinements for federal programs, such as pay-for-performance criteria and value-based purchasing programs, bundled provider payments, accountable care organizations, geographic payment variations, comparative effectiveness research, and lower payments for hospital readmissions. The Reform Law also increases health information technology ("HIT") standards for healthcare providers in an effort to improve quality and reduce costs. The Reform Law has led to significant changes in the healthcare system. We believe the Reform Law will continue to lead to changes in healthcare delivery and reimbursement for years to come, and it is likely that certain trends that have been in place since the passage of the Reform Law, such as development and implementation of cost containment initiatives, increased use of HIT and pressure on reimbursement, will continue irrespective of any future repeal efforts. We cannot predict the continued impact of the Reform Law or the impact of future repeal efforts on our business, as some aspects benefit the operations of our tenants, while other aspects present challenges.

Employees

We have 77 employees as of February 22, 2019. As we continue to grow, we expect our head count to increase as well. However, we do not believe that any adjustments to the number of employees will have a material effect on our operations or to general and administrative expenses as a percent of revenues. We believe that our relations with our employees are good. None of our employees are members of any union.

Available Information

Our website address is www.medicalpropertiestrust.com and provides access in the “Investor Relations” section, free of charge, to our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including exhibits, and all amendments to these reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). Also available on our website, free of charge, are our Corporate Governance Guidelines, the charters of our Ethics, Nominating and Corporate Governance, Audit and Compensation Committees and our Code of Ethics and Business Conduct. If you are not able to access our website, the information is available in print free of charge to any stockholder who should request the information directly from us at (205) 969-3755. Information on or connected to our website is neither part of nor incorporated by reference into this Annual Report or any other SEC filings.

ITEM 1A. Risk Factors

The risks and uncertainties described herein are not the only ones facing us and there may be additional risks that we do not presently know of or that we currently consider not likely to have a significant impact on us. All of these risks could adversely affect our business, results of operations and financial condition. Some statements in this report including statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled “Cautionary Language Regarding Forward Looking Statements” at the beginning of this Annual Report.

RISKS RELATED TO OUR BUSINESS AND GROWTH STRATEGY (Including Financing Risks)

Limited access to capital may restrict our growth.

Our business plan contemplates growth through acquisitions and development of facilities. As a REIT, we are required to make cash distributions, which reduce our ability to fund acquisitions and developments with retained earnings. Thus, we are somewhat dependent on acquisition financing and access to the capital markets for cash to make new opportunistic investments. Due to market or other conditions, we may have limited access to capital from the equity and debt markets. We may not be able to obtain additional equity or debt capital or dispose of assets on favorable terms, if at all, at the time we need additional capital to acquire healthcare properties, which could have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

Our indebtedness could adversely affect our financial condition and may otherwise adversely impact our business operations and our ability to make distributions to stockholders.

As of February 22, 2019, we had $4 billion of debt outstanding.

Our indebtedness could have significant effects on our business. For example, it could:

- require us to use a substantial portion of our cash flow from operations to service our indebtedness, which would reduce the available cash flow to fund working capital, development projects and other general corporate purposes and reduce cash for distributions;
- require payments of principal and interest that may be greater than our cash flow from operations;
- force us to dispose of one or more of our properties, possibly on disadvantageous terms, to make payments on our debt;
- increase our vulnerability to general adverse economic and industry conditions; limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict us from making strategic acquisitions or exploiting other business opportunities;
- make it more difficult for us to satisfy our obligations; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

Our future borrowings under our loan facilities may bear interest at variable rates in addition to the $0.2 billion in variable interest rate debt that we had outstanding as of February 22, 2019. If interest rates increase significantly, our operating results would decline along with the cash available for distributions to our stockholders.

In addition, most of our current debt is, and we anticipate that much of our future debt will be, non-amortizing and payable in balloon payments. Therefore, we will likely need to refinance at least a portion of that debt as it matures. There is a risk that we may not be able to refinance debt maturing in future years or that the terms of any refinancing will not be as favorable as the terms of the then-existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital or sales of facilities, our cash flow may not be sufficient to repay all maturing debt in years when significant balloon payments come due. Additionally, we may incur significant penalties if we choose to prepay the debt. See Item 7 of Part II of this Annual Report on Form 10-K for further information on our current debt maturities.

Covenants in our debt instruments limit our operational flexibility, and a breach of these covenants could materially affect our financial condition and results of operations.

The terms of our unsecured credit facility (“Credit Facility”) and the indentures governing our outstanding unsecured senior notes, and other debt instruments that we may enter into in the future are subject to customary financial and operational covenants. For example, our Credit Facility imposes certain restrictions on us, including restrictions on our ability to: incur debts; create or incur liens; provide guarantees in respect of obligations of any other entity; make redemptions and repurchases of our capital stock; prepay, redeem or repurchase debt; engage in mergers or

consolidations; enter into affiliated transactions; dispose of real estate; and change our business. In addition, the agreements governing our unsecured credit facility limit the amount of dividends we can pay as a percentage of normalized adjusted funds from operations ("NAFFO"), as defined, on a rolling four quarter basis. Through the quarter ending December 31, 2018, the dividend restriction was 95% of NAFFO. The indentures governing our senior unsecured notes also limit the amount of dividends we can pay based on the sum of 95% of NAFFO, proceeds of equity issuances and certain other net cash proceeds. Finally, our senior unsecured notes require us to maintain total unencumbered assets (as defined in the related indenture) of not less than 150% of our unsecured indebtedness. From time-to-time, the lenders of our Credit Facility may adjust certain covenants to give us more flexibility to complete a transaction; however, such modified covenants are temporary, and we must be in a position to meet the lowered reset covenants in the future. Our continued ability to incur debt and operate our business is subject to compliance with the covenants in our debt instruments, which limit operational flexibility. Breaches of these covenants could result in defaults

under applicable debt instruments and other debt instruments due to cross-default provisions, even if payment obligations are satisfied. Financial and other covenants that limit our operational flexibility, as well as defaults resulting from a breach of any of these covenants in our debt instruments, could have a material adverse effect on our financial condition and results of operations.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations and our ability to make distributions to our stockholders.

As of February 22, 2019, we had approximately $0.2 billion in variable interest rate debt. However, we are a 50% equity owner in the joint venture arrangement with Primotop Holdings S.à.r.l. (“Primotop”), that has entered into €655 million of variable interest rate debt, which subjects us to interest rate volatility. Like the interest rate swap used in the joint venture with Primotop, we may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements. However, even these hedging arrangements involve risk, including the risk that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes and that these arrangements may result in higher interest rates than we would otherwise have. Moreover, no hedging activity can completely insulate us from the risks associated with changes in interest rates. Failure to hedge effectively against interest rate changes may materially adversely affect our results of operations and our ability to make distributions to our stockholders.

Dependence on our tenants for payments of rent and interest may adversely impact our ability to make distributions to our stockholders.

We expect to continue to qualify as a REIT and, accordingly, as a REIT operating in the healthcare industry, we are severely limited by current tax law with respect to our ability to operate or manage the businesses conducted in our facilities.

Accordingly, we rely heavily on rent payments from our tenants under leases or interest payments from operators under mortgage or other loans for cash with which to make distributions to our stockholders. We have no control over the success or failure of these tenants’ businesses. Significant adverse changes in the operations of our facilities, or the financial condition of our tenants, operators or guarantors, could have a material adverse effect on our ability to collect rent and interest payments and, accordingly, on our ability to make distributions to our stockholders. Facility management by our tenants and their compliance with healthcare and other laws could have a material impact on our tenants’ operating and financial condition and, in turn, their ability to pay rent and interest to us.

It may be costly to replace defaulting tenants and we may not be able to replace defaulting tenants with suitable replacements on suitable terms.

Failure on the part of a tenant to comply materially with the terms of a lease could give us the right to terminate our lease with that tenant, repossess the applicable facility, cross default certain other leases and loans with that tenant and enforce the payment obligations under the lease. The process of terminating a lease with a defaulting tenant and repossessing the applicable facility may be costly and require a disproportionate amount of management’s attention. In addition, defaulting tenants or their affiliates may initiate litigation in connection with a lease termination or repossession against us or our subsidiaries. If a tenant-operator defaults and we choose to terminate our lease, we are then required to find another tenant-operator, such as the case was with 9 of the 16 transition Adeptus Health facilities in 2018. The transfer of most types of healthcare facilities is highly regulated, which may result in delays and increased costs in locating a suitable replacement tenant. The sale or lease of these properties to entities other than healthcare operators may be difficult due to the added cost and time of refitting the properties. If we are unable to re-let the properties to healthcare operators, we may be forced to sell the properties at a loss due to the repositioning expenses likely to be incurred by non-healthcare purchasers. Alternatively, we may be required to spend substantial amounts to adapt the facility to other uses. There can be no assurance that we would be able to find another tenant in a timely fashion, or at all, or that, if another tenant were found, we would be able to enter into a new lease on favorable

terms. Defaults by our tenants under our leases may adversely affect our results of operations, financial condition, and our ability to make distributions to our stockholders. Defaults by our significant tenants under master leases (like Steward, Prime, MEDIAN, Ernest, and LifePoint) will have an even greater effect.

It may be costly to find new tenants when lease terms end and we may not be able to replace such tenants with suitable replacements on suitable terms.

Failure on the part of a tenant to renew or extend the lease at the end of its fixed term on one of our facilities could result in us having to search for, negotiate with and execute new lease agreements, such was the case with our two South Carolina facilities — Bennettsville and Cheraw in 2015. The process of finding and negotiating with a new tenant along with costs (such as maintenance, property taxes, utilities, ground lease expenses, etc.) that we will incur while the facility is untenanted may be costly and require a disproportionate amount of management's attention. There can be no assurance that we would be able to find another tenant in a timely fashion, or at all, or that, if another tenant were found, we would be able to enter into a new lease on favorable terms. If we are unable to re-let the properties to healthcare operators, we may be forced to sell the properties at a loss due to the repositioning expenses likely to be incurred by non-healthcare purchasers. Alternatively, we may be required to spend substantial amounts to adapt

the facility to other uses. Thus, the non-renewal or extension of leases may adversely affect our results of operations, financial condition, and our ability to make distributions to our stockholders. This risk is even greater for those properties under master leases (like Steward, Prime, MEDIAN, LifePoint, and Ernest) because several properties have the same lease ending dates.

We have made investments in the operators of certain of our healthcare facilities and the cash flows (and related returns) from these investments are subject to more volatility than our properties with the traditional net leasing structure.

At December 31, 2018, we have nine investments in the operations of certain of our healthcare facilities by utilizing RIDEA (or similar investments). These investments include profits interest and equity investments that generate returns dependent upon the operator's performance. As a result, the cash flow and returns from these investments may be more volatile than that of our traditional triple-net leasing structure. Our business, results of operations, and financial condition may be adversely affected if the related operators fail to successfully operate the facilities efficiently and in a manner that is in our best interest.

We have less experience with healthcare facilities in Germany, the United Kingdom, Italy, and Spain or anywhere else outside the U.S.

We have less experience investing in healthcare properties or other real estate-related assets located outside the U.S. Investing in real estate located in foreign countries, including Germany, the United Kingdom, Italy, and Spain, creates risks associated with the uncertainty of foreign laws and markets including, without limitation, laws respecting foreign ownership, the enforceability of loan and lease documents and foreclosure laws. German real estate and tax laws are complex and subject to change, and we cannot assure you we will always be in compliance with those laws or that compliance will not expose us to additional expense. Additionally, as disclosed in Note 13 to Item 8 of this Form 10-K, we are expanding our operations into Australia, a geography we have never operated in, with the acquisition of a portfolio of 11 hospitals, which may subject us to new and unforeseen risks. The properties we acquired from MEDIAN (as more fully described in Note 3 to Item 8 of this Form 10-K) will face risks in connection with unexpected changes in German or European regulatory requirements, political and economic instability, potential imposition of adverse or confiscatory taxes, possible challenges to the anticipated tax treatment of the structures that allow us to acquire and hold investments, possible currency transfer restrictions, the difficulty in enforcing obligations in other countries and the burden of complying with a wide variety of foreign laws. In addition, to qualify as a REIT, we generally will be required to operate any non-U.S. investments in accordance with the rules applicable to U.S. REITs, which may be inconsistent with local practices. We may also be subject to fluctuations in local real estate values or markets or the European economy as a whole, which may adversely affect our European investments.

In addition, the rents payable under our leases of foreign assets are payable in either euros or British pounds, which could expose us to losses resulting from fluctuations in exchange rates to the extent we have not hedged our position, which in turn could adversely affect our revenues, operating margins and dividends, and may also affect the book value of our assets and the amount of stockholders' equity. Further, any international currency gain recognized with respect to changes in exchange rates may not qualify under the 75% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT. While we may hedge some of our foreign currency risk, we may not be able to do so successfully and may incur losses on our investments as a result of exchange rate fluctuations. Furthermore, we are subject to laws and regulations, such as the Foreign Corrupt Practices Act and similar local anti-bribery laws, which generally prohibit companies and their employees, agents and contractors from making improper payments to governmental officials for the purpose of obtaining or retaining business. Failure to comply with these laws could subject us to civil and criminal penalties that could materially adversely affect our results of operations, the value of our international investments, and our ability to make distributions to our stockholders.

Our revenues are dependent upon our relationships with and success of our largest tenants, Steward, Prime, MEDIAN, LifePoint, and Ernest.

As of December 31, 2018, affiliates of Steward, Prime, MEDIAN, LifePoint, and Ernest represented 39.5%, 11.6%, 11.1%, 5.2%, and 5.2%, respectively, of our total gross assets (which consist primarily of real estate leases and mortgage loans).

Our relationships with these operators and their financial performance and resulting ability to satisfy their lease and loan obligations to us are material to our financial results and our ability to service our debt and make distributions to our stockholders. We are dependent upon the ability of these operators to make rent and loan payments to us, and any failure to meet these obligations could have a material adverse effect on our financial condition and results of operations.

Our tenants operate in the healthcare industry, which is highly regulated by U.S. federal, state, and local laws along with laws in Europe and changes in regulations may negatively impact our tenants' operations until they are able to make the appropriate adjustments to their business. For example, past modifications to regulations concerning patient criteria and reimbursement for LTACHs have negatively impacted volumes and profitability in certain facilities operated by Ernest.

We are aware of various federal and state inquiries, investigations and other proceedings currently affecting several of our tenants and would expect such government compliance and enforcement activities to be ongoing at any given time with respect to one

or more of our tenants, either on a confidential or public basis. Other large acute hospital operators have also recently defended similar allegations, sometimes resulting in financial settlements and agreements with regulators to modify admission policies, resulting in lower reimbursements for those patients.

Our tenants experience operational challenges from time-to-time, and this can be even more of a risk for those tenants that grow (or have grown) via acquisitions in a short time frame, like Steward, Prime, and others. The ability of our tenants and operators to integrate newly acquired businesses into their existing operational, financial reporting and collection systems is critical towards ensuring their continued success. If such integration is not successfully implemented in a timely manner, operators can be negatively impacted in the form of write-offs of uncollectible accounts receivable or even insolvency in certain extreme cases.

Any further adverse result to any of Steward, Prime, MEDIAN, LifePoint, and Ernest in regulatory proceedings or financial or operational setbacks may have a material adverse effect on the relevant tenant's operations and financial condition and on its ability to make required lease and loan payments to us. If any one of these tenants were to file for bankruptcy protection, we may not be able to collect any pre-filing amounts owed to us by such tenant. In addition, in a bankruptcy proceeding, such tenant may terminate our lease(s), in which case we would have a general unsecured claim that would likely be for less than the full amount owed to us. Any secured claims we have against such tenant may only be paid to the extent of the value of the collateral, which may not cover all or any of our losses. If we are ultimately required to find one or more tenant-operators to lease one or more properties currently leased by such tenant, we may face delays and increased costs in locating a suitable replacement tenant. The protections that we have in place to protect against such failure or delay, which can include letters of credit, cross default provisions, parent guarantees, repair reserves and the right to exercise remedies including the termination of the lease and replacement of the operator, may prove to be insufficient, in whole or in part, or may entail further delays. In instances where we have an equity investment in our tenant's operations, in addition to the effect on these tenants' ability to meet their financial obligation to us, our ownership and investment interests may also be negatively impacted.

We have now, and may have in the future, exposure to contingent rent escalators, which could hinder our growth and profitability.

We receive a significant portion of our revenues by leasing assets under long-term net leases that generally provide for fixed rental rates subject to annual escalations. These annual escalations may be contingent on changes in CPI, typically with specified caps and floors. If, as a result of weak economic conditions or other factors, the CPI does not increase, our growth and profitability may be hindered by these leases. In addition, if strong economic conditions result in significant increases in CPI, but the escalations under our leases are capped, our growth and profitability may be limited.

The bankruptcy or insolvency of our tenants or investees could harm our operating results and financial condition.

Some of our prospective tenants/investees may be newly organized, have limited or no operating history and may be dependent on loans from us to acquire the facility's operations and for initial working capital. Any bankruptcy filings by or relating to one of our tenants/investees could bar us from collecting pre-bankruptcy debts from that tenant or their property, unless we receive an order permitting us to do so from the bankruptcy court. A tenant bankruptcy can be expected to delay our efforts to collect past due balances under our leases and loans, and could ultimately preclude collection of these sums. If a lease is assumed by a tenant in bankruptcy, we expect that all pre-bankruptcy balances due under the lease would be paid to us in full. However, if a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. Any secured claims we have against our tenants may only be paid to the extent of the value of the collateral, which may not cover any or all of our losses. Any unsecured claim (such as our equity interests in our tenants) we hold against a bankrupt entity may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims. We may recover none or substantially less than the full value of any unsecured claims, which would harm our financial condition.

Our business is highly competitive and we may be unable to compete successfully.

We compete for development opportunities and opportunities to purchase healthcare facilities with, among others:

- private investors, including large private equity funds;
- healthcare providers, including physicians;
- other REITs;
- real estate developers;
- government-sponsored and/or not-for-profit agencies;
- financial institutions; and
- other lenders.

Some of these competitors may have substantially greater financial and other resources than we have and may have better relationships with lenders and sellers. Competition for healthcare facilities from competitors may adversely affect our ability to acquire or develop healthcare facilities and the prices we pay for those facilities. If we are unable to acquire or develop facilities or if we pay too much for facilities, our revenue, earnings growth and financial return could be materially adversely affected. Certain of our facilities, or facilities we may acquire or develop in the future will face competition from other nearby facilities that provide services comparable to those offered at our facilities. Some of those facilities are owned by governmental agencies and supported by tax revenues, and others are owned by tax-exempt corporations and may be supported to a large extent by endowments and charitable contributions. Those types of support are not generally available to our facilities. In addition, competing healthcare facilities located in the areas served by our facilities may provide healthcare services that are not available at our facilities and additional facilities we may acquire or develop. From time to time, referral sources, including physicians and managed care organizations, may change the healthcare facilities to which they refer patients, which could adversely affect our tenants and thus our rental revenues, interest income, and/or our earnings from equity investments.

Many of our current tenants have, and prospective tenants may have, an option to purchase the facilities we lease to them which could disrupt our operations.

Many of our current tenants have, and some prospective tenants will have, the option to purchase the facilities we lease to them. There is no assurance that the formulas we have developed for setting the purchase price will yield a fair market value purchase price.

In the event our tenants and prospective tenants determine to purchase the facilities they lease either during the lease term or after their expiration, the timing of those purchases may be outside of our control, and we may not be able to re-invest the capital on as favorable terms, or at all. Our inability to effectively manage the turnover of our facilities could materially adversely affect our ability to execute our business plan and our results of operations.

We have 160 leased properties that are subject to purchase options as of December 31, 2018. For 88 of these properties, the purchase option generally allows the lessee to purchase the real estate at the end of the lease term, as long as no default has occurred, at a price equivalent to the greater of (i) fair market value or (ii) our original purchase price (increased, in some cases, by a certain annual rate of return from lease commencement date). The lease agreements provide for an appraisal process to determine fair market value. For 17 of these properties, the purchase option generally allows the lessee to purchase the real estate at the end of the lease term, as long as no default has occurred, at our purchase price (increased, in some cases, by a certain annual rate of return from lease commencement date). For the remaining 55 leases, the purchase options approximate fair value. At December 31, 2018, we do not believe any of our leases contained bargain purchase options.

In certain circumstances, a prospective purchaser of our hospital real estate may be deemed to be subject to Anti-Kickback and Stark statutes, which are described in the “Healthcare Regulatory Matters” section in Item 1 of this Annual Report on Form 10-K. In such event, it may not be practicable for us to sell property to such prospective purchasers at prices other than fair market value.

We may not be able to adapt our management and operational systems to manage the net-leased facilities we have acquired or are developing or those that we may acquire or develop in the future without unanticipated disruption or expense.

There is no assurance that we will be able to adapt our management, administrative, accounting and operational systems, or hire and retain sufficient operational staff, to manage the facilities we have acquired and those that we may acquire or develop, including those properties located in Europe or any future investments outside the U.S. Our failure to successfully manage our current portfolio of facilities or any future acquisitions or developments could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

Merger and acquisition activity or consolidation in the healthcare industry may result in a change of control of, or a competitor's investment in, one or more of our tenants or operators, which could have a material adverse effect on us.

The healthcare industry continues to experience consolidation, including among owners of real estate and healthcare providers. We compete with other healthcare REITs, healthcare providers, healthcare lenders, real estate partnerships, banks, insurance companies, private equity firms and other investors that pursue a variety of investments, which may include investments in our tenants or operators. We have historically developed strong, long-term relationships with many of our tenants and operators. A competitor's investment in one of our tenants or operators, any change of control of a tenant or operator, or a change in the tenant's or operator's management team could enable our competitor to influence or control that tenant's or operator's business and strategy. This influence could have a material adverse effect on us by impairing our relationship with the tenant or operator, negatively affecting our interest, or impacting the tenant's or operator's financial and operational performance, including their ability to pay us rent or interest. Depending on our contractual agreements and the specific facts and circumstances, we may have consent rights, termination rights, remedies upon default or other rights and remedies related to a competitor's investment in, a change of control of, or other transactions impacting a tenant or operator. In deciding whether to exercise our rights and remedies, including termination rights or remedies upon default, we assess numerous factors, including legal, contractual, regulatory, business and other relevant considerations.

We depend on key personnel, the loss of any one of whom may threaten our ability to operate our business successfully.

We depend on the services of Edward K. Aldag, Jr., R. Steven Hamner, and Emmett E. McLean to carry out our business and investment strategy. If we were to lose any of these executive officers, it may be more difficult for us to locate attractive acquisition targets, complete our acquisitions and manage the facilities that we have acquired or developed. Additionally, as we expand, we will continue to need to attract and retain additional qualified officers and employees. The loss of the services of any of our executive officers, or our inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business and financial results.

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may be highly volatile and be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at or above your purchase price.

We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or distributions;
- changes in our funds from operations or earnings estimates or publication of research reports about us or the real estate industry;
- increases in market interest rates that lead purchasers of our shares of common stock to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- local conditions such as an oversupply of, or a reduction in demand for, inpatient rehabilitation hospitals, LTACHs, ambulatory surgery centers, medical office buildings, specialty hospitals, skilled nursing facilities, regional and community hospitals, women’s and children’s hospitals and other single-discipline facilities;
- speculation in the press or investment community; and
- general market and economic conditions.

Future sales of common stock may have adverse effects on our stock price.

We cannot predict the effect, if any, of future sales of common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock, or the perception that these sales could occur, may adversely affect prevailing market prices for our common stock. We may issue from time to time additional common stock or units of our operating partnership in connection with the acquisition of facilities and we may grant additional demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of common stock or the perception that these sales could occur may adversely affect the prevailing market price for our common stock. In addition, the sale of these shares could impair our ability to raise future capital through a sale of additional equity securities.

Downgrades in our credit ratings could have a material adverse effect on our cost and availability of capital.

On May 19, 2017, S&P revised its rating outlook on us to negative from stable and affirmed the BB+ corporate credit rating. As of February 22, 2019, our corporate credit rating from S&P remained at BB+, and our corporate family rating from Moody’s Investors Service was Ba1. There can be no assurance that we will be able to maintain our current credit ratings. Any downgrades in terms of ratings or outlook by any or all of the rating agencies could have a material adverse effect on our cost and availability of capital, which could in turn have a material adverse effect on our

financial condition and results of operations.

An increase in market interest rates may have an adverse effect on the market price of our securities.

One of the factors that investors may consider in deciding whether to buy or sell our securities is our dividend rate as a percentage of our price per share of common stock, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher distribution on our securities or seek securities paying higher distributions. The market price of our common stock likely will be based primarily on the earnings that we derive from rental and interest income with respect to our

facilities and our related distributions to stockholders, and not from the underlying appraised value of the facilities themselves. As a result, interest rate fluctuations and capital market conditions can affect the market price of our common stock. In addition, rising interest rates would result in increased interest expense on our variable-rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and make distributions.

Changes in currency exchange rates may subject us to risk.

As our operations have expanded internationally where the U.S. dollar is not the denominated currency, currency exchange rate fluctuations could affect our results of operations and financial position. A significant change in the value of the foreign currency of one or more countries where we have a significant investment may have a material adverse effect on our financial position, debt covenant ratios, results of operations and cash flow.

Although we may enter into foreign exchange agreements with financial institutions and/or obtain local currency mortgage debt in order to reduce our exposure to fluctuations in the value of foreign currencies, we cannot assure you that foreign currency fluctuations will not have a material adverse effect on us.

The United Kingdom’s exit from the European Union could adversely affect us.

On June 23, 2016, the United Kingdom held a referendum in which a majority of voters voted to exit the European Union, known as Brexit. Negotiations have commenced to determine the future terms of the United Kingdom’s relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and global economic or market conditions and could contribute to instability in global financial markets. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, and others we cannot anticipate, may adversely affect us.

We currently hold, and may acquire additional, interests in healthcare facilities located in the United Kingdom and Europe, as well as other investments that are denominated in British pounds and euros. In addition, our operating partnership has issued, and may issue in the future, senior unsecured notes denominated in euros along with borrowings denominated in British pounds. Any of the effects of Brexit described above, and others we cannot anticipate, could have a material adverse effect on our business, the value of our real estate and other investments, and our potential growth in Europe, and could amplify the currency risks faced by us.

RISKS RELATING TO REAL ESTATE INVESTMENTS

Our real estate, mortgage, and equity investments are and are expected to continue to be concentrated in a single industry segment, making us more vulnerable economically than if our investments were more diversified.

We acquire, develop, and make mortgage investments in healthcare real estate. In addition, we selectively make RIDEA investments (or similar investments) in healthcare operators. We are subject to risks inherent in concentrating investments in real estate. The risks resulting from a lack of diversification become even greater as a result of our business strategy to invest solely in healthcare facilities. A downturn in the real estate industry could materially adversely affect the value of our facilities. A downturn in the healthcare industry could negatively affect our tenants’ ability to make lease or loan payments to us as well as our return on our equity investments. Consequently, our ability to meet debt service obligations or make distributions to our stockholders are dependent on the real estate and healthcare industries. These adverse effects could be more pronounced than if we diversified our investments outside of real estate or outside of healthcare facilities.

Our facilities may not have efficient alternative uses, which could impede our ability to find replacement tenants in the event of termination or default under our leases.

All of the facilities in our current portfolio are and all of the facilities we expect to acquire or develop in the future will be net-leased healthcare facilities. If we, or our tenants, terminate the leases for these facilities, or if these tenants lose their regulatory authority to operate these facilities, we may not be able to locate suitable replacement tenants to lease the facilities for their specialized uses. Alternatively, we may be required to spend substantial amounts to adapt the facilities to other uses. Any loss of revenues or additional capital expenditures occurring as a result could have a material adverse effect on our financial condition and results of operations and could hinder our ability to meet debt service obligations or make distributions to our stockholders.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our facilities and harm our financial condition.

Real estate investments are relatively illiquid. Additionally, the real estate market is affected by many factors beyond our control, including adverse changes in global, national, and local economic and market conditions and the availability, costs and terms

of financing. Our ability to quickly sell or exchange any of our facilities in response to changes in economic and other conditions will be limited. No assurances can be given that we will recognize full value for any facility that we are required to sell for liquidity reasons. Our inability to respond rapidly to changes in the performance of our investments could adversely affect our financial condition and results of operations.

Development and construction risks could adversely affect our ability to make distributions to our stockholders.

We have developed and constructed facilities in the past and are currently developing three facilities. We will develop additional facilities in the future as opportunities present themselves. Our development and related construction activities may subject us to the following risks:

- we may have to compete for suitable development sites;
- our ability to complete construction is dependent on there being no title, environmental or other legal proceedings arising during construction;
- we may be subject to delays due to weather conditions, strikes and other contingencies beyond our control;
- we may be unable to obtain, or suffer delays in obtaining, necessary zoning, land-use, building, occupancy healthcare regulatory and other required governmental permits and authorizations, which could result in increased costs, delays in construction, or our abandonment of these projects;
- we may incur construction costs for a facility which exceed our original estimates due to increased costs for materials or labor or other costs that we did not anticipate; and
- we may not be able to obtain financing on favorable terms, which may render us unable to proceed with our development activities.

We expect to fund our development projects over time. The time frame required for development and construction of these facilities means that we may have to wait for some time to earn significant cash returns. In addition, our tenants may not be able to obtain managed care provider contracts in a timely manner or at all. Finally, there is no assurance that future development projects will occur without delays and cost overruns. Risks associated with our development projects may reduce anticipated rental revenue which could affect the timing of, and our ability to make, distributions to our stockholders.

We may be subject to risks arising from future acquisitions of real estate.

We may be subject to risks in connection with our acquisition of healthcare real estate, including without limitation the following:

- we may have no previous business experience with the tenants at the facilities acquired, and we may face difficulties in working with them;
- underperformance of the acquired facilities due to various factors, including unfavorable terms and conditions of the existing lease agreements relating to the facilities, disruptions caused by the management of our tenants or changes in economic conditions;
- diversion of our management’s attention away from other business concerns;
- exposure to any undisclosed or unknown potential liabilities relating to the acquired facilities (or entities acquired in a share deal); and
- potential underinsured losses on the acquired facilities.

We cannot assure you that we will be able to manage the new properties without encountering difficulties or that any such difficulties will not have a material adverse effect on us.

Our facilities may not achieve expected results or we may be limited in our ability to finance future acquisitions, which may harm our financial condition and operating results and our ability to make the distributions to our stockholders required to maintain our REIT status.

Acquisitions and developments entail risks that investments will fail to perform in accordance with expectations and that estimates of the costs of improvements necessary to acquire and develop facilities will prove inaccurate, as well as general investment risks associated with any new real estate investment. Newly-developed or newly-renovated facilities may not have operating histories that are helpful in making objective pricing decisions. The purchase prices of these facilities will be based in part upon projections by management as to the expected operating results of the facilities, subjecting us to risks that these facilities may not achieve anticipated operating results or may not achieve these results within anticipated time frames.

We anticipate that future acquisitions and developments will largely be financed through externally generated funds such as borrowings under credit facilities and other secured and unsecured debt financing and from issuances of equity securities. Because we must distribute at least 90% of our REIT taxable income, excluding net capital gains, each year to maintain our qualification as a REIT, our ability to rely upon income from operations or cash flows from operations to finance our growth and acquisition activities will be limited.

If our facilities do not achieve expected results and generate ample cash flows from operations or if we are unable to obtain funds from borrowings or the capital markets to finance our acquisition and development activities, amounts available for distribution to stockholders could be adversely affected and we could be required to reduce distributions, thereby jeopardizing our ability to maintain our status as a REIT.

If we suffer losses that are not covered by insurance or that are in excess of our insurance coverage limits, we could lose investment capital and anticipated profits.

Our leases and mortgage loans, generally require our tenants/borrowers to carry property, general liability, professional liability, loss of earnings, all risk and extended coverage insurance in amounts sufficient to permit the replacement of the facility in the event of a total loss, subject to applicable deductibles. We carry general liability insurance and loss of earnings coverage on all of our properties as a contingent measure in case our tenant's coverage is not sufficient. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism, which may be uninsurable or not insurable at a price we or our tenants/borrowers can afford. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace a facility after it has been damaged or destroyed. Under such circumstances, the insurance proceeds we receive might not be adequate to restore our economic position with respect to the affected facility. If any of these or similar events occur, it may reduce our return from the facility and the value of our investment. We continually review the insurance maintained by our tenants/borrowers and believe the coverage provided to be adequate and customary for similarly situated companies in our industry. However, we cannot provide any assurances that such insurance will be available at a reasonable cost in the future. Also, we cannot assure you that material uninsured losses, or losses in excess of insurance proceeds, will not occur in the future.

Our capital expenditures for facility renovation may be greater than anticipated and may adversely impact rent payments by our tenants and our ability to make distributions to stockholders.

Facilities, particularly those that consist of older structures, have an ongoing need for renovations and other capital improvements, including periodic replacement of fixtures and fixed equipment. Although our leases require our tenants to be primarily responsible for the cost of such expenditures, renovation of facilities involves certain risks, including the possibility of environmental problems, regulatory requirements, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from other facilities. All of these factors could adversely impact rent and loan payments by our tenants and returns on our equity investments, which in turn could have a material adverse effect on our financial condition and results of operations along with our ability to make distributions to our stockholders.

All of our healthcare facilities are subject to property taxes that may increase in the future and adversely affect our business.

Our facilities are subject to real and personal property taxes that may increase as property tax rates change and as the facilities are assessed or reassessed by taxing authorities. Our leases generally provide that the property taxes are charged to our tenants as an expense related to the facilities that they occupy. As the owner of the facilities, however, we are ultimately responsible for payment of the taxes to the government. If property taxes increase, our tenants may be unable to make the required tax payments, ultimately requiring us to pay the taxes. If we incur these tax liabilities, our ability to make expected distributions to our stockholders could be adversely affected. In addition, if such taxes

increase on properties in which we have an equity investment in the tenant, our return on investment maybe negatively affected.

As the owner and lessor of real estate, we are subject to risks under environmental laws, the cost of compliance with which and any violation of which could materially adversely affect us.

Our operating expenses could be higher than anticipated due to the cost of complying with existing and future environmental laws and regulations. Various environmental laws may impose liability on the current or prior owner or operator of real property for removal or remediation of hazardous or toxic substances. Current or prior owners or operators may also be liable for government fines and damages for injuries to persons, natural resources and adjacent property. These environmental laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence or disposal of the hazardous or toxic substances. The cost of complying with environmental laws could materially adversely affect amounts available for distribution to our stockholders and could exceed the value of all of our facilities. In addition, the presence of hazardous or toxic substances, or the failure of our tenants to properly manage, dispose of or remediate such substances, including medical waste generated by physicians and our other healthcare

operators, may adversely affect our tenants or our ability to use, sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our revenue and our financing ability. We typically obtain Phase I environmental assessments (or similar studies) on facilities we acquire or develop or on which we make mortgage loans, and intend to obtain on future facilities we acquire. However, even if the Phase I environmental assessment reports do not reveal any material environmental contamination, it is possible that material environmental contamination and liabilities may exist, of which we are unaware.

Although the leases for our facilities and our mortgage loans generally require our operators to comply with laws and regulations governing their operations, including the disposal of medical waste, and to indemnify us for certain environmental liabilities, the scope of their obligations may be limited. We cannot assure you that our tenants would be able to fulfill their indemnification obligations and, therefore, any material violation of environmental laws could have a material adverse effect on us. In addition, environmental laws are constantly evolving, and changes in laws, regulations or policies, or changes in interpretations of the foregoing, could create liabilities where none exist today.

Our interests in facilities through ground leases expose us to the loss of the facility upon breach or termination of the ground lease, may limit our use of the facility and may result in additional expense to us if our tenants vacate our facility.

We have acquired interests in 33 of our facilities, at least in part, by acquiring leasehold interests in the land on which the facility is located rather than an ownership interest in the property, and we may acquire additional facilities in the future through ground leases. As lessee under ground leases, we are exposed to the possibility of losing the property upon termination, or an earlier breach by us, of the ground lease, which would be a negative impact to our financial condition. Ground leases may also restrict our use of facilities, which may limit our flexibility in renting the facility and may impede our ability to sell the property. Finally, if our lease expires or is terminated for whatever reason resulting in the tenant vacating the facility, we would be responsible for the ground lease payments until we found a replacement tenant, which would negatively impact our cash flows and results of operations.

Our acquisitions may not prove to be successful.

We are exposed to the risk that some of our acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and acquired properties might require significant management attention that would otherwise be devoted to our ongoing business. In addition, we might be exposed to undisclosed and unknown liabilities related to any acquired properties. If we agree to provide construction funding to an operator/tenant and the project is not completed, we may need to take steps to ensure completion of the project. Moreover, if we issue equity securities or incur additional debt, or both, to finance future acquisitions, it may reduce our per share financial results. These costs may negatively affect our results of operations.

RISKS RELATING TO THE HEALTHCARE INDUSTRY

The continued pressure on fee-for-service reimbursement from third-party payors and the shift towards alternative payment models, could adversely affect the profitability of our tenants and hinder their ability to make payments to us.

Sources of revenue for our tenants and operators may include the Medicare and Medicaid programs, private insurance carriers, and health maintenance organizations, among others. In addition to ongoing efforts to reduce healthcare costs, the failure of any of our tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid, and other government-sponsored payment programs.

The shift in our tenants' payor mix away from fee-for-service payors results in an increase in the percentage of revenues attributable to alternative payment models implemented by private and government payors, which can lead to reductions in reimbursement for services provided by our tenants. There is continued focus on transitioning

Medicare from its traditional fee-for-service model to models that employ one or more capitated, value-based, or bundled payment approaches, and private payors have implemented similar types of alternative payment models. Such efforts from private and government payors, in addition to general industry trends, continue to place pressures on our tenants to control healthcare costs. Furthermore, pressures to control healthcare costs and a shift away from traditional health insurance reimbursement have resulted in an increase in the number of patients whose healthcare coverage is provided under managed care plans, such as health maintenance organizations and preferred provider organizations. These shifts place further cost pressures on our tenants. We also continue to believe that, due to the aging of the population and the expansion of governmental payor programs, there will be a marked increase in the number of patients relying on healthcare coverage provided by governmental payors. All of these changes could have a material adverse effect on the financial condition of some or all of our tenants, which could have a material adverse effect on our financial condition and results of operations and could negatively affect our ability to make distributions to our stockholders. In instances where we have an equity investment in our tenants' operations, in addition to the effect on these tenants' ability to meet their financial obligations to us, our ownership and investment interests may also be negatively impacted.

CMS's regulatory restrictions on reimbursement for LTACH, inpatient rehabilitation facilities ("IRF"), and HOPD can lead to reduced reimbursement for our tenants that operate such facilities and departments. CMS is likely to continue exploring restrictions on

LTACH, IRF, and HOPD reimbursement and possibly develop more restrictive facility and patient level criteria for these types of facilities or departments. These changes could have a material adverse effect on the financial condition of some of our tenants, which could have a material adverse effect on our financial condition and results of operations and could negatively affect our ability to make distributions to our stockholders.

The Reform Law represented a major shift in the U.S. healthcare industry by, among other things, allowing millions of formerly uninsured individuals to obtain health insurance coverage and by significantly expanding Medicaid. Though efforts to repeal and replace the Reform Law may continue in the future, we believe that certain trends, including, but not limited to, various quality and reimbursement initiatives discussed above, will continue irrespective of whether the Reform Law is repealed or replaced, we cannot predict with any certainty or precision what effect a repeal or replacement law would have on the operations of our tenants, but it could have a material adverse effect on the financial condition of some or all of our tenants.

Significant regulation and loss of licensure or certification or failure to obtain licensure or certification could negatively impact our tenants' financial condition and results of operations and affect their ability to make payments to us.

The U.S. healthcare industry is highly regulated by federal, state, and local laws and is directly affected by federal conditions of participation, state licensing requirements, facility inspections, state and federal reimbursement policies, regulations concerning capital and other expenditures, certification requirements and other such laws, regulations, and rules. As with the U.S. healthcare industry, our tenants in the United Kingdom and Western Europe are also subject in some instances to comparable types of laws, regulations, and rules that affect their ownership and operation of healthcare facilities. Although our lease and mortgage loan agreements require our tenants/borrowers to comply with applicable laws, and we intend for these facilities to comply with such laws, we do not actively monitor compliance. Therefore, we cannot offer any assurance that our tenants/borrowers will be found to be in compliance with such, as the same may ultimately be implemented or interpreted.

We are aware of various federal and state inquiries, investigations, and other proceedings currently affecting several of our tenants and would expect such governmental compliance and enforcement activities to be ongoing at any given time with respect to one or more of our tenants, either on a confidential or public basis. An adverse result to our tenant/borrower in one or more such governmental proceedings may have a material adverse effect on their operations and financial condition and on its ability to make required lease and/or loan payments to us. In instances where we have an equity investment in the operator, in addition to the effect on these tenants'/borrowers' ability to meet their financial obligation to us, our ownership and investment interests may also be negatively impacted.

In the U.S., licensed health care facilities must comply with minimum health and safety standards and are subject to survey and inspection by state and federal agencies and their agents or affiliates, including CMS, the Joint Commission, and state departments of health. CMS develops Conditions of Participation and Conditions for Coverage that health care organizations must meet in order to begin and continue participating in the Medicare and Medicaid programs and receive payment under such programs. These minimum health and safety standards are aimed at improving quality and protecting the health and safety of beneficiaries, and there are several common criteria that exist across health entities. The failure to comply with any of these standards could jeopardize a healthcare organization's Medicare certification and, in turn, it's right to receive payment under the Medicare and Medicaid programs.

Further, many hospitals and other institutional providers in the U.S. are accredited by accrediting agencies such as the Joint Commission, a national healthcare accrediting organization. The Joint Commission was created to accredit healthcare organizations that meet its minimum health and safety standards. A national accrediting organization, such as the Joint Commission, enforces standards that meet or exceed such requirements. Surveyors for the Joint Commission, prior to the opening of a facility and approximately every three years thereafter, conduct on site surveys of facilities for compliance with a multitude of patient safety, treatment, and administrative requirements. Facilities

may lose accreditation for failure to meet such requirements, which in turn may result in the loss of license or certification including under the Medicare and Medicaid programs. For example, a facility may lose accreditation for failing to maintain proper medication in the operating room to treat potentially fatal reactions to anesthesia or for failure to maintain safe and sanitary medical equipment.

Finally, healthcare facility reimbursement practices and quality of care issues may result in loss of license or certification. For instance, the practice of “upcoding,” whereby services are billed for higher procedure codes than were actually performed, may lead to the revocation of a hospital’s license or the imposition of penalties. An event involving poor quality of care, such as that which leads to the serious injury or death of a patient, may also result in loss of license or certification. The failure of any tenant/borrower to comply with such laws, requirements, and regulations resulting in a loss of its license would affect its ability to continue its operation of the facility and would adversely affect its ability to make lease and/or loan payments to us. This, in turn, could have a material adverse effect on our financial condition and results of operations and could negatively affect our ability to make distributions to our stockholders. In instances where we have an equity investment in the operator, in addition to the effects on these tenants’/borowers’ ability to meet their financial obligations to us, our ownership and investment interests would be negatively impacted.

In addition, establishment of healthcare facilities and transfers of operations of healthcare facilities in the U.S. and in the United Kingdom and Western Europe are typically subject to regulatory approvals, such as state certificate of need laws in the U.S. Restrictions and delays in transferring the operations of healthcare facilities, in obtaining new third-party payor contracts, including Medicare and Medicaid provider agreements, and in receiving licensure and certification approval from appropriate state and federal agencies by new tenants, may affect our ability to terminate lease agreements, remove tenants that violate lease terms, and replace existing tenants with new tenants. Furthermore, these matters may affect a new tenant's/borrower's ability to obtain reimbursement for services rendered, which could adversely affect their ability to make lease and/or loan payments to us. In instances where we have an equity investment in the operator, in addition to the effect on these tenants'/borrowers' ability to meet their financial obligations to us, our ownership and investment interests may also be negatively impacted.

Our tenants are subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant's ability to make payments to us and adversely affect their profitability.

As noted earlier, in the U.S., the federal government and numerous state governments have passed laws and regulations that attempt to eliminate healthcare fraud and abuse by prohibiting business arrangements that induce patient referrals or the ordering of specific ancillary services. The trend toward increased investigation and enforcement activity in the areas of fraud and abuse and patient self-referrals to detect and eliminate fraud and abuse in the Medicare and Medicaid programs is likely to continue in future years. As described above, the penalties for violations of these laws can be substantial and may result in the imposition of criminal and civil penalties, including possible exclusion from federal and state healthcare programs. Imposition of any of these penalties upon any of our tenants could jeopardize a tenant's ability to operate a facility or to make lease and/or loan payments, thereby potentially adversely affecting us. In instances where we have an equity investment in our tenants' operations, in addition to the effect on the tenants' ability to meet their financial obligations to us, our ownership and investment interests may also be negatively impacted.

Some of our tenants have accepted, and prospective tenants may accept, an assignment of the previous operator's Medicare provider agreement typically in the case of the acquisition of such previous operator's facility. Such operators and other new-operator tenants that take assignment of Medicare provider agreements might be subject to liability for federal or state regulatory, civil, and criminal investigations of the previous owner's operations and claims submissions. These types of issues may not be discovered prior to purchase or after our tenants commence operations in our facilities. Adverse decisions, fines, or recoupments might negatively impact our tenants' financial condition, and in turn their ability to make lease and/or loan payments to us. In instances where we have an equity investment in our tenants' operations, in addition to the effect on these tenants' ability to meet their financial obligations to us, our ownership and investment interests may also be negatively impacted.

Certain of our lease arrangements may be subject to laws related to fraud and abuse or physician self-referrals.

Physician investment in subsidiaries that own our facilities could subject our lease arrangements to scrutiny under fraud and abuse and physician self-referral laws. Under the Stark Law, and its implementing regulations, if our lease arrangements do not satisfy the requirements of an applicable exception, the ability of our tenants to bill for services provided to Medicare beneficiaries pursuant to referrals from physician investors could be adversely impacted and subject us and our tenants to fines, which could impact our tenants' ability to make lease and/or loan payments to us. In instances where we have an equity investment in our tenants' operations, in addition to the effect on the tenants' ability to meet their financial obligations to us, our ownership and investment interests may also be negatively impacted. Therefore, in all cases, we intend to use our good faith efforts to structure our lease arrangements to comply with these laws.

We may be required to incur substantial renovation costs to make certain of our healthcare properties suitable for other operators and tenants.

Healthcare facilities are typically highly customized, subject to healthcare-specific building code requirements, and may not be easily adapted to non-healthcare-related uses. The improvements generally required to conform a property to healthcare use can be costly and at times tenant-specific. A new or replacement operator or tenant may require different features in a property, depending on that operator's or tenant's particular business. If a current operator or tenant is unable to pay rent and/or vacates a property, we may incur substantial expenditures to modify a property before we are able to secure another operator or tenant. Also, if the property needs to be renovated to accommodate multiple operators or tenants, we may incur substantial expenditures before we are able to re-lease the space. These expenditures or renovations may have a material adverse effect on our business, results of operations, and financial condition.

State certificate of need laws may adversely affect our development of facilities and the operations of our tenants.

Certain healthcare facilities in which we invest may also be subject to state laws in the U.S. which require regulatory approval in the form of a certificate of need prior to the transfer of a healthcare facility or prior to initiation of certain projects, including, but not limited to, the establishment of new or replacement facilities, the addition of beds, the addition or expansion of services and certain capital expenditures. State certificate of need laws are not uniform throughout the U.S., are subject to change, and may delay

developments of facilities or acquisitions or certain other transfers of ownership of facilities including, but limited to, a delay in obtaining approval of a replacement operator for an existing facility. We cannot predict the impact of state certificate of need laws on any of the preceding activities or on the operations of our tenants. Certificate of need laws often materially impact the ability of competitors to enter into the marketplace of our facilities. In addition, in limited circumstances, loss of state licensure or certification or closure of a facility could ultimately result in loss of authority to operate the facility and require re-licensure or new certificate of need authorization to re-institute operations. As a result, a portion of the value of the facility may be related to the limitation on new competitors. In the event of a change in the certificate of need laws, this value may markedly change.

RISKS RELATING TO OUR ORGANIZATION AND STRUCTURE

Pursuant to Maryland law, our charter and bylaws contain provisions that may have the effect of deterring changes in management and third-party acquisition proposals, which in turn could depress the price of Medical Properties common stock or cause dilution.

Our charter contains ownership limitations that may restrict business combination opportunities, inhibit change of control transactions and reduce the value of our common stock. To qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, no more than 50% in value of our outstanding stock, after taking into account options to acquire stock, may be owned, directly or indirectly, by five or fewer persons during the last half of each taxable year. Our charter generally prohibits direct or indirect ownership by any person of more than 9.8% in value or in number, whichever is more restrictive, of outstanding shares of any class or series of our securities, including our common stock. Generally, our common stock owned by affiliated owners will be aggregated for purposes of the ownership limitation. The ownership limitation could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of common stock might receive a premium for their common stock over the then-current market price or which such holders otherwise might believe to be in their best interests. The ownership limitation provisions also may make our common stock an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of more than 9.8% of either the value or number of the outstanding shares of our common stock.

Our charter and bylaws contain provisions that may impede third-party acquisition proposals. Our charter and bylaws also provide restrictions on replacing or removing directors. Directors may only be removed by the affirmative vote of the holders of two-thirds of our common stock. Additionally, stockholders are required to give us advance notice of director nominations. Special meetings of stockholders can only be called by our president, our board of directors or the holders of at least 25% of stock entitled to vote at the meetings. These and other charter and bylaw provisions may delay or prevent a change of control or other transaction in which holders of our common stock might receive a premium for their common stock over the then-current market price or which such holders otherwise might believe to be in their best interests.

Our UPREIT structure may result in conflicts of interest between our stockholders and the holders of our operating partnership units.

We are organized as an umbrella partnership real estate investment trust, “UPREIT”, which means that we hold our assets and conduct substantially all of our operations through an operating limited partnership, and may issue operating partnership units to employees and/or third parties. Persons holding operating partnership units would have the right to vote on certain amendments to the partnership agreement of our operating partnership, as well as on certain other matters. Persons holding these voting rights may exercise them in a manner that conflicts with the interests of our stockholders. Circumstances may arise in the future, such as the sale or refinancing of one of our facilities, when the interests of limited partners in our operating partnership conflict with the interests of our stockholders. As the sole member of the general partner of the operating partnership, we have fiduciary duties to the limited partners of the operating partnership that may conflict with fiduciary duties that our officers and directors owe to its stockholders. These conflicts may result in decisions that are not in the best interest of our stockholders.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, and maintaining personal identifying information and tenant and lease data. We purchase or license some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for the processing, transmission and storage of confidential tenant data. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not prevent the systems' improper functioning or the improper access or disclosure of our or our tenant's information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. The risk of security breaches has generally increased as the number, intensity and sophistication of attacks have increased. In some cases, it may be difficult to anticipate or immediately detect such incidents and the damage they cause. Any failure to maintain proper function, security and

availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a materially adverse effect on our business, financial condition and results of operations.

Changes in accounting pronouncements could adversely affect our operating results, in addition to the reported financial performance of our tenants.

Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board and the SEC, which create and interpret applicable accounting standards for U.S. companies (like the new lease accounting standard effective for us starting January 1, 2019), may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements.

These changes could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants'/borrowers' reported financial condition or results of operations or could affect our tenants' preferences regarding leasing real estate.

TAX RISKS ASSOCIATED WITH OUR STATUS AS A REIT

Loss of our tax status as a REIT would have significant adverse consequences to us and the value of our common stock.

We believe that we qualify as a REIT for federal income tax purposes and have elected to be taxed as a REIT under the federal income tax laws commencing with our taxable year that began on April 6, 2004, and ended on December 31, 2004. The REIT qualification requirements are extremely complex, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, there is no assurance that we will be successful in operating so as to qualify as a REIT. At any time, new laws, regulations, interpretations or court decisions may change the federal tax laws relating to, or the federal income tax consequences of, qualification as a REIT. It is possible that future economic, market, legal, tax or other considerations may cause our board of directors to revoke the REIT election, which it may do without stockholder approval.

If we lose or revoke our REIT status, we will face serious tax consequences that will substantially reduce the funds available for distribution because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income; therefore, we would be subject to federal income tax at regular corporate rates, and we might need to borrow money or sell assets in order to pay any such tax;
- we also could be subject to increased state and local taxes; and
- unless we are entitled to relief under statutory provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify.

As a result of all these factors, a loss or revocation of our REIT status could have a material adverse effect on our financial condition and results of operations and would adversely affect the value of our common stock.

Failure to make required distributions would subject us to tax.

In order to qualify as a REIT, each year we must distribute to our stockholders at least 90% of our REIT taxable income, excluding net capital gains. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are

less than the sum of (1) 85% of our ordinary income for that year; (2) 95% of our capital gain net income for that year; and (3) 100% of our undistributed taxable income from prior years.

We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. In the future, we may borrow to pay distributions to our stockholders and the limited partners of our operating partnership. Any funds that we borrow would subject us to interest rate and other market risks.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego attractive business or investment opportunities. Currently, no

more than 20% of the value of our assets may consist of securities of one or more TRS and no more than 25% of the value of our assets may consist of securities that are not qualifying assets under the test requiring that 75% of a REIT's assets consist of real estate and other related assets. In addition, at least 75% of our gross income must be generated from either rents from real estate or interest on loans secured by real estate (i.e. mortgage loans). Further, a TRS may not directly or indirectly operate or manage a healthcare facility. For purposes of this definition a "healthcare facility" means a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients and which is operated by a service provider that is eligible for participation in the Medicare program under Title XVIII of the Social Security Act with respect to the facility. Compliance with current and future changes to REIT requirements may limit our flexibility in executing our business plan.

If certain sale-leaseback transactions are not characterized by the Internal Revenue Service ("IRS") as "true leases," we may be subject to adverse tax consequences.

We have purchased certain properties and leased them back to the sellers of such properties, and we may enter into similar transactions in the future. We intend for any such sale-leaseback transaction to be structured in a manner that the lease will be characterized as a "true lease," thereby allowing us to be treated as the owner of the property for U.S. federal income tax purposes. However, depending on the terms of any specific transaction, the IRS might take the position that the transaction is not a "true lease" but is more properly treated in some other manner. In the event any sale-leaseback transaction is challenged and successfully re-characterized, we might fail to satisfy the REIT asset tests or income test and, consequently could lose our REIT status effective with the year of re-characterizations.

Transactions with TRSs may be subject to excise tax.

We have historically entered into lease and other transactions with our TRS and its subsidiaries and expect to continue to do so in the future. Under applicable rules, transactions such as leases between our TRS and its parent REIT that are not conducted on a market terms basis may be subject to a 100% excise tax. While we believe that all of our transactions with our TRS are at arm's length, imposition of a 100% excise tax could have a material adverse effect on our financial condition and results of operations and could adversely affect the trading price of our common stock.

Loans to our tenants could be characterized as equity, in which case our income from that tenant might not be qualifying income under the REIT rules and we could lose our REIT status.

In connection with the acquisition in 2004 of certain Vibra Healthcare, LLC ("Vibra") facilities, our TRS made a loan to Vibra to acquire the operations at those Vibra facilities. The acquisition loan bore interest at an annual rate of 10.25%. Our operating partnership loaned the funds to the TRS to make this loan. The loan from our operating partnership to the TRS bore interest at an annual rate of 9.25%.

Like the Vibra loan discussed above, our TRS has made and will make loans to tenants in our facilities to acquire operations or for working capital purposes. The IRS may take the position that certain loans to tenants should be treated as equity interests rather than debt, and that our interest income from such tenant should not be treated as qualifying income for purposes of the REIT gross income tests. If the IRS were to successfully treat a loan to a particular tenant as equity interests, the tenant would be a "related party tenant" with respect to our company and the rent that we receive from the tenant would not be qualifying income for purposes of the REIT gross income tests. As a result, we could be in jeopardy of failing the 75% income test discussed above, which if we did would cause us to lose our REIT status. In addition, if the IRS were to successfully treat a particular loan as interests held by our operating partnership rather than by our TRS, we could fail the 5% asset test, and if the IRS further successfully treated the loan as other than straight debt, we could fail the 10% asset test with respect to such interest. As a result of the failure of either test, we could lose our REIT status, which would subject us to corporate level income tax and adversely affect our ability to make distributions to our stockholders.

Certain property transfers may generate prohibited transaction income, resulting in a penalty tax on gain attributable to the transaction.

From time to time, we may transfer or otherwise dispose of some of our properties, including by contributing properties to our co-investment ventures. Under the Code, any gain resulting from transfers of properties we hold as inventory or primarily for sale to customers in the ordinary course of business is treated as income from a prohibited transaction subject to a 100% penalty tax. We do not believe that our transfers or disposals of property or our contributions of properties into our co-investment ventures are prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The IRS may contend that certain transfers or dispositions of properties by us or contributions of properties into our co-investment ventures are prohibited transactions. While we believe that the IRS would not prevail in any such dispute, if the IRS were to argue successfully that a transfer, disposition or contribution of property constituted a

prohibited transaction, we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction. In addition, income from a prohibited transaction might adversely affect our ability to satisfy the income tests for qualification as a REIT.

Changes in U.S. or foreign tax laws, regulations, including changes to tax rates, may adversely affect our results of operations.

We are headquartered in the U.S. with subsidiaries and investments globally and are subject to income taxes in these jurisdictions. Significant judgment is required in determining our provision for income taxes. Although we believe that we have adequately assessed and accounted for our potential tax liabilities, and that our tax estimates are reasonable, there can be no assurance that additional taxes will not be due upon audit of our tax returns or as a result of changes to applicable tax laws. The U.S. government as well as the governments of many of the countries in which we operate (such as Germany, the United Kingdom, and Luxembourg, which is where our Europe entities are domiciled) are actively discussing changes to the corporate recognition and taxation. Our future tax expense could be adversely affected by these changes in tax laws or their interpretation, both domestically and internationally. Potential tax reforms being considered by many countries include changes that could impact, among other things, global tax reporting, intercompany transfer pricing arrangements, the definition of taxable permanent establishments, and other legal or financial arrangements. The nature and timing of any changes to each jurisdiction's tax laws and the impact on our future tax liabilities both in the U.S. and abroad cannot be predicted with any accuracy but could materially and adversely impact our results of operations and cash flows.

The recently enacted Tax Cuts and Jobs Act is a complex revision to the U.S. federal income tax laws with impacts on different categories of taxpayers and industries, and will require subsequent rulemaking and interpretation in a number of areas. The long-term impact of the Tax Cuts and Jobs Act on the overall economy, government revenues, our tenants, our company, and the real estate industry cannot be reliably predicted at this time. Furthermore, the Tax Cuts and Jobs Act may impact certain of our tenants' operating results, financial condition, and future business plans. The Tax Cuts and Jobs Act may also result in reduced government revenues, and therefore reduced government spending, which may impact some of our tenants that rely on government funding. There can be no assurance that the Tax Cuts and Jobs Act will not impact our operating results, financial condition, and future business operations.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

Income from "qualified dividends" payable to U.S. stockholders that are individuals, trusts and estates are generally subject to tax at preferential rates. Dividends payable by REITs, however, generally are not eligible for the preferential tax rates applicable to qualified dividend income. Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, to the extent that the preferential rates continue to apply to regular corporate qualified dividends, investors who are individuals, trusts and estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could materially and adversely affect the value of the shares of REITs, including the per share trading price of our capital stock.

The Tax Cuts and Jobs Act provides a deduction to non-corporate taxpayers (e.g., individuals, trusts and estates) of 20% on dividends paid by a REIT that are not classified as capital gains. This provides closer parity between the treatment under the new law of ordinary REIT dividends and qualified dividends. The new law also provides for a maximum individual marginal tax rate on ordinary income, without regard to the effect of this deduction, of 37%. For non-corporate taxpayers, this would reduce the maximum marginal tax rate on ordinary REIT dividends to 33.4% (including the 3.8% Medicare tax that is applied before the 20% deduction.). The new tax law's 20% deduction on dividends paid by a REIT to non-corporate taxpayers and the reduced individual tax rates are scheduled to sunset for tax years beginning after 2025, absent further legislation.

ITEM 1B. Unresolved Staff Comments
None.

31

ITEM 2. Properties

At December 31, 2018, our portfolio consisted of 275 properties: 254 facilities (of the 265 facilities that we owned) were in operation and leased to 29 operators, 10 assets were in the form of first mortgage loans to four operators, and three properties were under construction. Our owned facilities consisted of 151 general acute care hospitals, 98 inpatient rehabilitation hospitals, 13 LTACHs, and three medical office buildings. The 10 non-owned facilities consisted of six general acute care facilities, three inpatient rehabilitation hospitals, and one LTACH.

	Total Properties	Total 2018 Revenue	Total Assets(A)	
	(Dollars in thousands)			
United States:				
Alabama	2	$763	$8,614	
Arizona	16	46,724	483,778	(C)
Arkansas	2	8,196	99,036	
California	12	61,059	522,753	
Colorado	13	11,500	91,302	
Connecticut	—	90	1,500	(D)
Florida	4	15,643	182,791	
Idaho	6	19,088	226,990	(B)
Indiana	2	4,754	52,003	
Kansas	3	11,611	100,156	
Louisiana	6	13,214	144,964	
Massachusetts	9	118,155	1,382,799	
Michigan	2	4,395	40,743	
Missouri	4	19,767	210,921	
Montana	1	2,454	17,389	
Nevada	1	10,175	86,405	
New Jersey	8	43,906	422,022	
New Mexico	2	6,097	43,791	
Ohio	6	13,270	133,243	
Oregon	1	9,846	110,000	
Pennsylvania	3	13,641	141,893	
South Carolina	6	14,086	164,636	
Texas	60	115,748	1,126,217	(C)
Utah	7	83,335	1,054,539	
Virginia	1	1,072	10,915	
Washington	2	10,351	136,600	
West Virginia	2	6,378	40,220	
Wisconsin	1	3,051	29,062	
Wyoming	1	2,612	18,511	
Other assets	—	—	232,973	
Total United States	183	$670,981	$7,316,766	
International:				
Germany	80	$109,202	$782,833	(E)
United Kingdom	3	3,813	73,992	(B)
Italy	8	—	92,683	(E)
Spain	1	526	25,789	(E)
Other assets	—	—	551,580	

Total International	92	$113,541	$1,526,877
Total	275	$784,522	$8,843,643

(A) Represents total assets at December 31, 2018.
(B) Includes development projects still under construction at December 31, 2018.
(C) Arizona includes one facility that is vacant at December 31, 2018. Texas includes our Twelve Oaks facility that is 55% occupied and six facilities that were vacant at December 31, 2018. Our investment in these facilities is less than 1% of total gross assets.
(D) We do not own any property in this state as of December 31, 2018; however, we hold a $1.5 million note related to a property disposed of in 2015.

(E) For Germany, Italy, and Spain, we own 71, eight, and one properties, respectively, through joint venture arrangements for which our equity investment is included in Other assets on the balance sheet at December 31, 2018.

Type of Property (includes properties subject to leases and mortgage loans)	Number of Properties	Total Square Footage	Total Licensed Beds(A)
General Acute Care Hospitals	160	26,516,886	15,388
Inpatient Rehabilitation Hospitals	101	11,592,283	15,687
LTACHs	14	782,152	814
	275	38,891,321	31,889

(A) Excludes our three facilities that are under development.

The following table shows lease and mortgage loan expirations, assuming that none of the tenants/borrowers exercise any of their renewal options (dollars in thousands):

Total Lease and Mortgage Loan Portfolio(2)	Total Leases/ Mortgage Loans	Annualized Base Rent/ Interest(1)	% of Total Annualized Base Rent/ Interest	Total Square Footage	Total Licensed Beds
2019	3	$ 6,481	1.0 %	227,066	228
2020	1	2,073	0.3 %	47,937	64
2021	1	2,250	0.3 %	95,445	126
2022	15	75,138	11.3 %	3,310,543	2,552
2023	4	13,147	2.0 %	912,652	823
2024	2	5,401	0.8 %	387,870	374
2025	6	19,933	3.0 %	1,299,924	769
2026	5	25,789	3.9 %	948,301	850
2027	1	3,051	0.5 %	102,948	13
2028	5	7,155	1.1 %	194,879	119
2029	19	48,902	7.4 %	2,700,101	1,355
Thereafter	203	453,296	68.4 %	28,049,629	24,413
Total	265	$ 662,616	100.0 %	38,277,295	31,686

(1) The most recent monthly base rent and mortgage loan interest annualized. This does not include tenant recoveries, additional rents and other lease/loan-related adjustments to revenue (i.e., straight-line rents and deferred revenues).

(2) Includes all properties, including 80 properties owned through joint ventures, except eight vacant properties representing less than 1% of our total gross assets, and three facilities that are under development. The schedule also includes one facility in Germany that was acquired in February 2019.

ITEM 3. Legal Proceedings

From time to time, there are various legal proceedings pending to which we are a party or to which some of our properties are subject to arising in the normal course of business. At this time, we do not believe that the ultimate resolution of these proceedings will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 4. Mine Safety Disclosures

None.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

(a) Medical Properties' common stock is traded on the New York Stock Exchange under the symbol "MPW." The following table sets forth the high and low sales prices for the common stock for the periods indicated, as reported by the New York Stock Exchange Composite Tape, and the dividends per share declared by us with respect to each such period.

	High	Low	Dividends
Year Ended December 31, 2018			
First Quarter	$13.89	$11.82	$ 0.25
Second Quarter	14.18	12.25	0.25
Third Quarter	15.24	13.79	0.25
Fourth Quarter	17.52	13.98	0.25
Year Ended December 31, 2017			
First Quarter	$13.86	$11.90	$ 0.24
Second Quarter	14.22	12.25	0.24
Third Quarter	13.54	12.27	0.24
Fourth Quarter	14.19	12.89	0.24

On February 22, 2019, the closing price for our common stock, as reported on the New York Stock Exchange, was $18.50 per share. As of February 22, 2019, there were 78 holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name.

To qualify as a REIT, we must distribute at least 90% of our REIT taxable income, excluding net capital gain, as dividends to our stockholders. If dividends are declared in a quarter, those dividends will be paid during the subsequent quarter. We expect to continue the policy of distributing our taxable income through regular cash dividends on a quarterly basis, although there is no assurance as to future dividends because they depend on future earnings, capital requirements, and our financial condition. In addition, our Credit Facility limits the amounts of dividends we can pay — see Note 4 of Item 8 of this Annual Report on Form 10-K for more information.

(b) Not applicable.

(c) None.

The following graph provides comparison of cumulative total stockholder return for the period from December 31, 2013 through December 31, 2018, among us, the Russell 2000 Index, NAREIT All Equity REIT Index, and SNL US REIT Healthcare Index. The stock performance graph assumes an investment of $100 in us and the three indices, and the reinvestment of dividends. The historical information below is not indicative of future performance.

	Period Ending					
Index	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Medical Properties Trust, Inc.	100.00	120.14	107.79	123.42	148.78	186.02
Russell 2000	100.00	104.89	100.26	121.63	139.44	124.09
NAREIT All Equity REIT Index	100.00	128.03	131.64	143.00	155.41	149.12
SNL US REIT Healthcare	100.00	133.17	123.49	132.65	132.45	140.66

The graph and accompanying text shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended.

ITEM 6. Selected Financial Data

The following tables set forth are selected consolidated financial and operating data for Medical Properties Trust, Inc. and MPT Operating Partnership, L.P. and their respective subsidiaries. You should read the following selected financial data in conjunction with the consolidated financial statements and notes thereto of each of Medical Properties Trust, Inc. and MPT Operating Partnership, L.P. and their respective subsidiaries included in Item 8, in this Annual Report on Form 10-K, along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7, in this Annual Report on Form 10-K.

Medical Properties Trust, Inc.

The consolidated operating and balance sheet data have been derived from our audited consolidated financial statements. As of December 31, 2018, Medical Properties Trust, Inc. had a 99.9% equity ownership interest in the Operating Partnership. Medical Properties Trust, Inc. has no significant operations other than as the sole member of its wholly owned subsidiary, Medical Properties Trust, LLC, which is the sole general partner of the Operating Partnership, and no material assets, other than its direct and indirect investment in the Operating Partnership.

	2018	2017	2016	2015	2014
	(In thousands except per share data)				
OPERATING DATA					
Total revenues	$784,522	$704,745	$541,137	$441,878	$312,532
Interest expense	(223,274)	(176,954)	(159,597)	(120,884)	(98,156)
Real estate depreciation and amortization expense	(133,083)	(125,106)	(94,374)	(69,867)	(53,938)
Property-related and general and administrative expenses	(89,323)	(64,410)	(51,623)	(47,431)	(39,125)
Acquisition costs	(917)	(29,645)	(46,273)	(61,342)	(26,389)
Gain on sale of real estate and other	719,392	7,431	61,224	3,268	2,857
Impairment charges	(48,007)	—	(7,229)	—	(50,128)
Debt refinancing costs	—	(32,574)	(22,539)	(4,367)	(1,698)
Other income (expense)	10,094	10,432	(1,619)	175	5,181
Income tax (expense) benefit	(927)	(2,681)	6,830	(1,503)	(340)
Net income	1,018,477	291,238	225,937	139,927	50,796
Net income attributable to non-controlling interests	(1,792)	(1,445)	(889)	(329)	(274)
Net income attributable to MPT common stockholders	$1,016,685	$289,793	$225,048	$139,598	$50,522
Net income attributable to MPT common stockholders per diluted share	$2.76	$0.82	$0.86	$0.63	$0.29
Weighted average shares outstanding — diluted	366,271	350,441	261,072	218,304	170,540
OTHER DATA					
Dividends declared per common share	$1.00	$0.96	$0.91	$0.88	$0.84
FFO(1)	$485,335	$408,512	$253,478	$205,168	$106,682
Normalized FFO(1)	$501,004	$474,879	$334,826	$274,805	$181,741
Normalized FFO per share(1)	$1.37	$1.35	$1.28	$1.26	$1.06
Cash paid for acquisitions and other related investments	$666,548	$2,246,788	$1,489,147	$1,833,018	$767,696

	December 31,				

	2018	2017	2016	2015	2014
	(In thousands)				
BALANCE SHEET DATA					
Real estate assets — at cost	$5,952,512	$6,642,947	$4,965,968	$3,924,701	$2,612,291
Real estate accumulated depreciation/amortization	(464,984)	(455,712)	(325,125)	(257,928)	(202,627)
Mortgage and other loans	1,586,520	1,928,525	1,216,121	1,422,403	970,761
Cash and cash equivalents	820,868	171,472	83,240	195,541	144,541
Other assets	948,727	733,056	478,332	324,634	195,364
Total assets	$8,843,643	$9,020,288	$6,418,536	$5,609,351	$3,720,330
Debt, net	$4,037,389	$4,898,667	$2,909,341	$3,322,541	$2,174,648
Other liabilities	245,316	286,416	255,967	179,545	163,635
Total Medical Properties Trust, Inc. Stockholders' Equity	4,547,108	3,820,633	3,248,378	2,102,268	1,382,047
Non-controlling interests	13,830	14,572	4,850	4,997	—
Total equity	4,560,938	3,835,205	3,253,228	2,107,265	1,382,047
Total liabilities and equity	$8,843,643	$9,020,288	$6,418,536	$5,609,351	$3,720,330

MPT Operating Partnership, L.P.

The consolidated operating and balance sheet data presented below have been derived from the Operating Partnership's audited consolidated financial statements.

	2018	2017	2016	2015	2014
	(In thousands except per unit data)				
OPERATING DATA					
Total revenues	$784,522	$704,745	$541,137	$441,878	$312,532
Interest expense	(223,274)	(176,954)	(159,597)	(120,884)	(98,156)
Real estate depreciation and amortization expense	(133,083)	(125,106)	(94,374)	(69,867)	(53,938)
Property-related and general and administrative expenses	(89,323)	(64,410)	(51,623)	(47,431)	(39,125)
Acquisition costs	(917)	(29,645)	(46,273)	(61,342)	(26,389)
Gain on sale of real estate and other	719,392	7,431	61,224	3,268	2,857
Impairment charges	(48,007)	—	(7,229)	—	(50,128)
Debt refinancing costs	—	(32,574)	(22,539)	(4,367)	(1,698)
Other income (expense)	10,094	10,432	(1,619)	175	5,181
Income tax (expense) benefit	(927)	(2,681)	6,830	(1,503)	(340)
Net income	1,018,477	291,238	225,937	139,927	50,796
Net income attributable to non-controlling interests	(1,792)	(1,445)	(889)	(329)	(274)
Net income attributable to MPT Operating Partnership partners	$1,016,685	$289,793	$225,048	$139,598	$50,522
Net income attributable to MPT Operating Partnership partners per diluted unit	$2.76	$0.82	$0.86	$0.63	$0.29
Weighted average units outstanding — diluted	366,271	350,441	261,072	218,304	170,540
OTHER DATA					
Dividends declared per unit	$1.00	$0.96	$0.91	$0.88	$0.84
FFO(1)	$485,335	$408,512	$253,478	$205,168	$106,682
Normalized FFO(1)	$501,004	$474,879	$334,826	$274,805	$181,741
Normalized FFO per unit(1)	$1.37	$1.35	$1.28	$1.26	$1.06
Cash paid for acquisitions and other related investments	$666,548	$2,246,788	$1,489,147	$1,833,018	$767,696

	December 31, 2018	2017	2016	2015	2014
	(In thousands)				
BALANCE SHEET DATA					
Real estate assets — at cost	$5,952,512	$6,642,947	$4,965,968	$3,924,701	$2,612,291
Real estate accumulated depreciation/amortization	(464,984)	(455,712)	(325,125)	(257,928)	(202,627)
Mortgage and other loans	1,586,520	1,928,525	1,216,121	1,422,403	970,761
Cash and cash equivalents	820,868	171,472	83,240	195,541	144,541
Other assets	948,727	733,056	478,332	324,634	195,364
Total assets	$8,843,643	$9,020,288	$6,418,536	$5,609,351	$3,720,330
Debt, net	$4,037,389	$4,898,667	$2,909,341	$3,322,541	$2,174,648
Other liabilities	244,926	286,026	255,577	179,155	163,245

Total MPT Operating Partnership, L.P. capital	4,547,498	3,821,023	3,248,768	2,102,658	1,382,437
Non-controlling interests	13,830	14,572	4,850	4,997	—
Total capital	4,561,328	3,835,595	3,253,618	2,107,655	1,382,437
Total liabilities and capital	$8,843,643	$9,020,288	$6,418,536	$5,609,351	$3,720,330

(1) See section titled “Non-GAAP Financial Measures” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of this Annual Report on Form 10-K for an explanation of why these non-GAAP financial measures are useful along with a reconciliation to our GAAP earnings.

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

Unless otherwise indicated, references to "our," "we" and "us" in this management's discussion and analysis of financial condition and results of operations refer to Medical Properties Trust, Inc. and its consolidated subsidiaries, including MPT Operating Partnership, L.P.

Overview

We were incorporated in Maryland on August 27, 2003, primarily for the purpose of investing in and owning net-leased healthcare facilities. We also make real estate mortgage loans and other loans to our tenants. We conduct our business operations in one segment. We currently have healthcare investments in the U.S. and Europe. We have operated as a REIT since April 6, 2004, and accordingly, elected REIT status upon the filing of our calendar year 2004 U.S. federal income tax return. Our existing tenants are, and our prospective tenants will generally be, healthcare operating companies and other healthcare providers that use substantial real estate assets in their operations. We offer financing for these operators' real estate through 100% lease and mortgage financing and generally seek lease and loan terms on a long-term basis ranging from 10 to 15 years with a series of shorter renewal terms at the option of our tenants and borrowers. We also have included and intend to include in our lease and loan agreements annual contractual minimum rate increases. Our existing portfolio's minimum escalators generally range from 0.5% to 3%. In addition, most of our leases and loans also include rate increases based on the general rate of inflation if greater than the minimum contractual increases. Only less than 2% of our properties do not have either a minimum escalator or an escalator based on inflation. Beyond rent or mortgage interest, our leases and loans typically require our tenants to pay all operating costs and expenses associated with the facility. Finally, we may acquire a profits or other equity interest in our tenants that gives us a right to share in the tenant's income or loss.

We selectively make loans to certain of our operators through our TRSs, which the operators use for acquisitions and working capital. We consider our lending business an important element of our overall business strategy for two primary reasons: (1) it provides opportunities to make income-earning investments that yield attractive risk-adjusted returns in an industry in which our management has expertise, and (2) by making debt capital available to certain qualified operators, we believe we create for our company a competitive advantage over other buyers of, and financing sources for, healthcare facilities.

At December 31, 2018, our portfolio (including real estate assets in joint ventures) consisted of 275 properties leased or loaned to 29 operators, of which three are under development and 10 are in the form of mortgage loans.

2018 Highlights

In 2018, we demonstrated the value of our portfolio through strategic property sales that generated gains exceeding $700 million and cash proceeds of approximately $2 billion. In addition, we generated returns to our shareholders of 25% during 2018, outpacing the returns of several key indexes as noted in Item 5 of this Annual Report on Form 10-K. Our return included an increase in our quarterly dividend to $0.25 per share in 2018 — the fourth year in a row for such an increase. Finally, we improved our liquidity position and leverage metrics during 2018, which puts us in an excellent position for future investment opportunities.

A summary of our 2018 highlights is as follows:

- Sold the real estate of 76 properties (71 of which are leased to MEDIAN and were contributed to a joint venture arrangement) and sold our equity interest in Ernest (along with the repayment of all outstanding loans and accrued interest) for a net gain of approximately $720 million, as noted below:
- Sold two acute care hospitals in Houston, Texas for a net gain of approximately $100 million;
- Sold three long-term acute care hospitals located in California, Texas, and Oregon, for $53 million of cash and resulting in a net gain of $19.1 million;
-

Sold 71 properties located in Germany for a net gain of approximately €500 million by way of a joint venture arrangement, for which we own a 50% interest; and

- Sold our investment in the operations of Ernest and were repaid outstanding loans and accrued interest generating over $176 million in cash.
- Acquired the following real estate assets:
- Acquired three inpatient rehabilitation hospitals in Germany for a combined purchase price of €17.3 million. These facilities are leased to MEDIAN;
- Acquired five acute care hospitals from Steward in exchange for the reduction of $764 million in mortgage loans plus cash, which further increased the strength of our portfolio; and
- Acquired an acute care hospital in Pasco, Washington for $17.5 million. This facility is leased to LifePoint.

- After completing our strategic dispositions, we repaid over $800 million in outstanding revolver debt, resulting in approximately $1.3 billion in available liquidity from the revolving credit facility at December 31, 2018.
- Sold 5.6 million shares under our at-the-market equity program, generating proceeds of approximately $95 million.
- Successfully re-tenanted nine of the 16 Adeptus transition properties and our Florence facility.

2017 Highlights

In 2017, we invested or committed to invest approximately $2.2 billion in healthcare real estate assets. These significant investments enhanced the size and scale of our healthcare portfolio, while expanding our geographic footprint in the U.S. and extending our lease and mortgage loan maturity schedule. Furthermore, we strategically sold an asset for proceeds totaling $64 million, raised $548 million in proceeds from a successful equity offering, and refinanced approximately $0.6 billion of debt, which strengthened our balance sheet, reduced interest rates, and funded acquisitions. Finally, we increased our dividend to $0.24 per share per quarter in 2017.

A summary of our 2017 highlights is as follows:

- Acquired real estate assets, entered into development agreements, entered into leases and made new loan investments, totaling more than $2.2 billion as noted below:
- Acquired 17 inpatient rehabilitation hospitals and one acute care hospital in Germany for a combined purchase price of €274 million. These facilities are leased to MEDIAN or its affiliates;
- Acquired 15 acute care hospitals, one rehabilitation hospital, and one behavioral health facility, completed mortgage financing on two acute care hospitals, and invested in an additional minority equity contribution in Steward for an aggregate investment of $1.8 billion;
- Acquired an acute care hospital in Lewiston, Idaho for $87.5 million. This facility is leased to LifePoint;
- Acquired two acute care hospitals located in Wheeling, West Virginia and Martins Ferry, Ohio for an aggregate purchase price of approximately $40 million. We simultaneously leased the facilities to Alecto Healthcare Services LLC (“Alecto”); and
- Executed agreements totaling more than $150 million with Circle Health Group and Surgery Partners, Inc. to develop acute care hospitals in Birmingham, England and Idaho Falls, Idaho, respectively.

With these new investments, we expanded our gross assets to $9.5 billion, increased the total number of properties in our portfolio to 275, and increased our total number of beds to more than 32 thousand, as of December 31, 2017.

- Sold the real estate of an acute care facility in Muskogee, Oklahoma, for a net gain of $7.4 million.
- To fund our over $2.2 billion of asset investments, while lowering our average interest cost, we successfully refinanced approximately $0.6 billion of debt, and generated proceeds of approximately $2.5 billion from the sale of 43.1 million shares in an equity offering and through new issuances of unsecured notes. Details of such activities are as follows:
- Replaced our previous unsecured credit facility with a new $1.3 billion unsecured revolving loan facility, a $200 million unsecured term loan facility, and a new €200 million unsecured term loan facility;
- Redeemed our 5.750% Senior Unsecured Notes due 2020 using proceeds from our €200 million term loan and cash on hand;
- Completed a €500 million senior unsecured notes offering in March 2017 and used a portion of the proceeds to pay off our €200 million term loan;
- Completed a $1.4 billion senior unsecured notes offering in September 2017 with a rate of 5.000% and used a portion of the proceeds to redeem our 6.375% Senior Unsecured Notes due 2022;
- Prepaid the principal amount of the mortgage loan on our property in Kansas City, Missouri at par in the amount of $12.9 million; and
- Completed an underwritten public offering of 43.1 million shares of our common stock, resulting in net proceeds of $548 million, after deducting estimated offering expenses.

With these transactions, our weighted average interest rate at December 31, 2017, improved to 4.42% versus 4.87% at December 31, 2016.

39

2016 Highlights

In 2016, we invested or committed to invest approximately $1.8 billion in healthcare real estate assets. These significant investments enhanced the size and quality of our healthcare portfolio, while improving our tenant concentration and expanding our geographic footprint in the U.S. Furthermore, we strategically sold assets for proceeds totaling more than $800 million, refinanced $1 billion of debt, and sold 82.7 million shares generating proceeds of approximately $1.2 billion in order to strengthen our balance sheet, reduce leverage, and fund acquisitions.

A summary of our 2016 highlights is as follows:

- Acquired real estate assets (or committed to acquire real estate assets), entered into development agreements, entered into leases and made new loan investments, totaling more than $1.8 billion as noted below:
- Acquired a portfolio of five acute care hospitals and completed mortgage financing on four acute care hospitals in Massachusetts and invested in a minority equity contribution in Steward for an aggregate investment of $1.25 billion;
- Acquired 12 inpatient rehabilitation hospitals in Germany for a combined purchase price of €85.2 million and committed €174.6 million to acquire 14 additional inpatient rehabilitation hospitals. These facilities are leased to MEDIAN or its affiliates;
- Acquired an acute care hospital in Newark, New Jersey, from Prime for an aggregate purchase price of $63.0 million and committed to advance an additional $30 million to Prime over a three-year period to be used solely for capital additions to the real estate;
- Closed on the final MEDIAN property, as part of the initial MEDIAN transaction in 2015, for a purchase price of €41.6 million;
- Completed the sale leaseback transaction with Prime converting our existing mortgage loan on three general acute care hospitals and one free-standing emergency department in New Jersey to real estate, for an aggregate investment of $115 million;
- Completed the sale leaseback transaction converting the remaining $93.3 million RCCH acquisition loan on the Olympia, Washington property to real estate, including funding an additional $7 million; and
- Committed to purchase two acute care hospitals in Washington and Idaho for an aggregate purchase price of $105 million, which are leased to RCCH.
- Sold investments in real estate and equity interests and received payments in full on loans for proceeds of more than $800 million as noted below:
- Completed the Capella Disposal Transaction (as fully described in Note 3 to Item 8 of this Annual Report on Form 10-K) in which we sold our equity investment, received $395 million to settle outstanding acquisition loans and received $210 million in prepayment of two mortgage loans for hospitals in Russellville, Arkansas and Lawton, Oklahoma, resulting in net proceeds of approximately $600 million;
- Sold the real estate of five properties (three of which were in Texas and two in Louisiana), received payment in full for outstanding loans, and recovered our investment in operations for proceeds of $71 million, resulting in a net gain of approximately $15 million;
- Sold the real estate of a long-term acute care facility in Corinth, Texas, for proceeds of $28 million; and
- Sold the real estate of three inpatient rehabilitation hospitals located in Texas, for proceeds of $111.5 million, resulting in a net gain of approximately $45 million.
- Refinanced $1 billion of debt and sold 82.7 million shares generating proceeds of approximately $1.2 billion:
- Completed a $500 million senior unsecured notes offering in February 2016 and used the proceeds to reduce our outstanding balance on our revolving credit facility;
- Completed a $500 million senior unsecured notes offering in July 2016 and used the proceeds to redeem our $450 million 6.875% Senior Unsecured Notes due 2021;
- Sold the remaining 14.9 million shares under our January 2014 at-the-market equity offering program resulting in net proceeds of approximately $224 million;
- Completed an underwritten public offering of 57.5 million shares of our common stock, resulting in net proceeds of $799.5 million, after deducting estimated offering expenses; and

- Sold 10.3 million shares of common stock in a private placement, generating total proceeds of $150 million.

40

Critical Accounting Policies

In order to prepare financial statements in conformity with generally accepted accounting principles ("GAAP") in the U.S., we must make estimates about certain types of transactions and account balances. We believe that our estimates of the amount and timing of our revenues, credit losses, fair values (either as part of a purchase price allocation, impairment analysis or in valuing certain of our investments), periodic depreciation of our real estate assets, and stock compensation expense, along with our assessment as to whether an entity that we do business with should be consolidated with our results, have significant effects on our financial statements. Each of these items involves estimates that require us to make subjective judgments. We rely on our experience, collect historical and current market data, and develop relevant assumptions to arrive at what we believe to be reasonable estimates. Under different conditions or assumptions, materially different amounts could be reported related to the critical accounting policies described below. In addition, application of these critical accounting policies involves the exercise of judgment on the use of assumptions as to future uncertainties and, as a result, actual results could materially differ from these estimates. See Note 2 to Item 8 of this Annual Report on Form 10-K for more information regarding our accounting policies and recent accounting developments. Our accounting estimates include the following:

Revenue Recognition: We receive income from operating leases based on the fixed, minimum required rents (base rents) per the lease agreements. Rent revenue from base rents is recorded on the straight-line method over the terms of the related lease agreements for new leases and the remaining terms of existing leases for those acquired as part of a property acquisition. The straight-line method records the periodic average amount of base rent earned over the term of a lease, taking into account contractual rent adjustments over the lease term. The straight-line method typically has the effect of recording more rent revenue from a lease than a tenant is required to pay early in the term of the lease. During the later parts of a lease term, this effect reverses with less rent revenue recorded than a tenant is required to pay. Rent revenue, as recorded on the straight-line method, in the consolidated statements of income is presented as two amounts: rent billed revenue and straight-line revenue. Rent billed revenue is the amount of base rent actually billed to the customer each period as required by the lease. Straight-line rent revenue is the difference between rent revenue earned based on the straight-line method and the amount recorded as rent billed revenue. We record the difference between base rent revenues earned and amounts due per the respective lease agreements, as applicable, as an increase or decrease to straight-line rent receivable.

We also receive additional rent (contingent rent) under some leases based on increases in CPI or where CPI exceeds the annual minimum percentage increase as stipulated in the lease. Contingent rents are recorded as rent billed revenue in the period earned.

We use direct financing lease ("DFL") accounting to record rent on certain leases deemed to be financing leases, per accounting rules, rather than operating leases. For leases accounted for as DFLs, future minimum lease payments are recorded as a receivable. The difference between the future minimum lease payments and the estimated residual values less the cost of the properties is recorded as unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectability of the lease payments is reasonably assured. Investments in DFLs are presented net of unearned income.

We begin recording rent income from our development projects when the lessee takes physical possession of the facility, which may be different from the stated start date of the lease. Also, during construction of our development projects, we are generally entitled to accrue rent based on the cost paid during the construction period (construction period rent). We accrue construction period rent as a receivable with a corresponding offset to deferred revenue during the construction period. When the lessee takes physical possession of the facility, we begin recognizing the deferred construction period revenue on the straight-line method over the remaining term of the lease.

We receive interest income from our tenants/borrowers on mortgage loans, working capital loans, and other long-term loans. Interest income from these loans is recognized as earned based upon the principal outstanding and terms of the loans.

Commitment fees received from lessees for development and leasing services are initially recorded as deferred revenue and recognized as income over the initial term of a lease to produce a constant effective yield on the lease (interest method). Commitment and origination fees from lending services are also recorded as deferred revenue initially and recognized as income over the life of the loan using the interest method.

Investments in Real Estate: We maintain our investments in real estate at cost, and we capitalize improvements and replacements when they extend the useful life or improve the efficiency of the asset. While our tenants are generally responsible for all operating costs at a facility, to the extent that we incur costs of repairs and maintenance, we expense those costs as incurred. We compute depreciation using the straight-line method over the weighted average useful life of approximately 39.2 years for buildings and improvements.

When circumstances indicate a possible impairment of the value of our real estate investments, we review the recoverability of the facility's carrying value. The review of the recoverability is generally based on our estimate of the future undiscounted cash flows, excluding interest charges, from the facility's use and eventual disposition. Our forecast of these cash flows considers factors such as expected future operating income, market and other applicable trends, and residual value, as well as the effects of leasing demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a facility on an undiscounted

basis, such as was the case with certain of our Adeptus transition facilities and four of our Alecto properties in 2018, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the facility. We do not believe that the value of any of our facilities was impaired at December 31, 2018; however, given the highly specialized aspects of our properties no assurance can be given that future impairment charges will not be taken.

Acquired Real Estate Purchase Price Allocation: Since January 1, 2018, with the adoption of ASU No. 2017-01, "Clarifying the Definition of a Business" ("ASU 2017-01"), all of our property acquisitions have been accounted for as asset acquisitions. Prior to 2018, properties acquired for leasing purposes were accounted for using business combination accounting rules. Under either accounting method, we allocate the purchase price of acquired properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair value for purposes of allocating purchase prices of acquired real estate, we may utilize a number of sources, including available real estate broker data, independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, internal data from previous acquisitions or developments, and other market data. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

We record above-market and below-market in-place lease values, if any, for the facilities we own which are based on the present value of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. We amortize any resulting capitalized above-market lease values as a reduction of rental income over lease term. We amortize any resulting capitalized below-market lease values as an increase to rental income over the lease term. Because our strategy to a large degree involves the origination and acquisition of long-term lease arrangements at market rates with independent parties, we do not expect the above-market and below-market in-place lease values to be significant for many of our transactions.

We measure the aggregate value of other lease intangible assets to be acquired based on the difference between (i) the property valued with new or in-place leases adjusted to market rental rates and (ii) the property valued as if vacant when acquired. Management's estimates of value are made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors considered by management in our analysis include an estimate of carrying costs during hypothetical expected lease-up periods, considering current market conditions, and costs to execute similar leases. We also consider information obtained about each targeted facility as a result of our pre-acquisition due diligence, marketing, and leasing activities in estimating the fair value of the intangible assets acquired. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, which we expect to be about six months (based on experience) depending on specific local market conditions. Management also estimates costs to execute similar leases including leasing commissions, legal costs, and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

Other intangible assets acquired may include customer relationship intangible values, which are based on management's evaluation of the specific characteristics of each prospective tenant's lease and our overall relationship with that tenant. Characteristics to be considered by management in allocating these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality, and expectations of lease renewals, including those existing under the terms of the lease agreement, among other factors. At December 31, 2018, we have assigned no value to customer relationship intangibles.

We amortize the value of lease intangibles to expense over the term of the respective leases, which have a weighted average useful life of 26.0 years at December 31, 2018. If a lease is terminated early, the unamortized portion of the lease intangible is charged to expense.

Losses from Rent Receivables: For all leases, we continuously monitor the performance of our existing tenants including, but not limited to: admission levels and surgery/procedure volumes by type; current operating margins; ratio of our tenants' operating margins both to facility rent and to facility rent plus other fixed costs; trends in revenue, cash collections, and patient mix; and the effect of evolving healthcare regulations on tenants' profitability and liquidity.

Losses from Operating Lease Receivables: We utilize the information above along with the tenants' payment and default history in evaluating (on a property-by-property basis) whether or not a provision for losses on outstanding rent receivables is needed. A provision for losses on rent receivables (including straight-line rent receivables) is ultimately recorded when it becomes probable that the receivable will not be collected in full. The provision is an amount which reduces the receivable to its estimated net realizable value based on a determination of the eventual amounts to be collected either from the debtor or from existing collateral, if any.

Losses on DFL Receivables: Allowances are established for DFLs based upon an estimate of probable losses on a property-by-property basis. DFLs are impaired when it is deemed probable that we will be unable to collect all amounts due in accordance with the contractual terms of the lease. Like operating lease receivables, the need for an allowance is based upon our assessment of the lessee's overall financial condition; economic resources and payment record; the prospects for support from any financially responsible

guarantors; and, if appropriate, the realizable value of any collateral. These estimates consider all available evidence including the expected future cash flows discounted at the DFL's effective interest rate, fair value of collateral, and other relevant factors, as appropriate. DFLs are placed on non-accrual status when we determine that the collectability of contractual amounts is not reasonably assured. If on non-accrual status, we generally account for the DFLs on a cash basis, in which income is recognized only upon receipt of cash.

Loans: Loans consist of mortgage loans, working capital loans and other long-term loans. Mortgage loans are collateralized by interests in real property. Working capital and other long-term loans are generally collateralized by interests in receivables and corporate and individual guarantees. We record loans at cost. We evaluate the collectability of both interest and principal on a loan-by-loan basis (using the same process as we do for assessing the collectability of rents as discussed above) to determine whether they are impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is considered to be impaired, the amount of the allowance is calculated by comparing the recorded investment to either the value determined by discounting the expected future cash flows using the loan's effective interest rate or to the fair value of the collateral, if the loan is collateral dependent.

Stock-Based Compensation: During the years ended December 31, 2018, 2017, and 2016, we recorded $16.5 million, $9.9 million, and $7.9 million, respectively, of expense for share-based compensation related to grants of restricted common stock and other stock-based awards. Starting in 2017, we granted annual performance condition awards that are amortized using the straight-line method over the service period in which the performance conditions as are measured, adjusted for the probability of achieving the performance conditions. Starting in 2010, we granted annual share awards that vest based on the achievement of certain market conditions as defined by the accounting rules. Typical market conditions for our awards are based on our total shareholder return (factoring in stock price appreciation and dividends paid) including comparisons of our total shareholder returns to an index of other REIT stocks. Because these awards are earned based on the achievement of these market conditions, we must initially evaluate and estimate the probability of achieving these market conditions in order to determine the fair value of the award and over what period we should recognize stock compensation expense. Because of the complexities inherently involved with these awards, we work with an independent consultant to assist us in modeling both the value of the award and the various periods over which each tranche of an award will be earned. We use what is termed a Monte Carlo simulation model, which determines a value and earnings periods based on multiple outcomes and their probabilities. We record expense over the expected or derived vesting periods using the calculated value of the awards. We record expense over these vesting periods even though the awards have not yet been earned and, in fact, may never be earned. If awards vest faster than our original estimate, we will record a catch-up of expense.

Fair Value Option Election : We elected to account for certain investments acquired on February 29, 2012, as part of the Ernest transaction, using the fair value option method, which means we mark these investments to fair market value on a recurring basis. On October 4, 2018, we sold our investment in the operations of Ernest and all outstanding acquisition loans and working capital loans were repaid. The only remaining investments measured at fair value at December 31, 2018, are the mortgage loans. See below for these investments carried at fair value for the last two years (in thousands):

	As of December 31, 2018		As of December 31, 2017	
Asset (Liability)	Fair Value	Original Cost	Fair Value	Original Cost
Mortgage loans	$115,000	$ 115,000	$115,000	$ 115,000
Equity investment and other loans	—	—	114,554	118,354
Total	$115,000	$ 115,000	$229,554	$ 233,354

Our mortgage loans with Ernest are recorded at fair value based on Level 2 inputs by discounting the estimated cash flows using the market rates which similar loans would be made to borrowers with similar credit ratings and the same remaining maturities. Prior to the October 2018 transaction disclosed above, our equity investment in Ernest was recorded at fair value based on Level 3 inputs, by using a discounted cash flow model, which required significant estimates of our investee such as projected revenue and expenses and appropriate consideration of the underlying risk profile of the forecasted assumptions associated with the investee. We classified the equity investment as Level 3, as we used certain unobservable inputs to the valuation methodology that were significant to the fair value measurement, and the valuation required management judgment due to the absence of quoted market prices. For the cash flow model, our observable inputs included use of a capitalization rate, discount rate (which was based on a weighted average cost of capital), and market interest rates, and our unobservable input included an adjustment for a marketability discount ("DLOM") on our equity investment of 40%.

In regards to the underlying projection of revenues and expenses used in the discounted cash flow model, such projections were provided by Ernest. However, we modified such projections (including underlying assumptions used) as needed based on our review and analysis of their historical results, meetings with key members of management, and our understanding of trends and developments within the healthcare industry. In arriving at the DLOM, we started with a DLOM range based on the results of studies supporting valuation discounts for other transactions or structures without a public market. To select the appropriate DLOM within the range, we then considered many qualitative factors including the percent of control, the nature of the underlying investee's business along with

our rights as an investor pursuant to the operating agreement, the size of investment, expected holding period, number of shareholders, access to capital marketplace, etc.

In both 2017 and 2018, we recognized unrealized losses because the fair value of Ernest investments were below our original cost. No unrealized gain/loss on the Ernest investments were recorded in years prior to 2017.

Principles of Consolidation: Property holding entities and other subsidiaries of which we own 100% of the equity or have a controlling financial interest evidenced by ownership of a majority voting interest are consolidated. All inter-company balances and transactions are eliminated. For entities in which we own less than 100% of the equity interest, we consolidate the property if we have the direct or indirect ability to control the entities' activities based upon the terms of the respective entities' ownership agreements. For these entities, we record a non-controlling interest representing equity held by non-controlling interests.

We continually evaluate all of our transactions and investments to determine if they represent variable interests in a variable interest entity. If we determine that we have a variable interest in a variable interest entity, we then evaluate if we are the primary beneficiary of the variable interest entity. The evaluation is a qualitative assessment as to whether we have the ability to direct the activities of a variable interest entity that most significantly impact the entity's economic performance. We consolidate each variable interest entity in which we, by virtue of or transactions with our investments in the entity, are considered to be the primary beneficiary. At December 31, 2018 and 2017, we determined that we were not the primary beneficiary of any variable interest entity in which we hold a variable interest because we do not control the activities (such as the day-to-day operations) that most significantly impact the economic performance of these entities.

Disclosure of Contractual Obligations

The following table summarizes known material contractual obligations (including interest) as of December 31, 2018, excluding the impact of subsequent events (amounts in thousands):

Contractual Obligations	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years	Total
4.000% Senior Unsecured Notes due 2022(1)	$22,934	$45,868	$596,284	$—	$665,086
5.500% Senior Unsecured Notes due 2024	16,500	33,000	33,000	308,250	390,750
6.375% Senior Unsecured Notes due 2024	31,875	63,750	63,750	515,938	675,313
3.325% Senior Unsecured Notes due 2025(1)	19,064	38,128	38,128	611,478	706,798
5.250% Senior Unsecured Notes due 2026	26,250	52,500	52,500	578,750	710,000
5.000% Senior Unsecured Notes due 2027	70,000	140,000	140,000	1,680,000	2,030,000
Revolving credit facility(1)(2)	3,806	32,181	—	—	35,987
Term loan	7,888	15,798	200,692	—	224,378
Operating lease commitments(3)	6,602	13,745	13,698	198,932	232,977
Purchase obligations(4)	169,341	71,831	—	—	241,172
Totals	$374,260	$506,801	$1,138,052	$3,893,348	$5,912,461

(1) Our 4.000% Senior Unsecured Notes due 2022 and 3.325% Senior Unsecured Notes due 2025 are euro-denominated. A portion of our revolver is British pound-denominated. We used the exchange rate at December 31, 2018 (1.1467 for euros and 1.2754 for British pounds) in preparing this table.

(2)

As of December 31, 2018, we have a $1.3 billion revolving credit facility. However, this table assumes the balance outstanding under the revolver and rate in effect at December 31, 2018 (which was $28.1 million as of December 31, 2018) remains in effect through maturity.

(3) Most of our contractual obligations to make operating lease payments are related to ground leases for which we are reimbursed by our tenants along with corporate office and equipment leases.

(4) Includes approximately $94 million of future expenditures related to development projects, a €5.8 million commitment to acquire one MEDIAN facility post December 31, 2018 (including real estate transfer taxes), and future expenditures on commenced capital improvement projects. We have excluded from the table above $135.9 million of capital expenditure commitments in our leases that we are not definitive on the amount, timing, and certainty of funding. However, payment on any of these commitments, if made, would be added to the lease base upon which the lessee will pay us rents.

Off-Balance Sheet Arrangements

We own interests in certain unconsolidated joint ventures as described under Note 3 to Item 8 of this Annual Report on Form 10-K. Except in limited circumstances, our risk of loss is limited to our investment in the joint venture and any outstanding receivables. We have no other material off-balance sheet arrangements that we expect would materially affect our liquidity and capital resources, except those described above under “Disclosure of Contractual Obligations”.

Liquidity and Capital Resources

2018 Cash Flow Activity

We generated cash of $449.1 million from operating activities during 2018, primarily consisting of rent and interest from mortgage and other loans. We used these operating cash flows along with cash on-hand to fund our dividends of $364 million and certain investing activities including the additional funding of our development activities.

In regards to other investing and financing activities in 2018, we did the following:

a) In 2018, we generated more than $2 billion of cash proceeds from the joint venture transaction with Primotop (which included the disposal of 71 inpatient rehabilitation hospitals in Germany and issuance of secured debt) and the sale of five other acute care and long-term acute care properties. Approximately $580 million was reinvested in the joint venture with Primotop in the form of an equity interest and shareholder loan;
b) On August 31, 2018, we funded the acquisition of one property in Pasco, Washington for $17.5 million;
c) On August 28, 2018, we funded the acquisition of three properties in Germany for €17.3 million;
d) Originated $212 million in mortgage and other loans;
e) Funded less than $200 million for development and capital improvement projects;
f) Acquired five facilities operated by Steward by converting the $764.4 million in mortgage loans on the same properties plus cash consideration;
g) We used the net cash received from property disposals to reduce our revolver by approximately $810 million;
h) On October 4, 2018, we finalized our recapitalization agreement with Ernest generating $176.3 million (which included the sale of our equity investment in Ernest and repayment in full of non-mortgage loans outstanding plus accrued interest); and
i) In the fourth quarter of 2018, we sold 5.6 million shares of common stock under our at-the-market equity program generating approximately $95 million.

At December 31, 2018, we had more than $800 million of cash on-hand and availability under our revolving credit facility of nearly $1.3 billion. Subsequent to December 31, 2018, we acquired one inpatient rehabilitation hospital in Germany for €5.8 million including real estate transfer taxes, and entered into definitive agreements to acquire 11 Australian hospitals for approximately $860 million – see Note 13 to Item 8 of this Annual Report on Form 10-K.

2017 Cash Flow Activity

We generated cash of $362 million from operating activities during 2017, primarily consisting of rent and interest from mortgage and other loans. We used these operating cash flows along with cash on-hand to fund our dividends of $326.7 million and certain investing activities including the additional funding of our development activities.

In regards to other investing and financing activities in 2017, we did the following:

a) On February 1, 2017, we replaced our previous unsecured credit facility with a new credit facility (“Credit Facility”) resulting in a $50 million reduction in our U.S. dollar term loan and a new €200 million unsecured term loan facility (which was paid off on March 30, 2017).
b) On March 4, 2017, we redeemed our €200 million aggregate principal amount of our 5.750% Senior Unsecured Notes due 2020. We funded this redemption, including the premium and accrued interest, with proceeds from the new €200 million term loan together with cash on hand.
c) On March 24, 2017, we completed a senior unsecured notes offering for €500 million. We used the net proceeds from this offering to prepay and extinguish the new €200 million term loan with the remainder of the proceeds used to acquire 12 facilities leased to MEDIAN for €146.4 million.
d) On March 31, 2017, we sold the EASTAR Health System real estate located in Muskogee, Oklahoma, which was leased to LifePoint. Total proceeds from this transaction were approximately $64 million resulting in a gain of $7.4 million.

e) On May 1, 2017, we completed an underwritten public offering of approximately 43.1 million shares of our common stock, resulting in net proceeds of approximately $548 million. We used a portion of these proceeds to acquire eight facilities for $301.3 million (leased to Steward), a facility in Idaho for $87.5 million (leased to LifePoint) and two other facilities for $40 million (leased to Alecto).

f) On September 7, 2017, we completed a senior unsecured notes offering for $1.4 billion. We used a portion of the net proceeds from the 5.000% Senior Unsecured Notes due 2027 offering to redeem the $350 million aggregate principal amount of our 6.375% Senior Unsecured Notes due 2022, plus a redemption premium, on October 7, 2017. The remaining

proceeds, plus borrowings on our revolving credit facility, were used to acquire nine facilities and ancillary properties leased to Steward for $700 million, to make mortgage loans on two properties for $700 million, and to make a $100 million equity investment in Steward.

g) On September 29, 2017, we prepaid the principal amount of the mortgage loan on our property in Kansas City, Missouri at par in the amount of $12.9 million. To fund such prepayment, including accrued and unpaid interest thereon, we used borrowings from the revolving credit facility.

h) On November 13, 2017, we entered into a new at-the-market equity program, which gives us the ability to sell up to $750 million of stock with a commission rate of up to 2.0%. We did not sell any shares under this program in 2017.

2016 Cash Flow Activity

We generated cash of $264 million from operating activities during 2016, primarily consisting of rent and interest from mortgage and other loans. We used these operating cash flows along with cash on-hand to fund our dividends of $218.4 million and certain investing activities including the additional funding of our development activities.

In regards to other financing activities in which we used such net proceeds to ultimately fund our approximate $1.5 billion of acquisitions in 2016 and the remainder of our development activities, we did the following:

a) On February 22, 2016, we completed a senior unsecured notes offering for $500 million.

b) On March 1, 2016, we updated our at-the-market equity program, which gave us the ability to sell up to $227 million of stock with a commission rate of 1.25%. During 2016, we sold approximately 15 million shares of our common stock under this program, resulting in net proceeds of approximately $224 million, after deducting expenses of approximately $2.8 million of commissions.

c) On April 30, 2016, we closed on the Capella Disposal Transaction (as further discussed in Note 3 to Item 8 of this Annual Report on Form 10-K) resulting in net proceeds of $550 million along with an additional $50 million once we sold our investment in RegionalCare Hospital Partners, Inc. bonds in June 2016.

d) On May 23, 2016, we sold our investment in five properties leased and operated by Post Acute Medical for $71 million.

e) On June 17, 2016, we sold our investment in one property leased and operated by Corinth Investor Holdings for $28 million.

f) On July 13, 2016, we completed a new $500 million senior unsecured notes offering. We used the net proceeds from this offering to redeem our $450 million 6.875% Senior Unsecured Notes due 2021, which was completed on August 12, 2016. Net proceeds from the notes offering and redemption approximated $19 million, and we incurred a one-time charge of $22.5 million related to the redemption (see Note 4 to Item 8 of this Annual Report on Form 10-K for further details).

g) On July 20, 2016, we sold three facilities leased to HealthSouth Corporation (now Encompass Health) for $111.5 million.

h) On September 30, 2016, we completed a public offering of 57.5 million shares of our common stock, resulting in net proceeds of $799.5 million, after deducting offering expenses.

i) On October 7, 2016, we sold 10.3 million shares of common stock in a private placement to Cerberus, and certain members of Steward management. We sold these shares at a price per share of $14.50, equal to the public offering price of our September 2016 equity offering, generating total proceeds of $150 million.

Debt Restrictions and REIT Requirements

Our debt facilities impose certain restrictions on us, including, but not limited to, restrictions on our ability to: incur debt; create or incur liens; provide guarantees in respect of obligations of any other entity; make redemptions and repurchases of our capital stock; prepay, redeem or repurchase debt; engage in mergers or consolidations; enter into affiliated transactions; dispose of real estate or other assets; and change our business. In addition, the credit agreement governing our Credit Facility limits the amount of dividends we can pay to 95% of NAFFO, as defined in the agreements, on a rolling four quarter basis. The indentures governing our senior unsecured notes also limit the amount of dividends we can pay based on the sum of 95% of funds from operations, proceeds of equity issuances and certain

other net cash proceeds. Finally, our senior unsecured notes require us to maintain total unencumbered assets (as defined in the related indenture) of not less than 150% of our unsecured indebtedness.

In addition to these restrictions, the Credit Facility contains customary financial and operating covenants, including covenants relating to our total leverage ratio, fixed charge coverage ratio, secured leverage ratio, unsecured leverage ratio, consolidated adjusted net worth, and unsecured interest coverage ratio. This facility also contains customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with our covenants. If an event of default occurs and is continuing under the facility, the entire outstanding balance may become immediately due and payable. At December 31, 2018, we were in compliance with all such financial and operating covenants.

In order for us to continue to qualify as a REIT we are required to distribute annual dividends equal to a minimum of 90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gains. See section titled “Distribution Policy” within this Item 7 of this Annual Report on Form 10-K for further information on our dividend policy along with the historical dividends paid on a per share basis.

Short-term Liquidity Requirements:

As of February 22, 2019, we have no debt principal payments due in 2019 — see debt maturity schedule below. At February 22, 2019, our availability under our revolving credit facility plus cash on-hand approximated $2 billion. We believe this liquidity along with our current monthly cash receipts from rent and loan interest, quarterly distributions from our joint venture arrangements and availability under our at-the-market equity program is sufficient to fund our operations, debt and interest obligations, our purchase obligations as disclosed in the “Contractual Obligations” schedule earlier along with our recent commitment to acquire 11 properties in Australia for approximately $860 million, and dividends in order to comply with REIT requirements for the next twelve months.

Long-term Liquidity Requirements:

As of February 22, 2019, we have no debt principal payments due between now and January 2021 when our revolving credit facility, with a current outstanding amount of $28.1 million, comes due (which can be extended by one year). With our liquidity as of February 22, 2019 of approximately $2 billion, along with our current monthly cash receipts from rent and loan interest, quarterly distributions from our joint venture arrangements and availability under our at-the-market equity program, we believe we have the liquidity available for us to fund our operations, debt and interest obligations, dividends in order to comply with REIT requirements, and our purchase obligations included in the “Contractual Obligations” schedule along with our recent commitment to acquire the Australian portfolio.

However, in order to fund additional investments and/or to fund debt maturities coming due in later years, we may need to access one or a combination of the following sources of capital:

- sale of equity securities;
- placing new secured loans on real estate located outside the U.S.;
- amending or entering into new bank term loans;
- issuing of new USD or other currency denominated debt securities, including senior unsecured notes; and/or
- proceeds from strategic property sales.

However, there is no assurance that conditions will be favorable for such possible transactions or that our plans will be successful.

Principal payments due on our debt (which exclude the effects of any discounts, premiums, or debt issue costs recorded) are as follows ($ amounts in thousands):

2019	$—
2020	—
2021	28,059
2022	773,350
2023	—
Thereafter	3,273,350
Total	$4,074,759

Results of Operations

Our operating results may vary significantly from year-to-year due to a variety of reasons including acquisitions made during the year, incremental revenues and expenses from acquisitions made in the prior year, revenues and expenses from completed development properties, property disposals, annual escalation provisions, foreign currency exchange rate changes, new or amended debt agreements, issuances of shares through an equity offering, impact from accounting changes, etc. Thus, our operating results for the current year are not necessarily indicative of the results that may be expected in future years.

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Net income for the year ended December 31, 2018, was $1.02 billion compared to net income of $289.8 million for the year ended December 31, 2017. This increase is primarily due to the approximate $720 million of gains on the sales of real estate recognized in 2018 from the disposal of five properties in the U.S. and the joint venture transaction with Primotop described in Note 3 to Item 1 of this Annual Report on Form 10-K. FFO, after adjusting for certain items (as more fully described in the section titled “Non-GAAP Financial Measures” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Annual Report on Form 10-K), was $501.0 million, or $1.37 per diluted share for 2018 as compared to $474.9 million, or $1.35 per diluted share for 2017. This 5.5% increase in FFO dollars is primarily due to the increase in revenue from acquisitions and completed development projects during 2018 and 2017.

A comparison of revenues for the years ended December 31, 2018 and 2017 is as follows (dollar amounts in thousands):

	2018		2017		Change
Rent billed	$473,343	60.3 %	$435,782	61.8 %	$37,561
Straight-line rent	74,741	9.5 %	65,468	9.3 %	9,273
Income from direct financing leases	73,983	9.5 %	74,495	10.6 %	(512)
Interest and fee income	162,455	20.7 %	129,000	18.3 %	33,455
Total revenues	$784,522	100.0%	$704,745	100.0%	$79,777

Our total revenues for 2018 are up $79.8 million or 11.3% over the prior year. This increase is made up of the following:

- Operating lease revenue (including rent billed and straight-line rent) — up $46.8 million over the prior year of which $60 million is incremental revenue from acquisitions primarily due to the Steward and MEDIAN acquisitions in 2017 and 2018, $24.6 million is from rent recorded on the new Steward leases that converted from mortgage loans in 2018, $11 million is incremental revenue from capital additions, $3.7 million is incremental revenue from development properties that were placed in service, and approximately $5.8 million is from favorable foreign currency fluctuations. These increases are partially offset by approximately $31.4 million of lower revenue as 71 revenue producing properties were contributed to the joint venture transaction with Primotop on August 31, 2018, along with approximately $16 million of lower revenue and approximately $11.2 million of higher straight-line rent write-offs in 2018 associated with other disposals and loss of revenue from certain properties vacated during 2018 - see Note 3 to Item 8 of this Annual Report on Form 10-K for additional information.
- Income from direct financing leases — down $0.5 million over the prior year, of which $1.2 million is from net revenue earned in 2017 but not in 2018 on the Boise lease that converted from DFL to operating lease accounting classification upon execution of the new lease with the Vibra/Ernest joint venture and by the write-off of $1.5 million of DFL unbilled interest associated with the same transaction. The impact was partially offset by $1.9 million of incremental revenue from acquisitions made in 2017 and $0.3 million is from annual escalations of rental rates in accordance with provisions in our leases.
- Interest and fee income — up $33.5 million over the prior year of which $51.1 million is from incremental revenue from new loans (primarily the $700 million of Steward mortgage loans in 2017) and $0.7 million is from our annual escalations in interest rates in accordance with loan provisions. These increases are partially offset by $15.7 million of lower interest revenue related to certain Steward loans that were converted to fee simple assets in 2018 and $4.1 million of lower revenue related to the Ernest acquisition loan repayment discussed in Note 3 to Item 8 of this Annual Report on Form 10-K.

Interest expense for 2018 and 2017 totaled $223.3 million and $177.0 million, respectively. Although our debt balance at December 31, 2018 is lower than the prior year with the paydown of our revolver from the proceeds of asset disposals, our average debt balance for 2018 was higher than 2017 due to the issuance of the $1.4 billion bonds in September 2017. Our weighted average interest rate was 4.6% for 2018, consistent with 4.6% in 2017. See Note 4 in Item 8 to this Annual Report on Form 10-K for further information on our debt activities.

Real estate depreciation and amortization during 2018 was $133.1 million compared to $125.1 million in 2017 primarily due to the incremental depreciation/amortization from the facilities acquired (particularly the Steward and MEDIAN facilities acquired in 2017) and the development properties completed in 2017 and 2018.

Property expenses for 2018 increased $3.4 million compared to 2017 primarily due to the growth of our business internationally along with expense from certain properties vacated during 2018. See Note 3 to Item 8 of this Annual Report on Form 10-K for more details, including the successful re-tenanting of many of these facilities.

General and administrative expenses in 2018 totaled $80.1 million, which is 10.2% of revenues, up from 8.3% of revenues in the prior year. General and administrative expenses as a percentage of revenues was higher during 2018 due to our adoption of ASU 2017-01, as more fully explained in Note 2 to Item 8 of this Annual Report on Form 10-K and the impact on revenues from the joint venture transaction with Primotop on August 31, 2018. Excluding the $6.2 million of higher expense due to the accounting change and adjusting for the revenues included in joint ventures, general and administrative expenses represented 9.0% of adjusted revenues in 2018. On a dollar basis (exclusive of the accounting change impact), general and administrative expenses were up $15.3 million from the prior year due to travel, compensation expenses, and costs associated with expanding our team at our European office, which are all up as a result of the growth and expansion of our company.

Acquisition costs decreased from $29.6 million in 2017 to $0.9 million in 2018. The acquisition costs in 2017 primarily related to real estate transfer taxes on the MEDIAN acquisition. Beginning in 2018, all third party transaction costs directly related to acquisitions are now capitalized due to the adoption of ASU 2017-01. However, we did incur $0.9 million in the current period related to the settlement of contingencies involving acquisitions that occurred prior to the adoption of ASU 2017-01.

During the year ended December 31, 2018, we sold one acute care property (operated by Steward), three long-term acute care properties (operated by Vibra), 71 inpatient rehabilitation hospitals (operated by MEDIAN) by way of a joint venture arrangement, and one general acute care hospital located in Texas (operated by North Cypress), resulting in a total net gain of $719.4 million. During the year ended December 31, 2017, we sold one LifePoint property resulting in a $7.4 million gain.

In 2018, we had a $48 million adjustment to lower the carrying value of the real estate to fair value on seven of our transitioning Adeptus Health facilities and four of our Alecto facilities – see Note 3 to Item 8 of this Annual Report on Form 10-K for further details. We did not have any impairment charges in 2017.

During 2017, we incurred $32.6 million of debt refinancing charges related to the replacement of our credit facility, the payoff of our €200 million term loan, the payoff of our €200 million euro bonds, the prepayment of our $350 million senior unsecured notes, and structuring and underwriting fees associated with the termination of the short-term loan commitment we made in anticipation of the Steward transaction in 2017. We did not have any similar charges during the year ended December 31, 2018.

Other income of $10.1 million in 2018, which was basically flat with 2017, is primarily made up of our earnings from equity interests in real estate joint ventures and in the operations of our tenants along with any foreign currency transaction gains/losses. Between the two years, the negative impact from the Ernest disposal transaction on other income was almost entirely offset by the income generated from the joint venture with Primotop.

We recognize income tax expense related to our taxable REIT subsidiary (“TRS”) and the local, state and foreign jurisdictions in which we operate. Income tax expense for 2018 was $0.9 million as compared to $2.7 million for 2017. The decrease in tax expense is primarily due to the release of $4.4 million in valuation allowances previously recorded on our federal and state deferred tax assets at our TRS. The tax benefit from the valuation allowance release was partially offset by increases in income tax expense on earnings from our foreign investments. For more detailed information, see Note 5 to Item 8 of this Annual Report on Form 10-K.

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Net income for the year ended December 31, 2017, was $289.8 million compared to net income of $225.0 million for the year ended December 31, 2016. This increase is primarily due to additional revenue generated from the MEDIAN, Steward, and LifePoint investments made in late 2016 and throughout 2017 and incremental revenue from completed development projects, partially offset by higher depreciation expense from such new investments, approximately $54 million in higher gains on sale of properties during 2016, and higher interest expense in 2017 primarily due to the

$1.4 billion 5.000% Senior Unsecured Notes due 2027. FFO, after adjusting for certain items (as more fully described in the section titled “Non-GAAP Financial Measures” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Annual Report on Form 10-K), was $474.9 million, or $1.35 per diluted share for 2017 as compared to $334.8 million, or $1.28 per diluted share for 2016. This 41.8% increase in FFO dollars is primarily due to the increase in revenue from acquisitions and completed development projects during 2017, while FFO per share is only a 5% increase in 2017 compared to prior year due to more shares outstanding from the September 2016 and May 2017 equity offerings.

A comparison of revenues for the years ended December 31, 2017 and 2016 is as follows (dollar amounts in thousands):

	2017		2016		Change
Rent billed	$435,782	61.8%	$327,269	60.5%	$108,513
Straight-line rent	65,468	9.3 %	41,067	7.6 %	$24,401
Income from direct financing leases	74,495	10.6%	64,307	11.9%	$10,188
Interest and fee income	129,000	18.3%	108,494	20.0	